

Economic History Investment Competition

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Majesticwine

Target Price : £ 4.70
Return : 67 %
3 years horizon

1 day

5 days

1 month

6 months

YTD

1 year

5 years

Max



Business Overview

Majestic Wine = 2 businesses

nakedwines



Naked Wines: an up-and-coming online “wine club”

Majestic Retail: a traditional premium wine retailer

- ▲ **£40/month** subscription
- ▲ **350k+** subscribers
- ▲ Exclusive access to **small-scale “off the market” wine** at wholesale price
- ▲ ~ **£160m** annual revenue

- ▲ **210+ stores** in the UK
- ▲ **Largest wine-only retailer** in UK
- ▲ Focused on **premium wine**.
Average bottle price = **£8.50**
- ▲ ~ **£260m** annual revenue

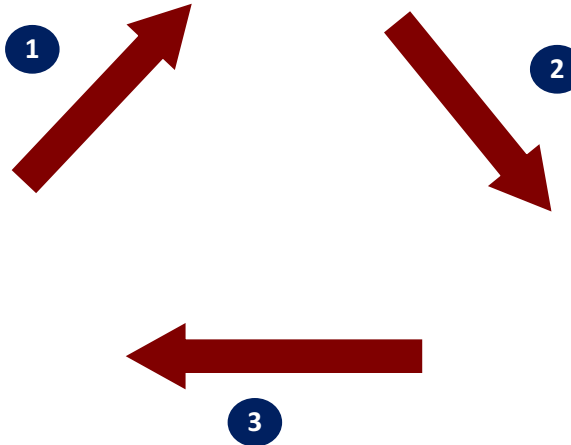
Naked Wines' attractive proposition

A wine club that seeds micro-producers

Subscribers pay **£40 / month**



Naked uses those £40 to **seed growing micro-producers**. In exchange they get **preferential deals on their bottles**

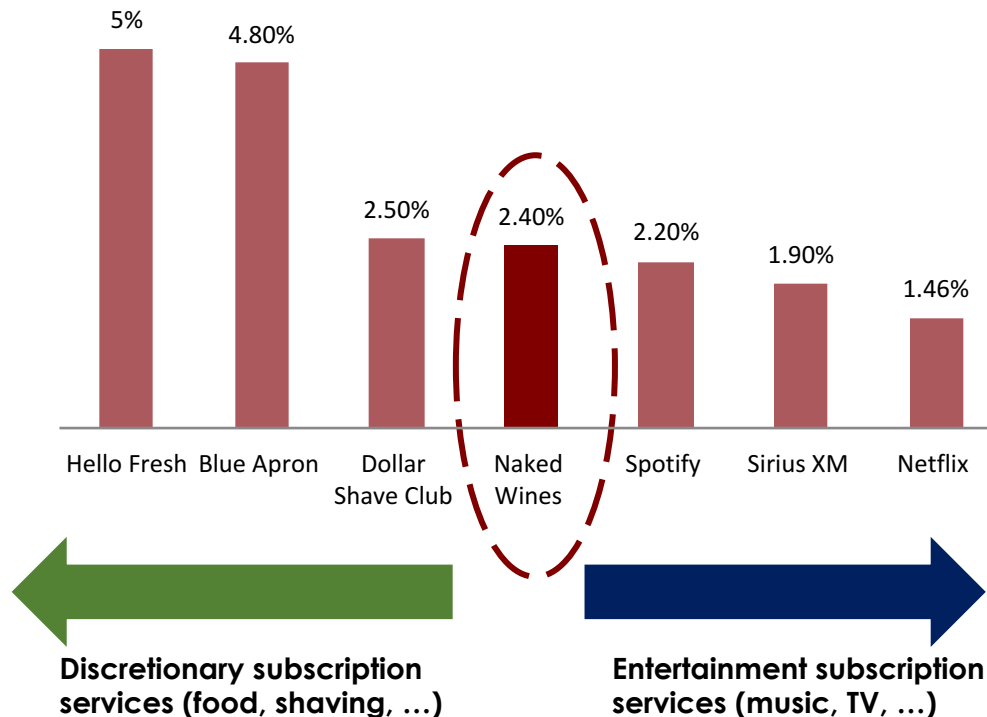


Subscribers receive **high quality “off-the-market” wine** at wholesale price

Naked Wines' attractive subscription model

Naked Wine subscribers are very loyal

Subscriber exit rates similar to Spotify!



- Naked has a **loyal subscriber base**
- **Monthly subscriber exit rates** are in line with music, TV subscriptions
- Exit rates have been **resilient to growth** since inception
- **Wine is probably not as essential as music!**

Naked Wines' attractive subscription model

Naked makes more money off new subscriber classes

Total spent in **marketing** to acquire each class of subscribers

Total **cash contributed** by each class of subscribers as of today

(£m)	New subscriber acquisition costs (£m)	Cumulative contribution (£m)	Cash-on-cash returns	Annual rate of return %
2014 new subscribers	(8)	1	0.1x	-34%
2015 new subscribers	(10)	6	0.6x	-12%
2016 new subscribers	(11)	11	1.0x	0%
2017 new subscribers	(11)	12	1.1x	4%
2018 new subscribers	(11)	20	1.8x	82%

Yearly classes of subscribers

“ The 2016 subscriber class **contributed £11m in cash as of today** ”

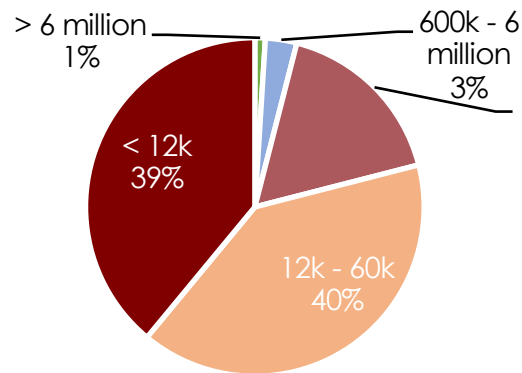
“ Naked **earned 1.1x on its 2017 subscriber class** vs. **1.8x on its 2018 class** ”

Majestic Retail

Retailers capture industry surplus in premium wine

Fragmented premium wine producers are unable to gain scale

2016 U.S. Winery by total production of bottles

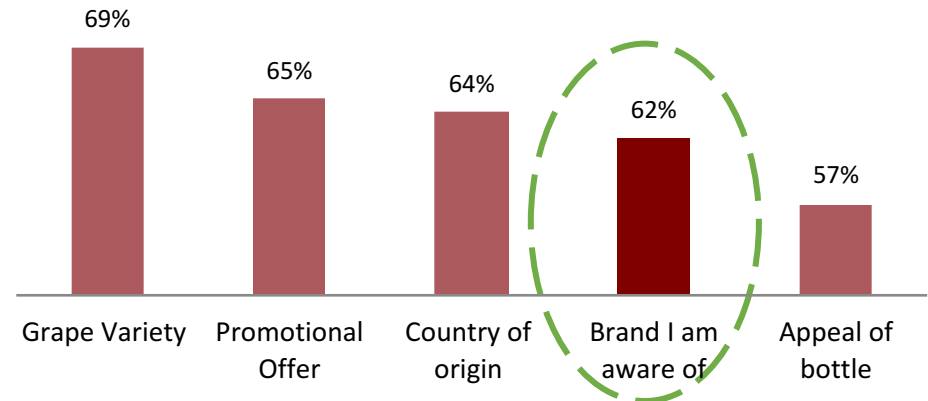


- ~80% of U.S. wine production = **less than 60k/year**
- **Complexity of production** = difficult to achieve scale
- **High variable costs:** skilled labour, complex fermentation and barrelling, ...

Retailers add value because of non-existing wine brands

% who quoted as "very important" when selecting wine

Source : Wine Intelligence Association (sample of 1,000 regular drinkers)

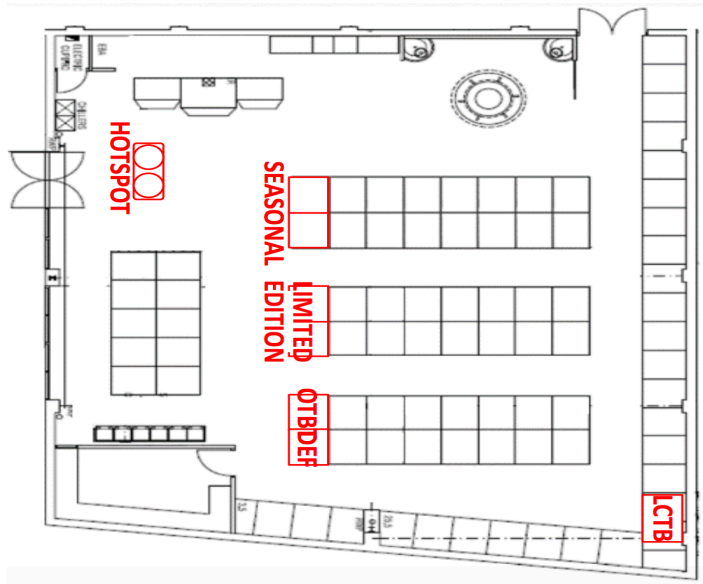


- There are **thousands of wine brands**
- **Difficult to differentiate** between good brands and bad brands
- **Customer relationship** = better done at **retail** level than **brand** level

Majestic Retail

Attractive store efficiency of a wine-only retailer

Big stores = efficient inventory management

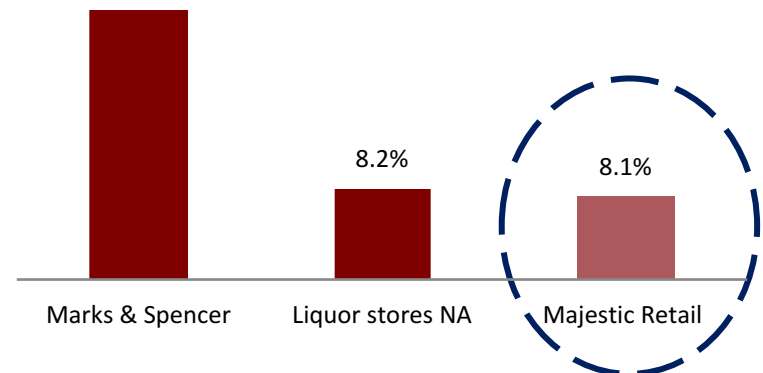


- Stores are very big: **~300m² on average**
- Inventory kept in stores** instead of warehouses
- No need to ship from warehouses to stores everyday = **cost advantage over supermarkets**

High transaction values optimize labour costs

- Customers come to Majestic to make big transactions: **~16 bottles on average!**
- Average spent per order = **£130**
- Back-solving : **30-40 transactions** each day
- Infrequent flow of **high-spending customers** = very low staffing levels

2015-2018 average store staff costs (% of sales)



Why invest now?

Stock price declined **30%** in the past 3 months

Common view on Majestic

- ❌ Retail segment is **declining** and exposed to **e-commerce threat**
- ❌ Retail segment is exposed to weakening **UK consumer sentiment**
- ❌ **Weakening of the pound** will affect Majestic's import costs

Variant view

- ✓ Emphasis on **premium wine** = strong competitive positioning
- ✓ Any worst case scenario should be **offset by Naked's recurring revenue stream**
- ✓ Store **cost efficiency** will cushion greater import costs

Majestic is priced as a **struggling retailer** that is highly exposed to macro risks ... despite:

- 1 offering attractive **online growth** through **Naked Wines**
- 2 delivering **resilient margins** through remarkable **cost efficiency**

Conclusion

Unprecedented opportunity to buy a high quality asset at a cheap price

Naked Wine's
growth potential

+

Majestic Retail's
resilient margins

+

Attractive
valuation

=

Compelling returns

- Differentiated **customer proposition**
- Attractive **subscription model** with increasing returns on each subscriber
- Robust **competitive positioning**
- Remarkable **store cost efficiency**
- **12-month stock price low**
- Priced below comparable retailers despite having 35% of business online
- Target price of £4.70 over 3-year horizon
- **Annual rate of return of ~20%**