

Majestic Wine PLC

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Majestic Wine leaves bitter taste with unexpected chairman resignation, swing to full year loss

Majestic Wine PLC (LON:WINE) suffered a bit of a hangover on Thursday after its chairman, Greg Hodder, unexpectedly resigned amid a swing to loss in its latest full year results.

The AIM 100 wine seller said Hodder would step down at its AGM in August and retire from the board six months later after a period of transition.

READ: Activist investor Elliott lodges bid for Majestic Wine outlets, media reports

Majestic added that John C. Walden had been appointed to the board as a non-executive director and chairman designate, while Nicholas Devlin, the president of the US division of the group's Naked Wines online business, had been appointed as the new chief operating officer.

The announcement of Hodder's departure was accompanied by the firm's full-year results, where it swung to a loss amid an ongoing process to sell off its 200-store retail estate and shift toward its Naked Wines business.

The company reported that its growth plan for Naked was on track, with the underlying revenue growth rate having accelerated to 14.5% in the year compared to 11.3% previously.

However, for the year ended 1 April 2019 the overall group swung to a pre-tax loss of £8.5m from an £8.3m profit in the prior year despite revenues rising to £506.1m from £476.1m.

The plunge was attributed to accelerated investment in the Naked Wines business as well as lower profitability from the retail arm.

The final dividend was also suspended as a result of the restructuring process and would be replaced by a special dividend equal to the 5.2p paid out in 2018 upon completion of the retail business sale.

The group's chief executive, Rowan Gormley, said that the company was at a "crossroads" and at an advanced stage of discussion with multiple bidders.

On Wednesday, the bidding process for Majestic's stores was gatecrashed by activist investor Elliott Advisors, pitting the US fund against other potential buyers including European private equity group OpCapita and Softbank-owned Fortress.

Gormley added that a further update on the sale process would be provided if and when negotiations with the potential buyers concluded.

The company is aiming to complete the sales process over the summer, in time for the important Christmas and New Year season, however, if this was not achievable it would continue to run the businesses independently until it could

Price: 215

Market Cap: £156.58 m

1 Year Share Price Graph



Share Information

Code: WINE

Listing: AIM

| | | |
|----------------|-------------|------------|
| 52 week | High | Low |
| | 320 | 210 |

Sector: Retail

Website: www.majestic.co.uk

Company Synopsis:

Majestic Wine PLC is a United Kingdom-based holding company for its subsidiaries. The Company, along with its subsidiaries, is principally engaged in the retailing of wines, beers and spirits. The Company operates a wine warehouse chain in Britain, specializing in the sale of wine by the mixed case direct to the public.

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restart the sales process in 2020.

Chairman departure "unexpected surprise", says broker

In a note to clients, analysts at Liberum Capital said the resignation of Hodder had come as an "unexpected surprise" while also questioning why the final dividend needed to be suspended.

Analysts also thought shareholders would receive a higher special dividend than the 5.2p, and wondered whether the payout meant the company intended to invest significantly more into acquisition spend than they had previously forecast.

"These results are complicated and detailed [and] raise more questions we were not expecting", the broker said.

Liberum currently has Majestic pegged at a 'buy' rating with a 500p target price.

Analyst questions online move

Commenting on the results, AJ investment director Russ Mould questioned whether Majestic's strategy of moving to an online-only business was the right path for the company.

"There are disadvantages to being an online business with wine. Aside from potential breakages during customer deliveries, you lose the interaction with customers in the shop. Majestic has developed a good reputation for having knowledgeable staff who are happy to make suggestions to customers visiting stores and there are also the sales benefits that come with wine tasting sessions. That type of connection would be lost by going online-only", Mould said.

He added that the company talking about resuming the sales process for its retail arm in 2020 if it failed to secure a buyer over the summer was "a bit worrying" as it suggested a sale was "far from a done deal".

"And shareholders are likely to be a bit miffed that they will only get the equivalent of the final dividend from the 2018 financial year as a payoff if Majestic is sold, rather than a bumper one-off payment. In fact, they won't get a final dividend for the 2019 financial year at all if the business isn't sold", he said.

Online shift could alienate customer base

The potential for a customer disconnect was echoed by James Yacoub, a retail analyst at GlobalData, who said that while the sale of Majestic's retail business would release capital, the company risked "alienating" its core customer base and the relationship between customers and staff in its stores.

"This is especially important in wine retailing, where shoppers value the knowledge and experience of staff. By moving its business online, there is arguably little to differentiate it from any of the other countless online alcohol retailers", Yacoub said.

The analyst added that the company would also be under "constant threat" from the big grocers, particularly German discounters Aldi and Lidl whose beverage propositions had improved in both six and variety over recent years.

In fact, Yacoub said that by shifting online Majestic would lose its "main strength" which was centred on in-store customer engagement, and with discounters applying overwhelming pricing pressure it would need to find a new unique selling point to avoid losing market share.

In mid-afternoon trading, Majestic's shares were down 11% at 283p.

--Adds analyst comment and updates share price--

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