



AO WORLD PLC

Interim Results FY18

21st November 2017

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A copy of this presentation can be found on our corporate website at www.ao.com/corporate

Agenda



Highlights & Strategy

Steve Caunce, CEO

Financial Performance

Mark Higgins, CFO

Strategy, Operations & Outlook

Steve Caunce, CEO

Q&A

HY18 Highlights



Financial

- UK AO website sales up 9.9% to £282.5m (total UK revenue up 7.4%)
- Improved momentum in Q2 - AO UK website sales growth of 13.2% (Q1: 6.2%)
- Europe revenue up 60.5% to €58.1m (2016: €36.2m)
- Group adjusted EBITDA losses of £6.3m (HY17: £1.5m profit) reflecting increased UK marketing expenditure



Operational

- Transactional Mobile App successfully launched across all territories
- New categories rolled-out in UK and Europe
- European operations progressing to plan
- Recycling facilities fully operational
- Excellent customer service (demonstrated by high NPS) drives pleasing repeat metrics across all territories

Continuing to deliver our long-term strategy – HY18



Our objectives – FY21



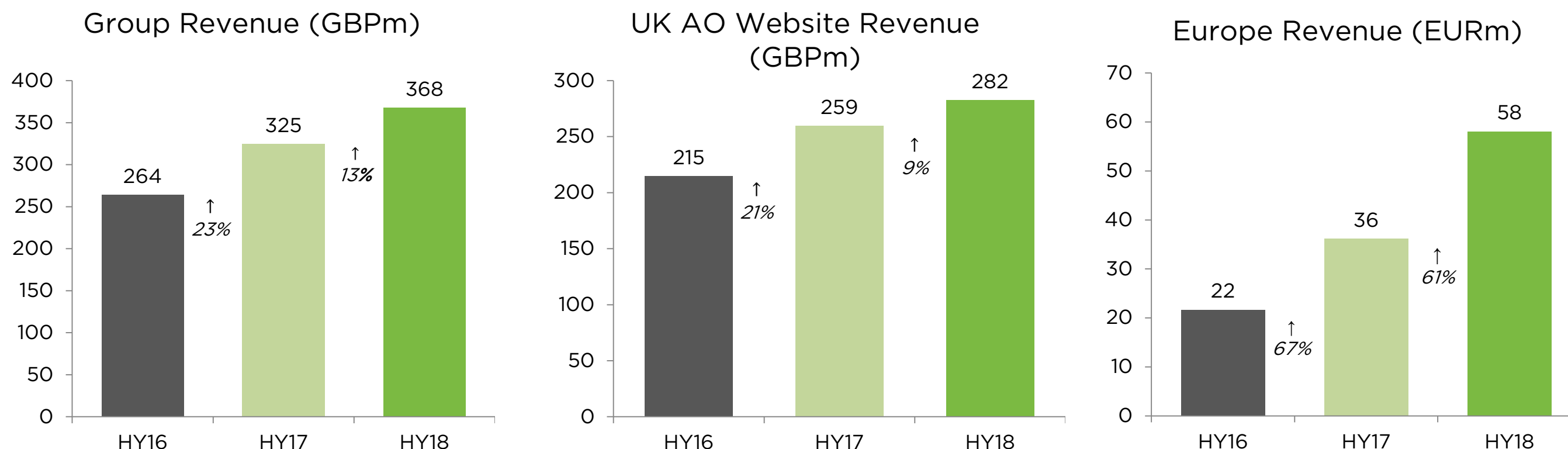


Financial Performance



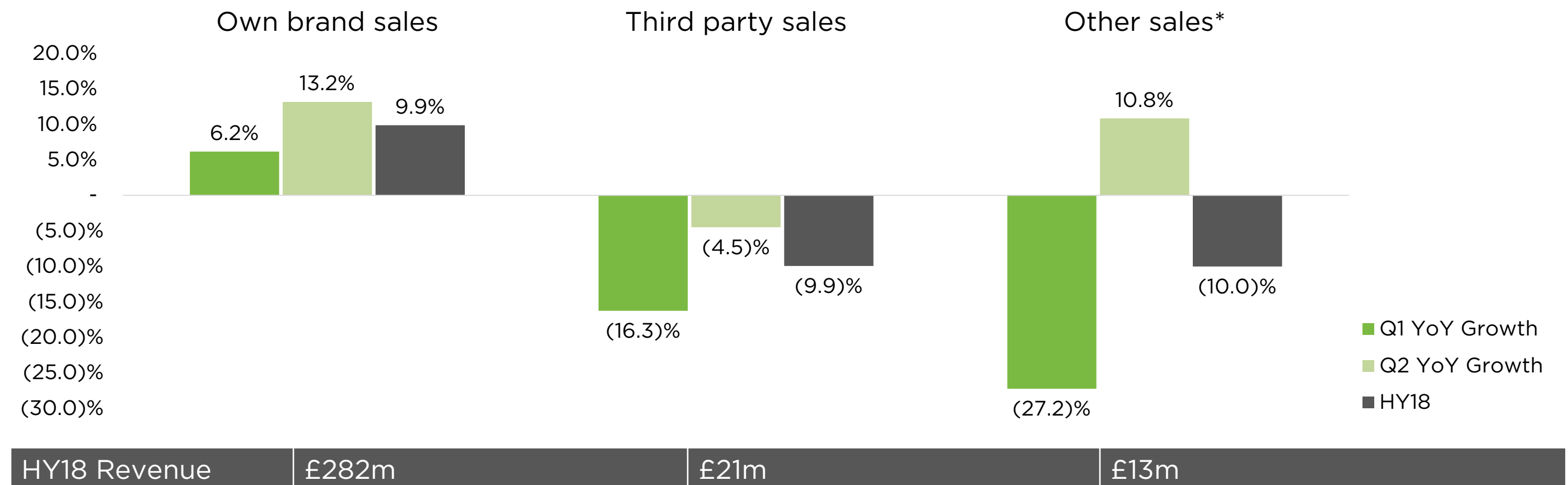
Mark Higgins
Chief Financial Officer

Continued revenue growth



- Group revenue increased by 13% to £368m (HY17: £325m)
- UK growth continues to be driven by AO website sales (AO website sales represent c.91% of total Group revenue (HY17: c.88%))
- Strong European revenue growth of 61% to €58m (HY17: €36m) with key drivers being repeat sales and customer recommendations

Improved momentum in Q2



- Q1 performance hampered by challenging market conditions, particularly in MDA, and tough prior year comparable
- Significant AO website sales growth improvement in Q2 of 13.2% (Q1: 6.2%) driven by increasing brand awareness and challenging market conditions starting to annualise
- Planned decline in third party sales of 9.9% as we continue to focus on the AO brand
- 27.2% reduction in Q1 'Other sales' due to short-term logistics contract benefit in prior year

* Other sales includes third party logistics and recycling services

For the six months ending 30 September 2017

Note: Certain financial data have been rounded. As a result of this rounding, the total of data presented may vary slightly from the arithmetic totals of such data.

Gross margin remains on plan

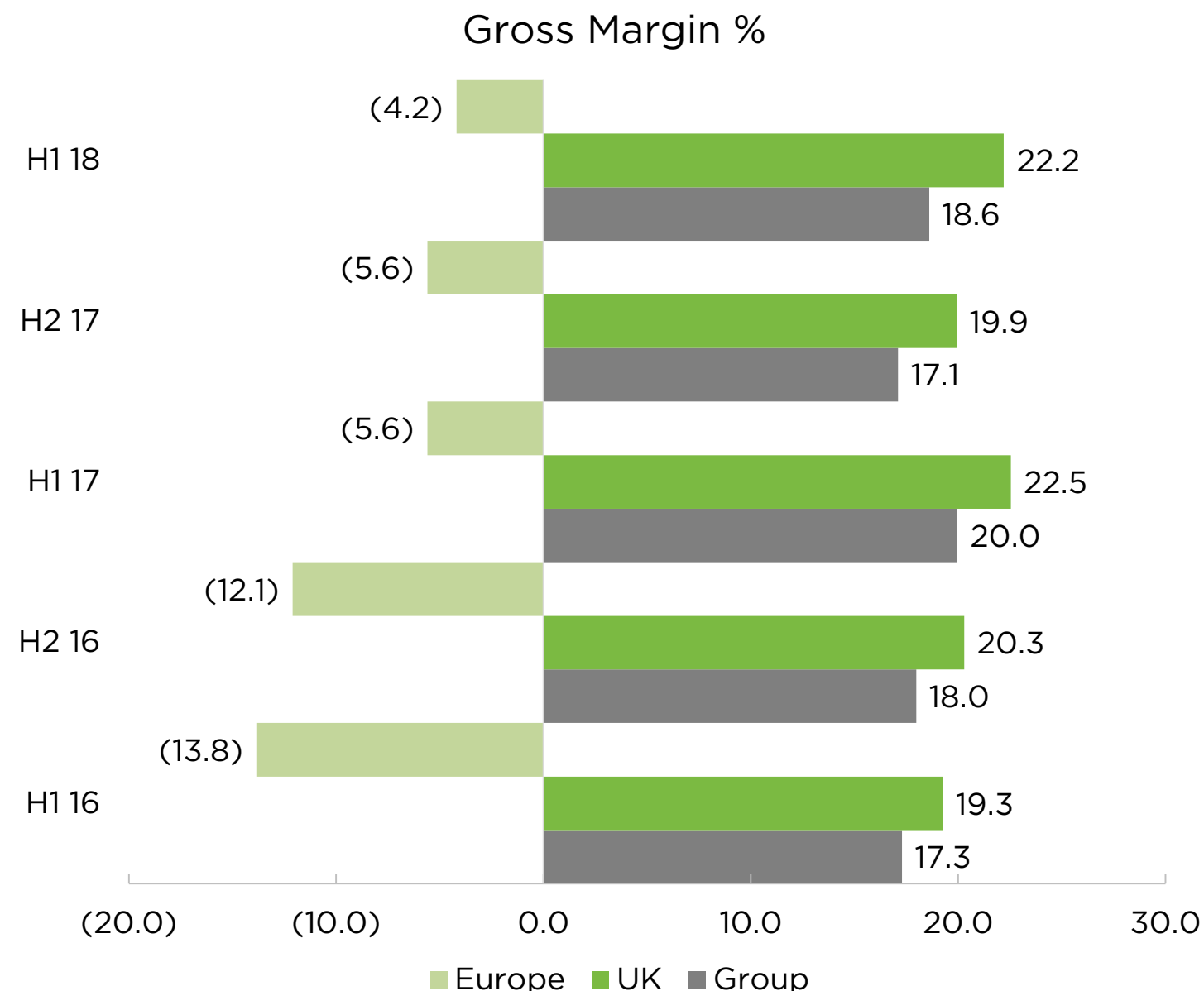


UK

- Competitive pricing environment in mature categories
- Dilutive margin impact of newer categories as we build scale
- Supplier support remains strong

Europe

- Further supplier product margin progress
- Logistics leverage will not be linear
- On-track against expectations set out at February '17 Capital Markets Day



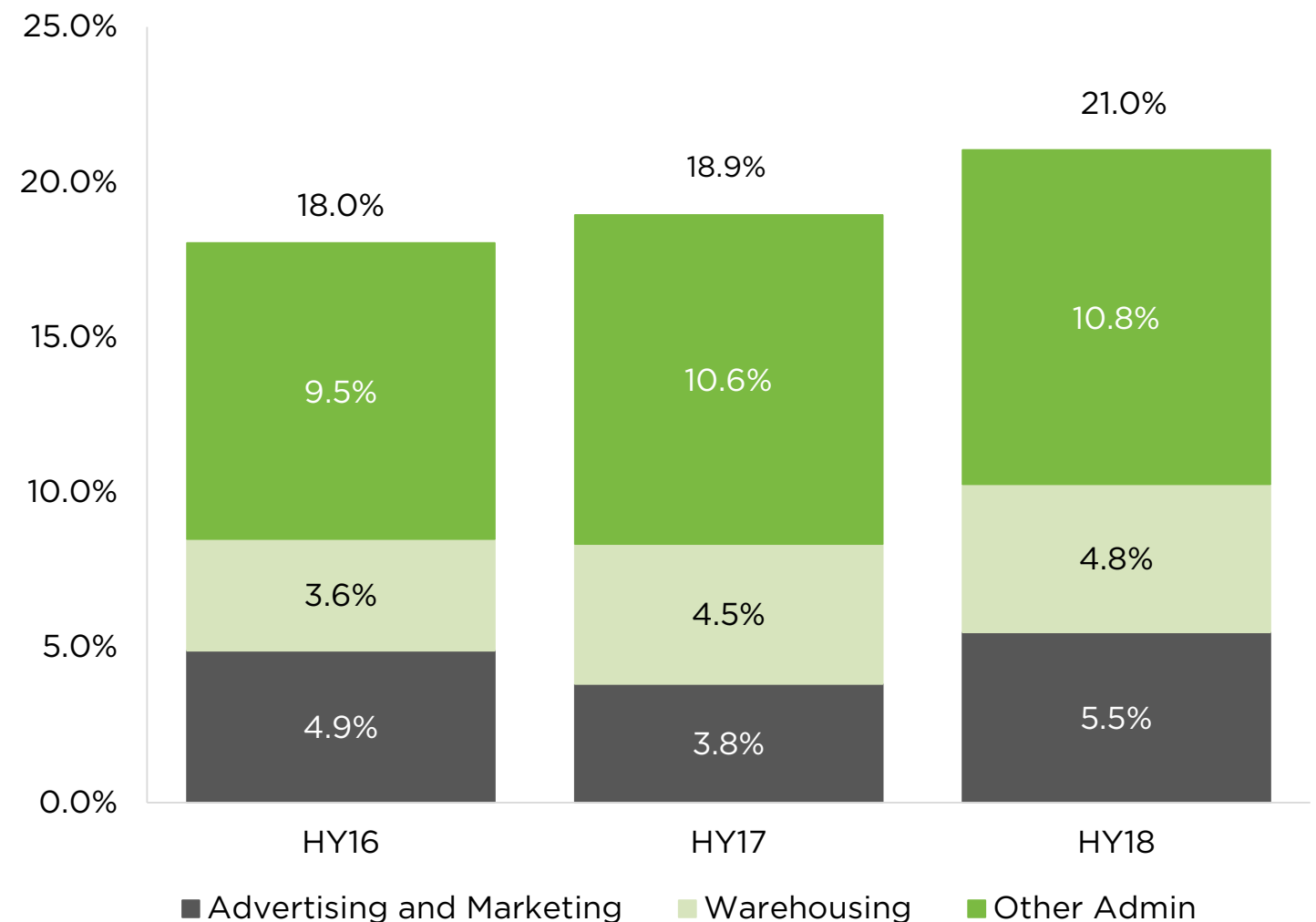
UK SG&A cost analysis



UK

- Total UK SG&A costs increased to 21.0% (HY17: 18.9%)*
- Advertising and marketing expenses remain broadly consistent with prior year at c.4.0% *excluding* Britain's Got Talent (BGT) sponsorship costs
- Warehousing costs increased to 4.8% of revenue (HY17: 4.5%) driven by increases in:
 - AO Recycling new plant labour costs
 - New outbases opened in Slough and Dundee Sept '16
- 'Other' admin remained broadly flat at 10.8% of sales following continued investment in category & IT teams

UK SG&A Expenses as a % of revenue*



Notes

*Excludes impact of adjustments

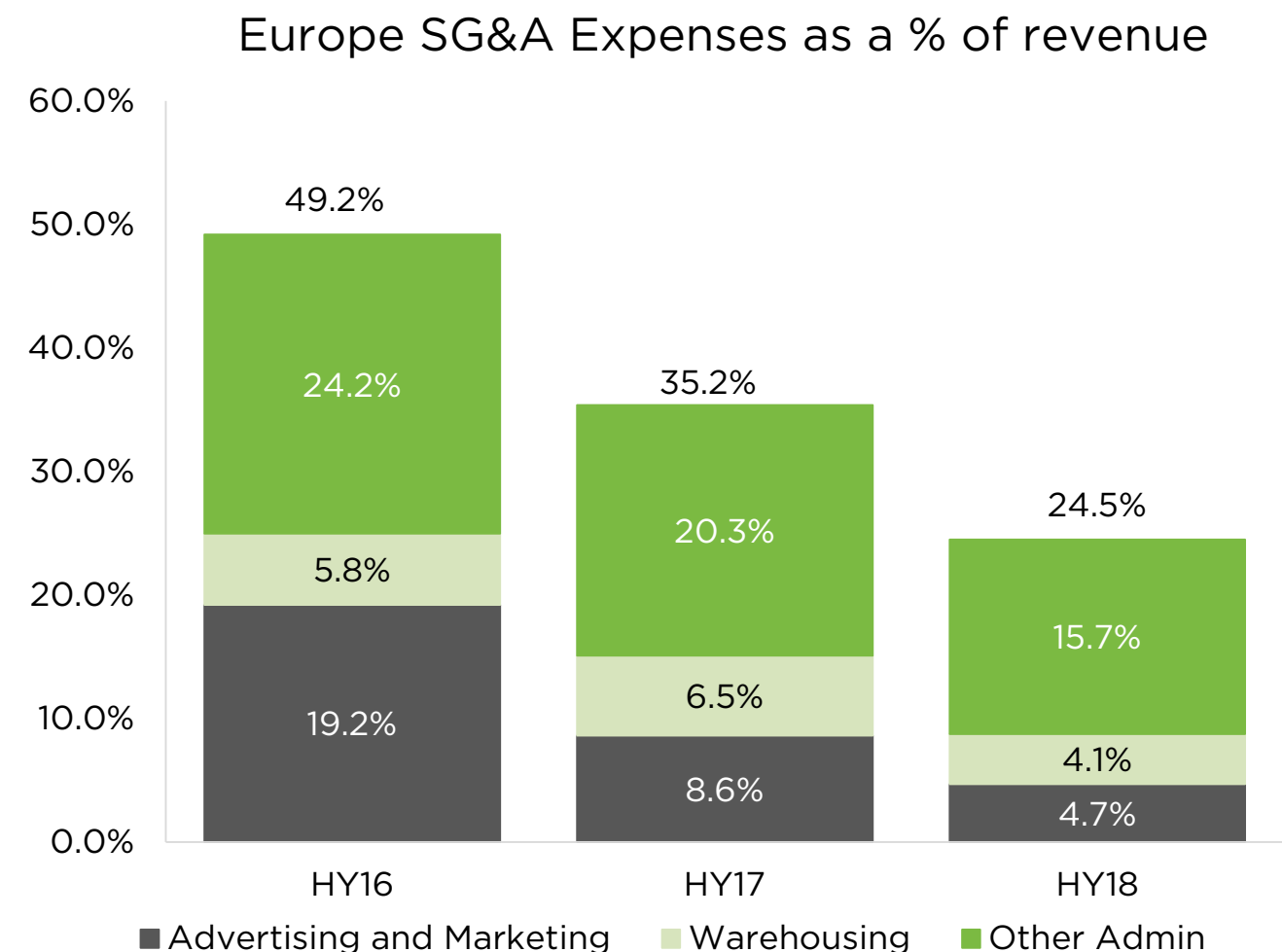
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Europe SG&A cost analysis



Europe

- Total SG&A costs reduced to 24.5% of revenue (HY17: 35.2%) as we increase volume
- Advertising & marketing cash costs held in line with strategy at £2.4m (HY17: £2.5m)
- Warehousing costs reduce to 4.1% of sales (HY17: 6.5%) as we leverage Bergheim Distribution Centre
- Other Admin cash costs increased to £8.1m (HY17: £6.0m) as expected with growth

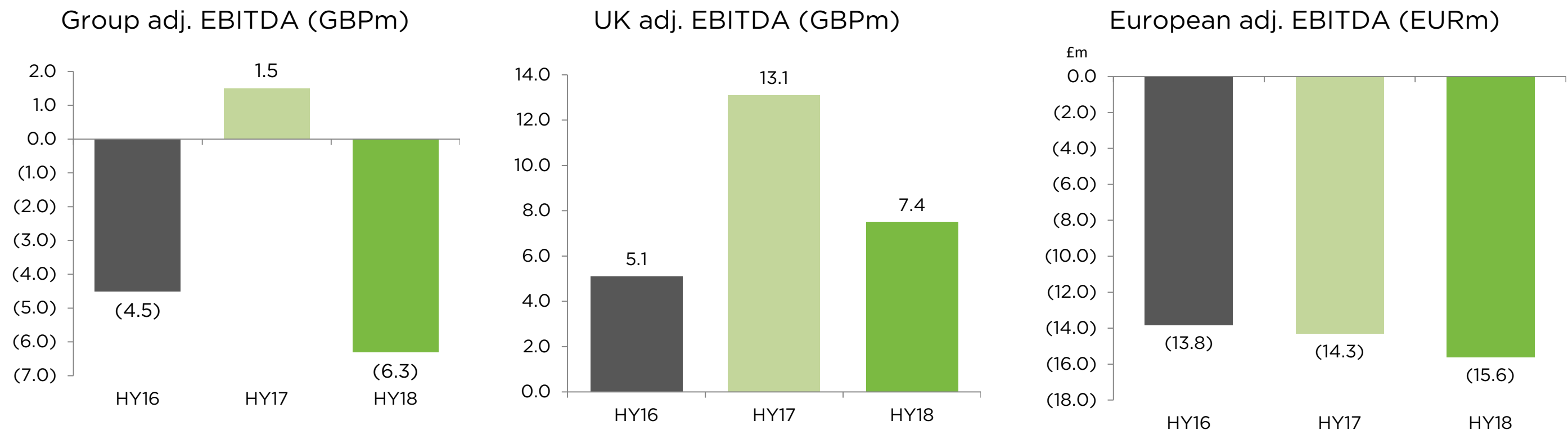


Notes

*Excludes impact of adjustments

Certain financial data have been rounded. As a result of this rounding, the total of data presented may vary slightly from the arithmetic totals of such data.

Group adjusted EBITDA impacted by increased UK marketing expenditure



- Group adjusted EBITDA reduces by £7.8m impacted by:
 - Increased SG&A expense following BGT sponsorship costs
 - Competitive UK pricing environment
 - UK gross margin category mix
 - Continued investment in growth of European operations
- FY18 H1 achieved in tough market conditions and is reported against tough prior year comparable driven in part by changes to stamp duty in 2017
- FY18 H2 expected to regain momentum as start to annualise against tough economic environment and lower marketing costs as a % of revenue

Note: Certain financial data have been rounded. As a result of this rounding, the total of data presented may vary slightly from the arithmetic totals of such data.

Operating cash flow



As at 30 September (£m)	HY18	HY17
Adjusted EBITDA	(6.3)	1.5
Europe set-up costs	(0.2)	(0.4)
Non-cash movements	0.6	0.4
Net change working capital:		
Movement in trade & other receivables and accrued income	(11.5)	(7.5)
Movement in inventories	(11.1)	(7.4)
Movement in trade and other payables	27.4	15.3
Tax received/(paid)	0.3	0.7
Cash generated from / (used in) operating activities	(0.7)	3.4
Capex and interest received	(2.2)	(6.6)
Financing activities	(2.4)	2.1
Placing proceeds	48.1	-
Movement in cash	42.9	(1.0)
CASH	72.3	32.4

- Minimal Capex during the period
- Positive working capital
- £48m (net) equity placing in April '17

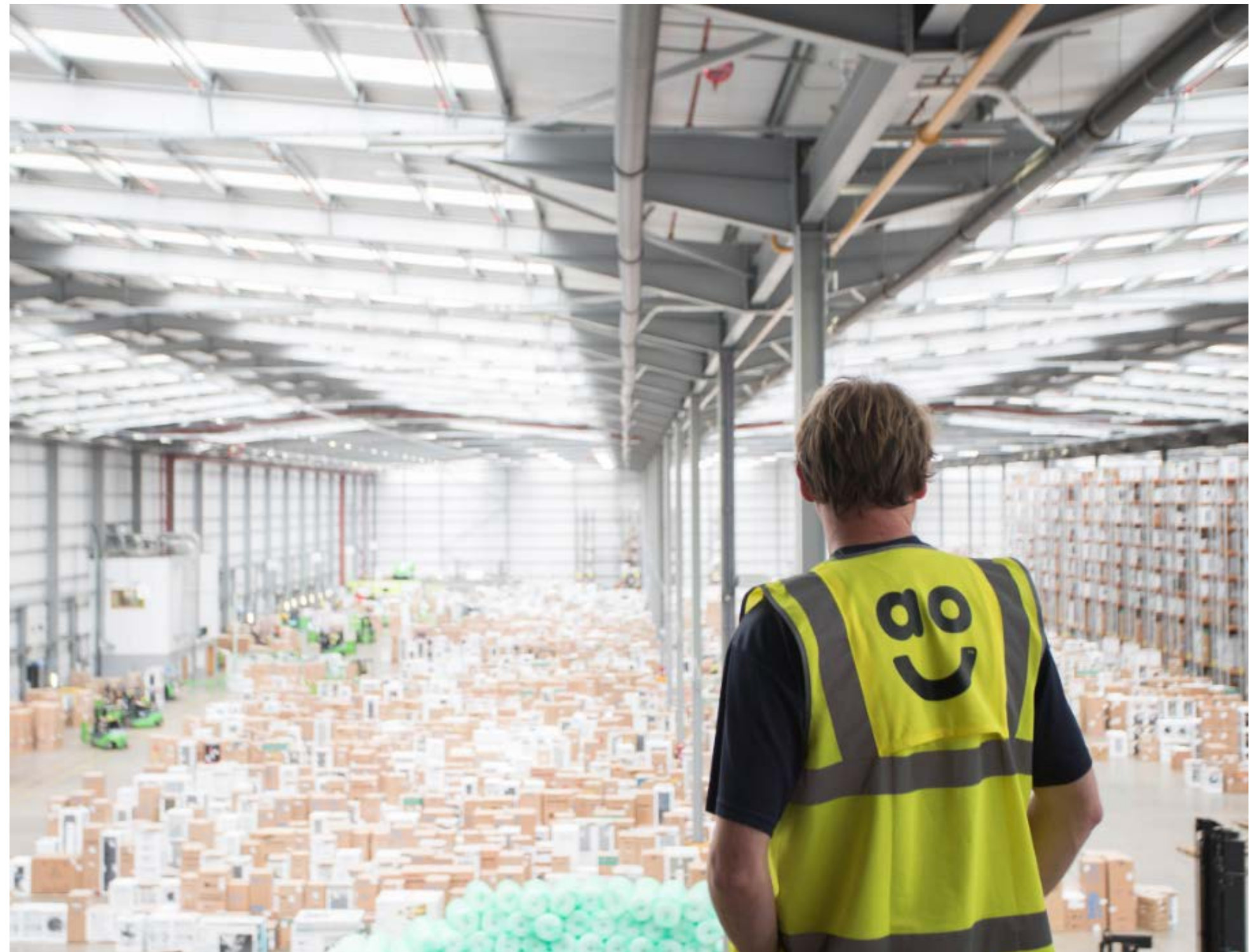
RCF extended to support future growth

- RCF agreed June '16 now increased to £60m
- Addition of new lender – HSBC
- RCF for working capital purposes in the UK business
- Supports growth during peak
- Significant liquidity headroom

Financial outlook broadly unchanged



- Europe on track against the plan set out at February '17 Capital Markets Day (FY21 run rate revenue €250m, EBITDA > €0m)
- Impact of translating Europe results increases revenue slightly but will result in larger GBP EBITDA losses
- UK broadly on track against tough UK economic environment
- Mindful of UK consumer confidence





Strategy, Operations & Outlook



Steve Caunce
Chief Executive Officer

Continuing to execute against our plan



Operational summary

- Continued to develop customer offering
- New categories rolled-out in UK and Europe
- European operations progressing to plan
- Recycling facilities fully operational
- Modest increase in brand awareness - currently reshaping our brand strategy
- Excellent service (demonstrated by high NPS) drives pleasing repeat metrics across all territories



Making things easy for our customers



- Continue to enhance the customer journey
 - Transactional Mobile App successfully launched across all territories
 - Introduction of better value timed delivery slots (UK)
 - New outbase opened in Bridgend September '17 to improve delivery ability and services
 - Increase in UK premium installation fleet to improve lead times
 - NL warranty product launched
- NPS and Trustpilot levels remain exceptional
- AO.com voted third best online shop by Which? (2017)



All efficiently done

All efficiently done, from ordering, arranging dates/times to fitting the new fridge itself...

Great stuff!



You were great delivered when you said

You were great delivered when you said, kept in touch and very friendly to talk to, also very helpful.



Easy to deal with

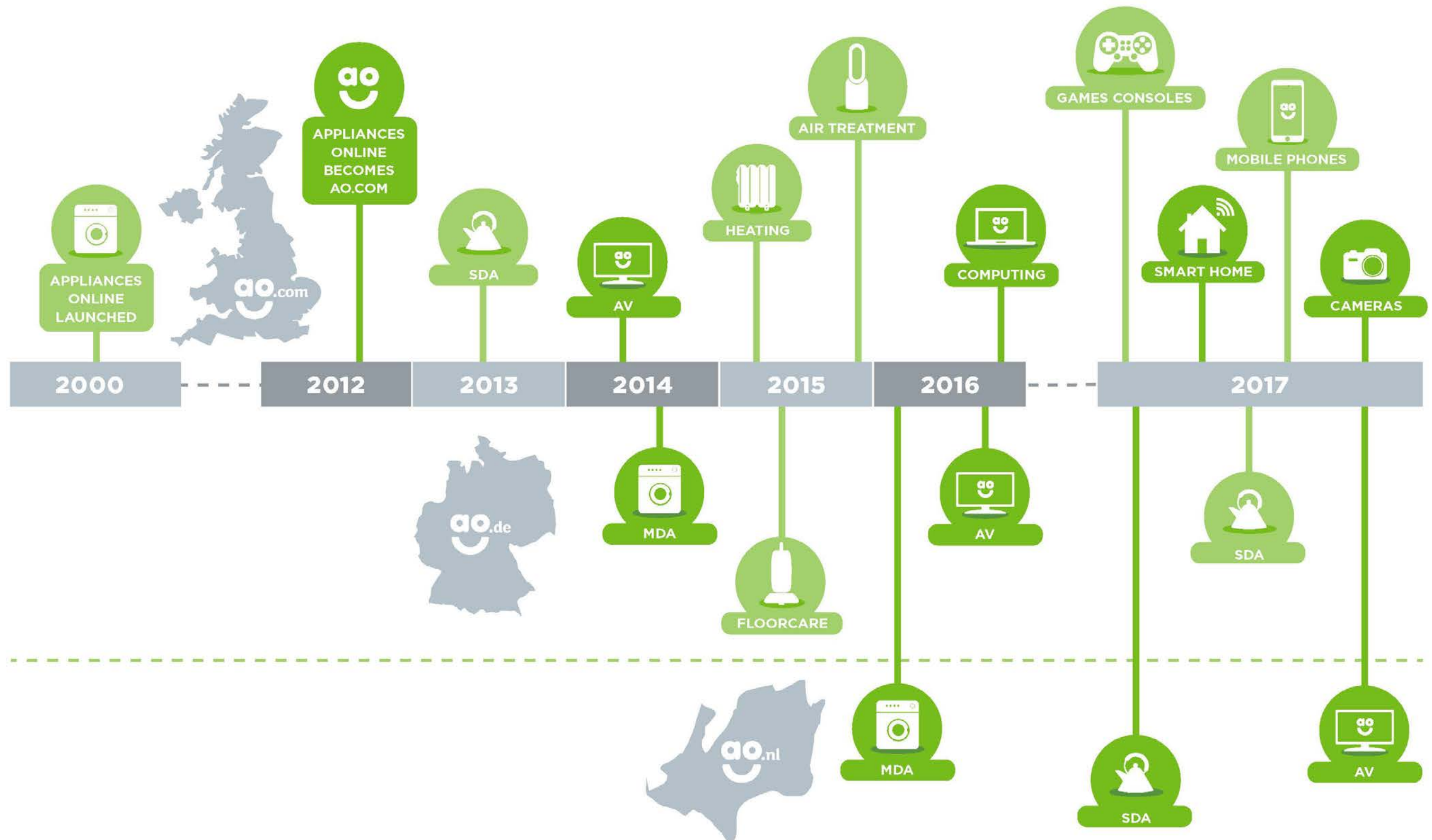
Easy to deal with, no hassels. Items came next day. Very competitive prices too.



Excellent Service

Excellent service - delivery guys were fantastic.

Category development



Easy addition of new categories



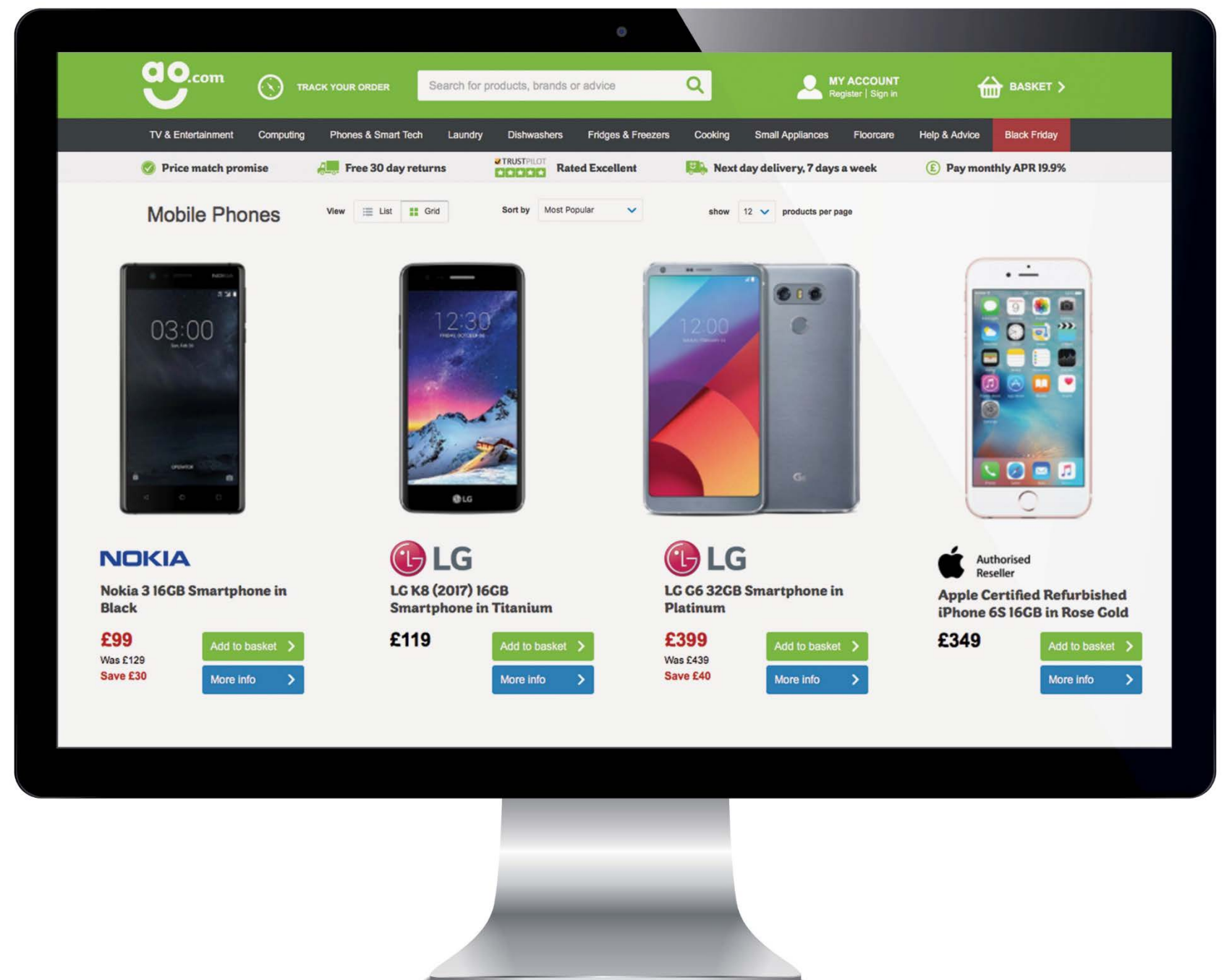
Addition of complementary categories and expanded ranges

UK

- Mobile Phones, Gaming Consoles, Smart Home and Cameras
- Addition of second computer distributor to broaden range

Europe

- Germany: SDA
- Netherlands: AV
- Broadens customer base & provides cross-selling opportunities
- Reinforces our brand credentials



Europe operations progressing to plan



- All key metrics improving
- New categories rolled out
- Further enhancements to customer journey
- Leveraging Bergheim
- Culture & management structure well embedded
- Supplier support continues to build
- Growing with minimal ATL marketing investment
- On-track to achieve expectations set out at February '17 Capital Markets Day



AO Recycling completing the retail circle



- New AO Recycling facility fully operational
- Largest and most efficient plant in the UK
- Capacity to recycle significantly more than the AO requirement
- Capability to refurbish products to put back into use – ‘reuse is the ultimate in recycling’
- Reduction in landfill
- Makes recycling easy for environmentally conscious customers
- Builds upon our vertically integrated infrastructure
- Can introduce to Europe when appropriate

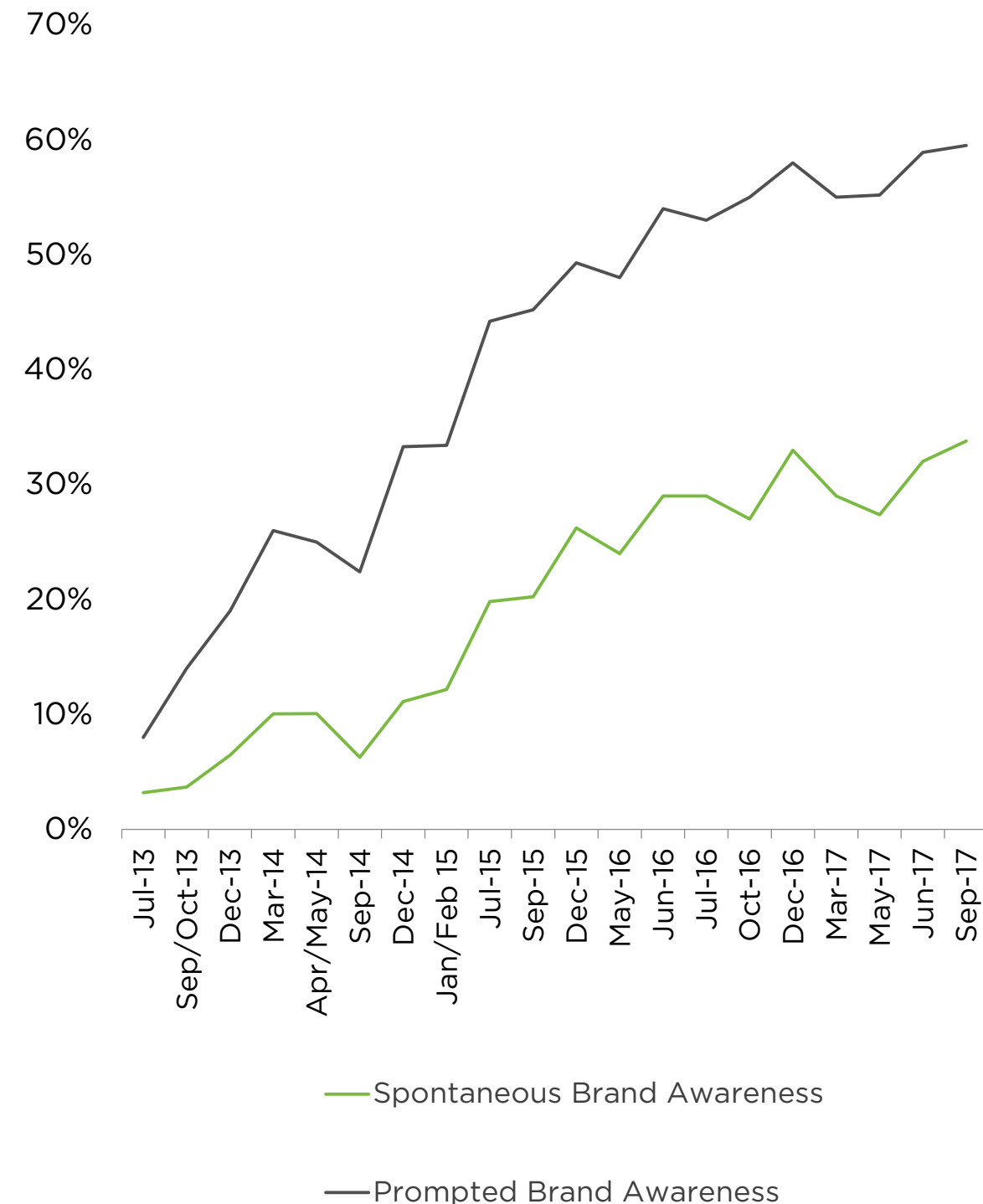


Building brand awareness remains our greatest opportunity



HY18 UK Performance

- Modest increases in spontaneous and prompted brand awareness
- BGT sponsorship
 - Designed to primarily build brand awareness rather than drive short-term sales
 - Not the right vehicle for AO but valuable lessons learnt
 - Reshaping our marketing strategy
- Brand team re-structured expanding experience and capability
- On-track for 80% of AO two-man deliveries to customers on AO liveried vans by year end

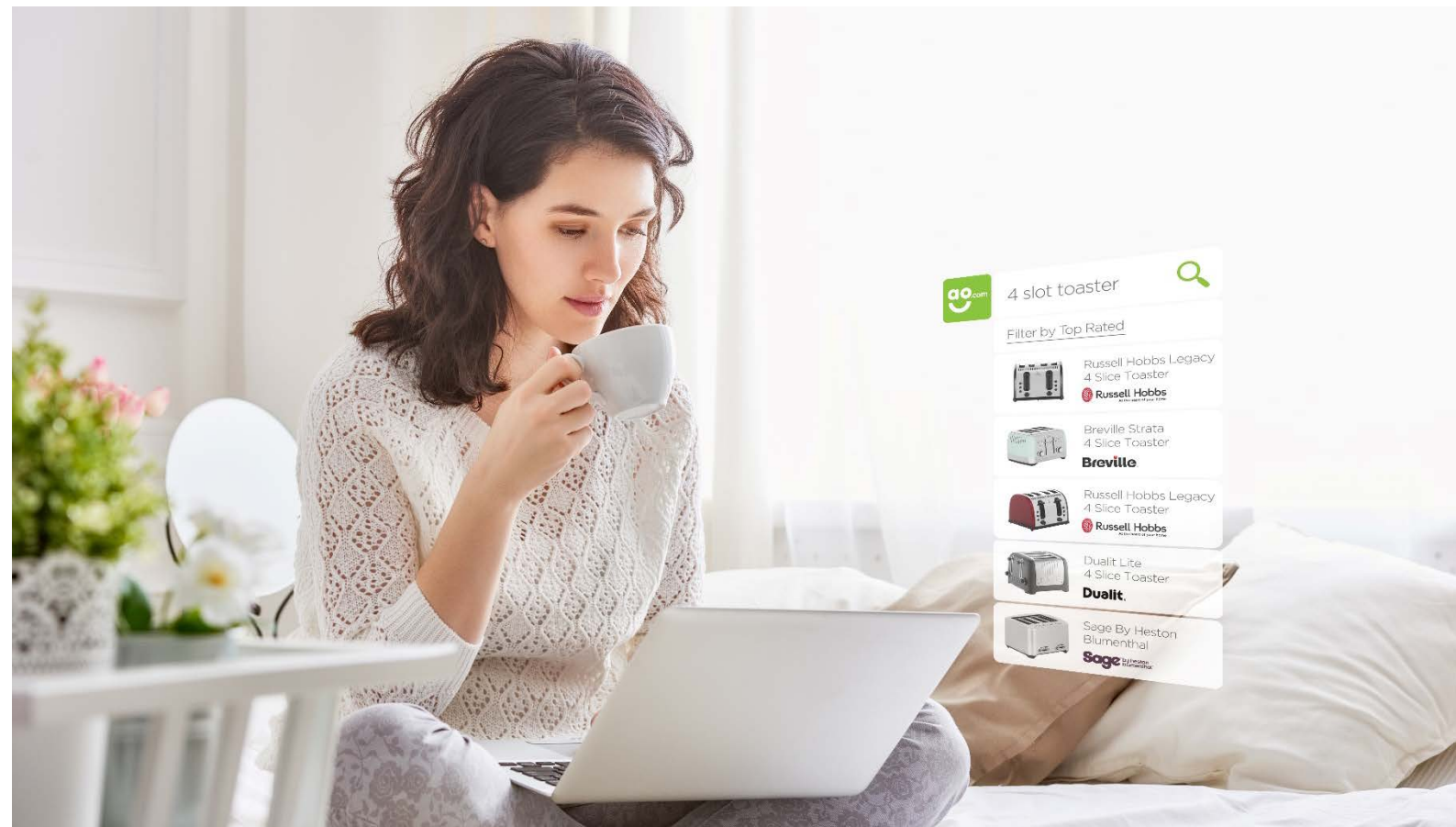


UK brand strategy update



What we know

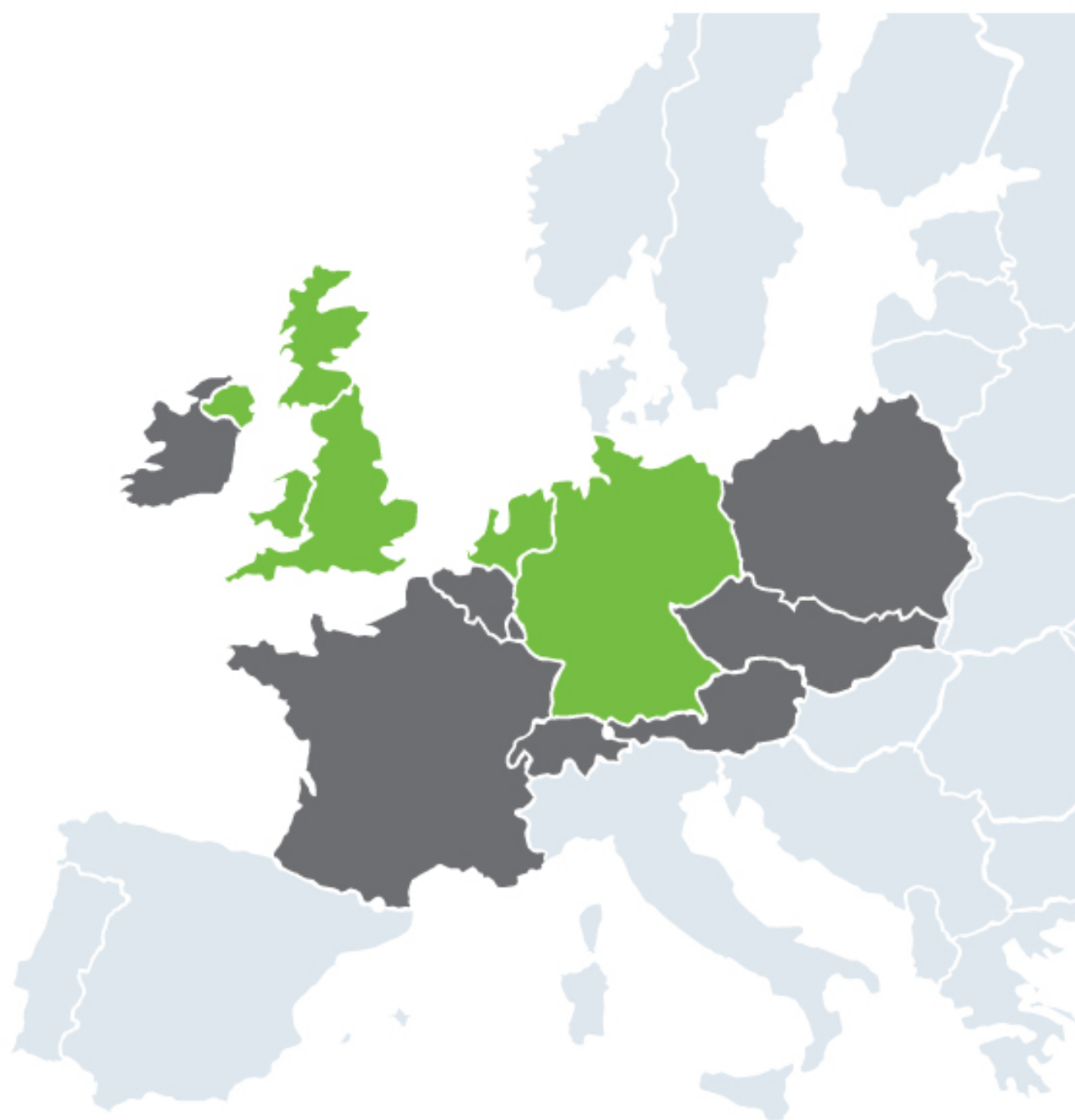
- Our brand is our greatest asset and biggest opportunity
- Low brand awareness provides enormous potential
- “Ease and care” strategy resonates with customers and non-customers alike
- Customers are loyal and committed once they have experienced AO’s offer and service
- Our proposition is compelling to non-customers



Update

- New brand and communications plan being developed
- Further update to be given in June '18 results

Our market opportunity remains substantial



Current and future potential markets

The UK

MDA, SDA, AV, Computing: **£13.4bn**
Mobile, Gaming **£2.4bn**
Broader electricals: **£2.0bn**

Germany

MDA, SDA, AV, Computing: **£22.1bn**
Mobile, Gaming **£5.4bn**
Broader electricals: **£2.8bn**

The Netherlands

MDA, SDA, AV, Computing: **£4.3bn**
Mobile, Gaming **£0.9bn**
Broader electricals: **£0.5bn**

Ireland

MDA, SDA, AV, Computing: **£0.6bn**
Mobile, Gaming **£0.1bn**
Broader electricals: **£0.0bn**

France

MDA, SDA, AV, Computing: **£13.2bn**
Mobile, Gaming **£3.4bn**
Broader electricals: **£1.5bn**

Poland

MDA, SDA, AV, Computing: **£4.1bn**
Mobile, Gaming **£0.8bn**
Broader electricals: **£0.4bn**

Austria

MDA, SDA, AV, Computing: **£2.1bn**
Mobile, Gaming **£0.4bn**
Broader electricals: **£0.3bn**

Belgium

MDA, SDA, AV, Computing: **£2.6bn**
Mobile, Gaming **£1.0bn**
Broader electricals: **£0.3bn**

Switzerland

MDA, SDA, AV, Computing: **£1.8bn**
Mobile, Gaming **£0.5bn**
Broader electricals: **£0.4bn**

Czech Republic

MDA, SDA, AV, Computing: **£1.5bn**
Mobile, Gaming **£0.5bn**
Broader electricals: **£0.1bn**

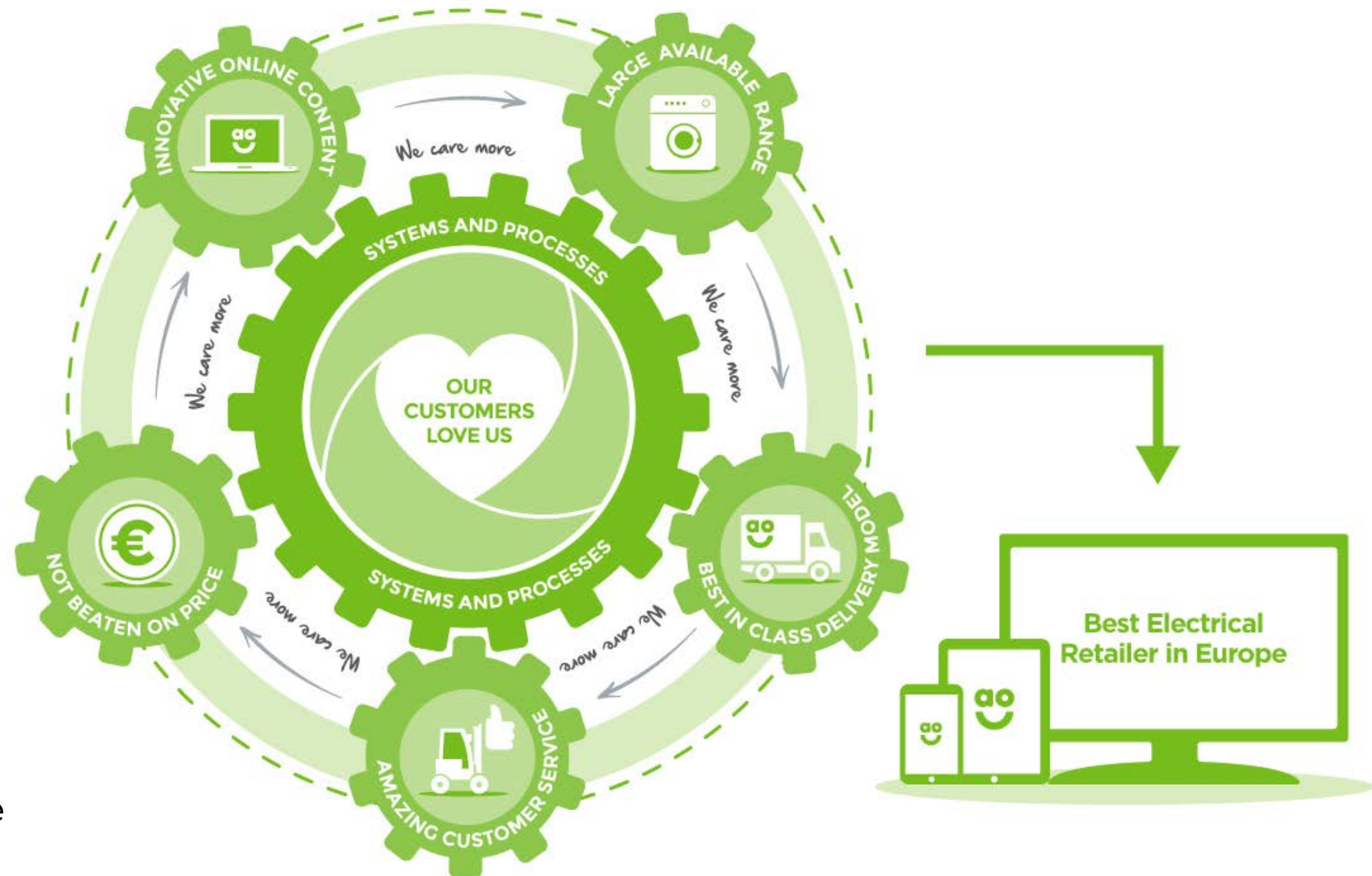
Current: **£66bn**
New Categories: **£16bn**
Broader Electricals: **£8bn**

Total: **£90bn**

AO remains well positioned



- AO Way flexible model gives significant competitive advantage
- Maintained UK MDA market share / margin and grown share in other categories, despite overall market decline
- Customers are loyal
- MDA distressed purchase market provides level of insulation
- Supplier support remains strong
- European operations continuing to plan
- Brexit negotiations have little direct impact to operations although creates uncertainty for markets, the consumer and the wider UK economy



Summary & Outlook



- Continued to deliver our 4C strategy
- European operations progressing to plan
- Our mission remains the same
- Uncertain UK economic environment
- Will continue to execute operationally
- Remain excited about the opportunities available to us



Q&A





AO WORLD PLC

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