



AO WORLD PLC

FY19 Interim Results

20th November 2018

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

Agenda

Welcome

Geoff Cooper, Chairman

UK Market & Financial Performance

Mark Higgins, Group CFO

Strategic Progress

Steve Counce, Group CEO

Q&A

HY19 highlights

- Continued revenue growth and strategic progress against a challenging backdrop
- Europe remains on-track with long-term plan
- Proposed acquisition of Mobile Phones Direct further develops the Group's strategic objectives





UK Market & Financial Performance

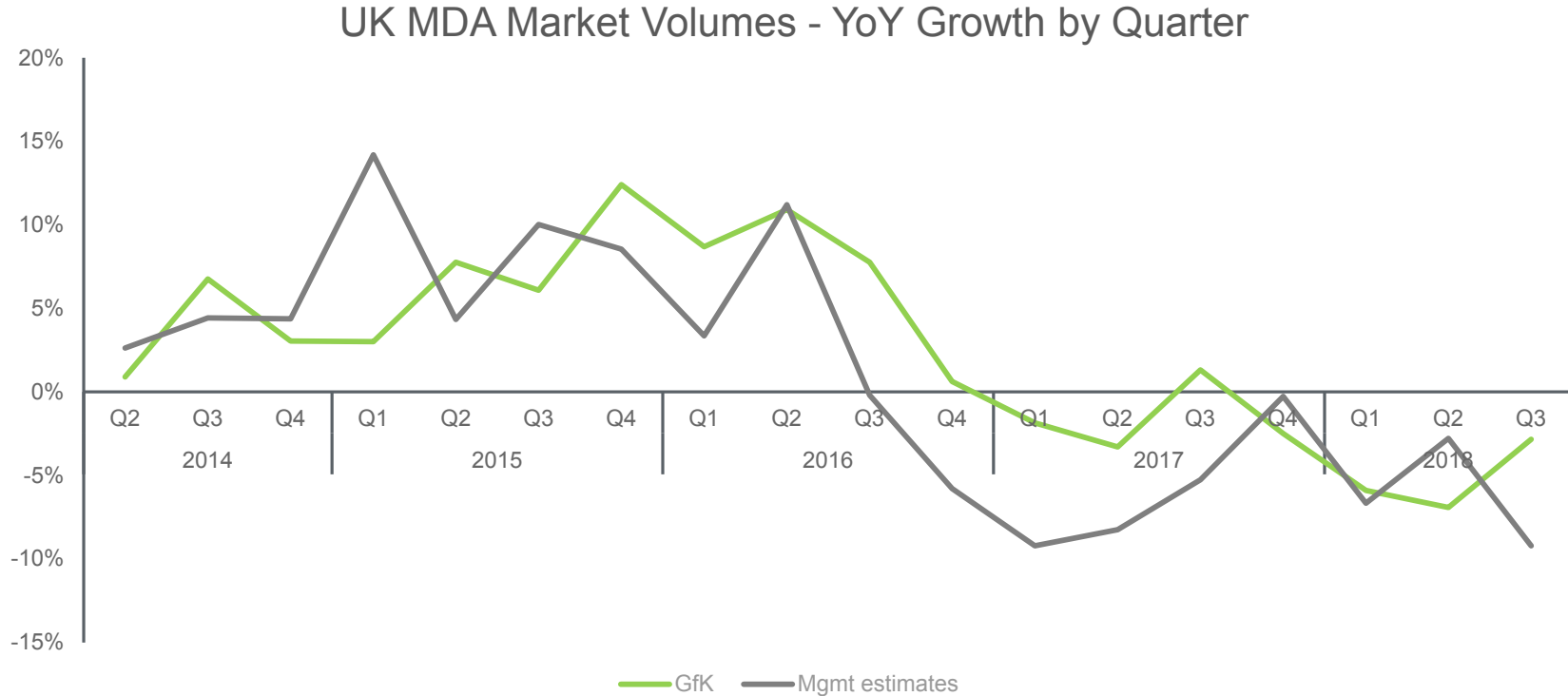
Mark Higgins
Group Chief Financial Officer

HY19 financial highlights

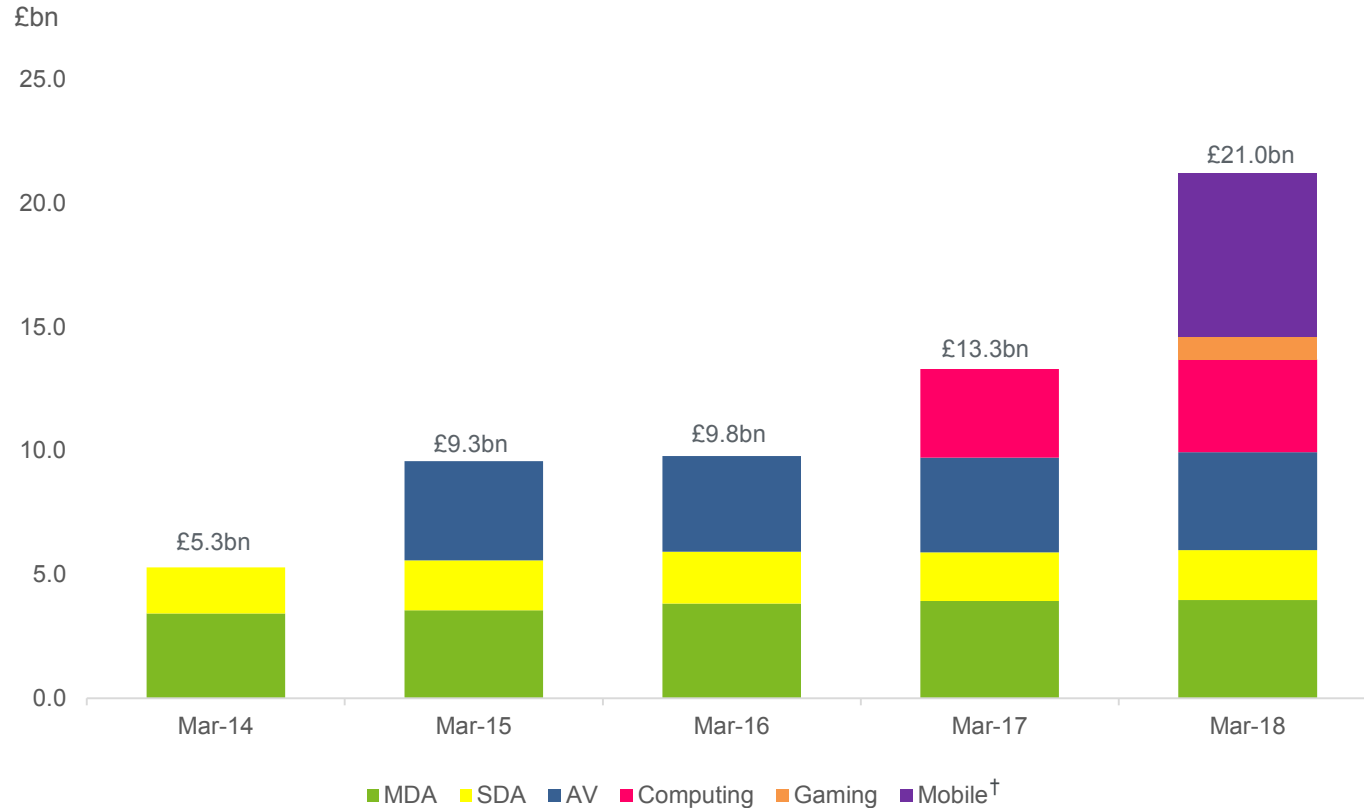


- Group revenue up 9.9%
- UK AO website sales up 4.2% (total UK revenue up 5.7%)
- Europe revenue up 35.0% (on a constant currency basis)
- Adjusted EBITDA:
 - UK profit reduced to £6.9m
 - Europe losses improved to €13.8m
 - Group losses improved to £5.4m

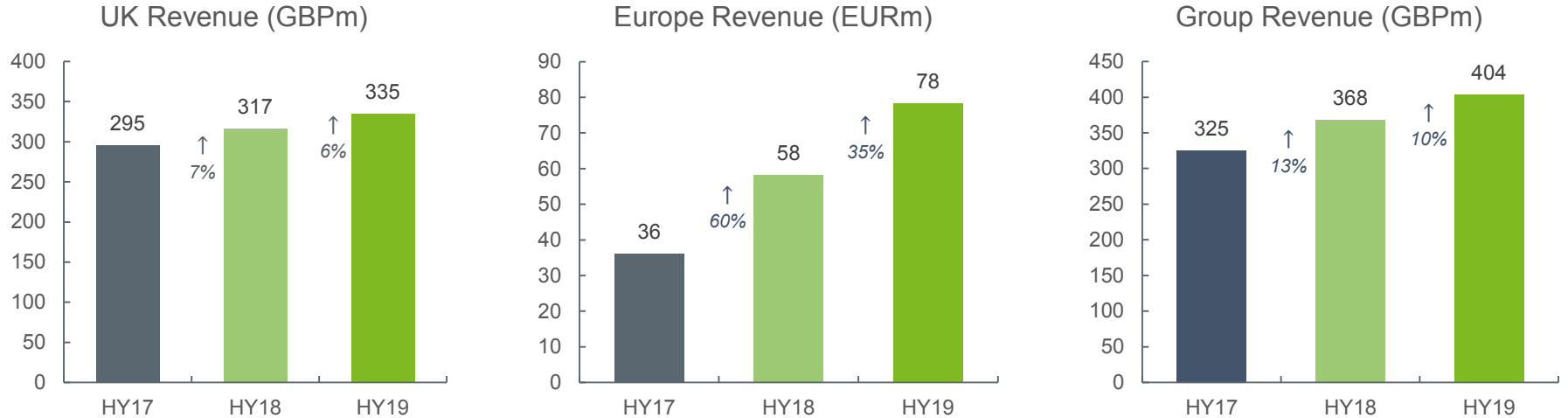
UK MDA Market Volume Growth, 2014 – 2018



AO's UK total addressable market has grown significantly since IPO



Revenue growth despite market challenges



- Group revenue increased by 9.9% to £404.2m (HY18: £368.0m)
- Overall UK growth of 5.7% to £334.8m (HY18: £316.8m) with AO website revenue growth coming from newer categories
- European revenue growth of 35.0% to €78.4m (HY18: €58.1m), with Q2 sales growth rates impacted by changes to our German driver operating model

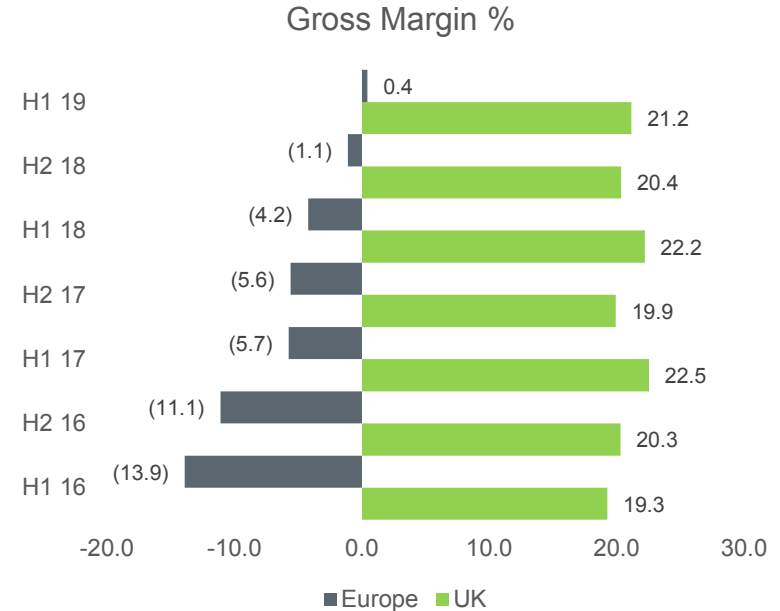
Continued progression in gross margin

UK

- Strong performance from newer categories has a dilutive impact on gross margin percentage
- Supplier partnerships remain strong

Europe

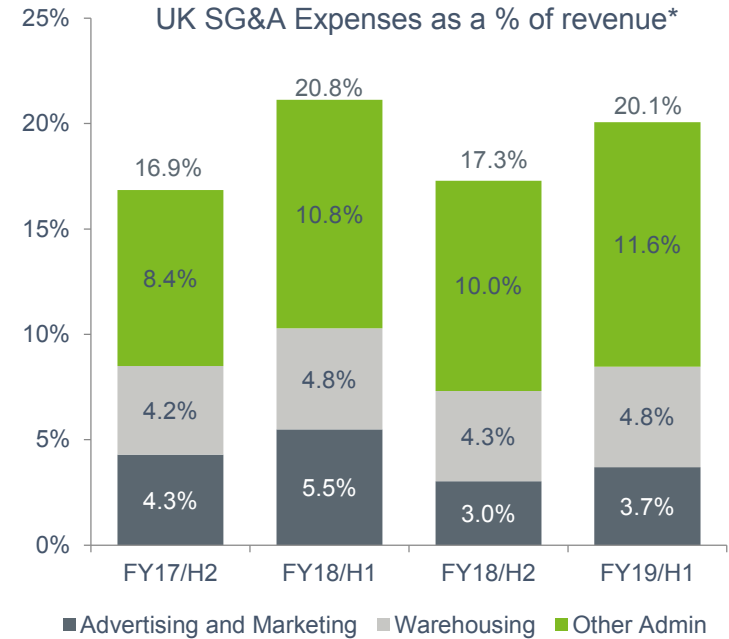
- Positive gross margin achieved during the period
- Delivery capacity impacted by changes to German driver model during Q2
- Relationships with suppliers continue to progress with improved product margins



UK SG&A cost analysis

UK

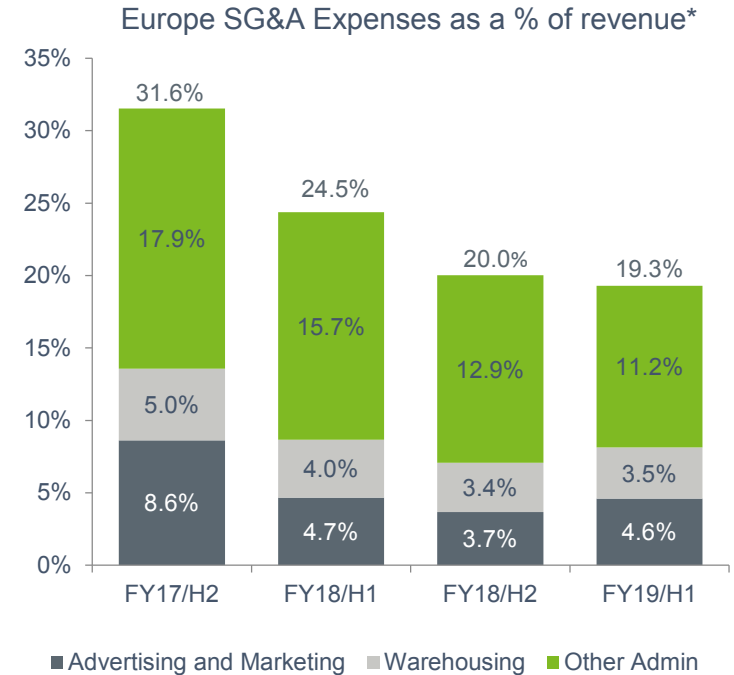
- Advertising & marketing costs increased to 3.7% from 3.0% in FY18/H2 following launch of new 'Delivering Tomorrow' brand campaign
- Warehousing costs reflecting revenue leverage and further outbase investments
- Other admin increase to 11.6% reflective of investment in teams to support future growth in our competencies, as well as increased pension costs and wage inflation



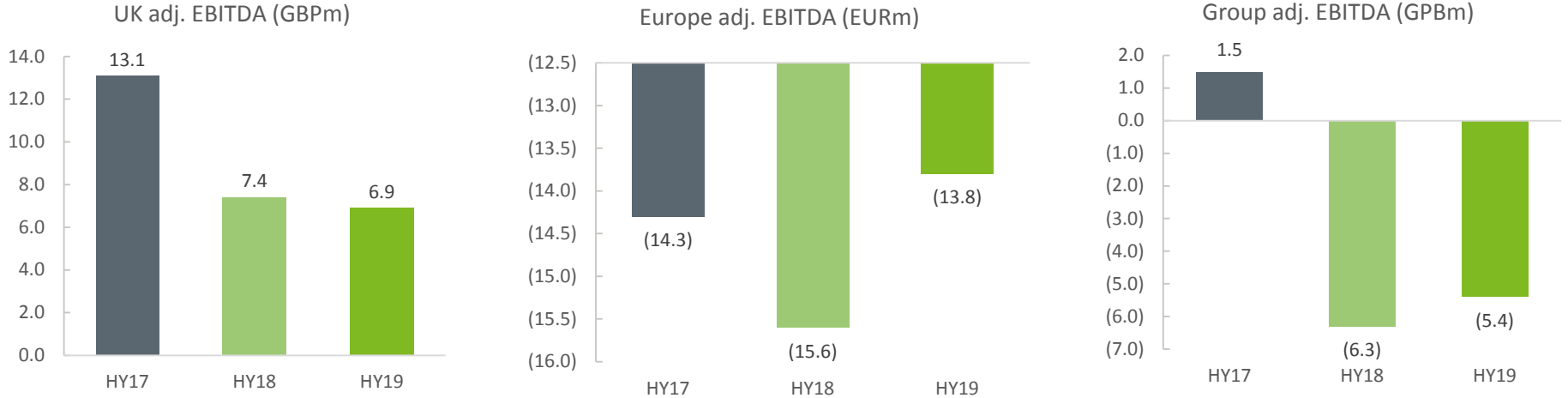
Europe SG&A cost analysis

Europe

- Marketing costs as a % of sales broadly consistent with prior year period
- Our continued growth benefits our cost base leverage in both:
 - Warehousing
 - Other admin (4.5ppt reduction compared FY18/H1)



EBITDA progression



- UK impacted by lower than anticipated MDA sales and the dilutive gross margin percentage impact of newer categories
- European losses reduce reflecting improvements in product margin and leverage in logistics and overheads

Operating cash flow

| As at 30 September (£m) | HY19 | HY18 |
|---|---------------|--------------|
| Adjusted EBITDA | (5.4) | (6.3) |
| Europe set-up costs | - | (0.2) |
| Non-cash movements | (0.7) | 0.6 |
| Net change working capital: | | |
| Movement in trade & other receivables and accrued income | (15.3) | (12.9) |
| Movement in inventories | (0.2) | (11.0) |
| Movement in trade and other payables | 9.4 | 28.8 |
| Tax received/(paid) | 0.2 | 0.3 |
| Cash generated from / (used in) operating activities | (12.0) | (0.7) |
| Capex and interest received | (1.2) | (2.1) |
| Acquisition of shares in minority undertaking | (0.4) | - |
| Financing activities | (1.3) | (2.5) |
| Placing proceeds | - | 48.1 |
| Movement in cash | (14.9) | 42.8 |
| Net cash | 36.6 | 72.3 |
| Un-utilised facilities | 57.7 | 28.6 |
| Total liquidity | 94.3 | 100.9 |

- Continue to have significant liquidity headroom: £94.3m
- Increased accrued income on warranties as well as rebates is not matched by an increase in creditors due to a tightening in the credit insurance market
- Capex of £1.2m predominately attributable to continued investment in recycling facility

H2 Financial outlook

UK

- MDA market conditions expected to remain tough
- New category and competency dynamics
- 'Delivering tomorrow' campaign provides opportunity to drive market penetration as we focus on driving long-term brand awareness and revenues

Europe

- Europe working through the driver model changes
- Encouraged by progress with suppliers

Capex

- Further significant investment in second recycling and plastics plants is expected in FY20 (expect total capex to be similar to FY17 with asset finance against large investments)

Mobile Phones Direct

- Completion expected by end of FY19

Overall Group outlook

- Full year in line with Board expectations, albeit more second half weighted than anticipated





Strategic Progress

Steve Caunce
Group Chief Executive Officer

AO today...



AO has evolved

From a one country
one category e-tailer...



...to a multi-national
and multi-category,
vertically integrated
ecosystem

Five UK units, all with huge potential

| Retail | B2B | Financial Services | Logistics | Recycling |
|--|---|---|--|---|
|  |  |  |  |  |
| <ul style="list-style-type: none">• Market leading customer satisfaction• Product focus & supplier relationships• Ecommerce & innovation  | <ul style="list-style-type: none">• Leveraging AO capability into new markets• Strategic focus• Huge growth potential | <ul style="list-style-type: none">• Partnership with D&G for insurance• Outbound sales specialists• Developing our finance offering   | <ul style="list-style-type: none">• Leading UK home delivery specialists• Nationwide Gas/Electric Installation & product setup• Broadening to further 3rd party opportunities | <ul style="list-style-type: none">• Largest and most efficient fridge recycling plant in UK• Plastics plant and 2nd Fridge plant on the way |

Acquisition of Mobile Phones Direct (MPD)

- Proposed acquisition of MPD – leading online-only UK retailer of mobile phones:
 - Mobile Phones Direct (www.mobilephonesdirect.co.uk)
 - Smart Phone Company (www.smartphonecompany.co.uk)
- Website visits of 13.6m in twelve months to 31 December 2017
- For year ending 31 March 2018:
 - Revenue £121.7m
 - EBITDA £5.5m
- Will become the sixth unit in the UK



Benefits of the acquisition

- Further develops our Customer Strategic objective
- Further diversifies product offering, provides entry into substantial market with key business drivers of:
 - Move to online
 - Lower cost to serve
 - Leading ecommerce infrastructure
 - Premium smart phones
- Complimentary business model will help achieve AO's Purpose
- Acquiring an experienced management team
- Established e-commerce proposition underpinned by relationships with the 4 UK mobile network operators and mobile phone distributors
- Cash generative business
- Further opportunities for growth and synergies



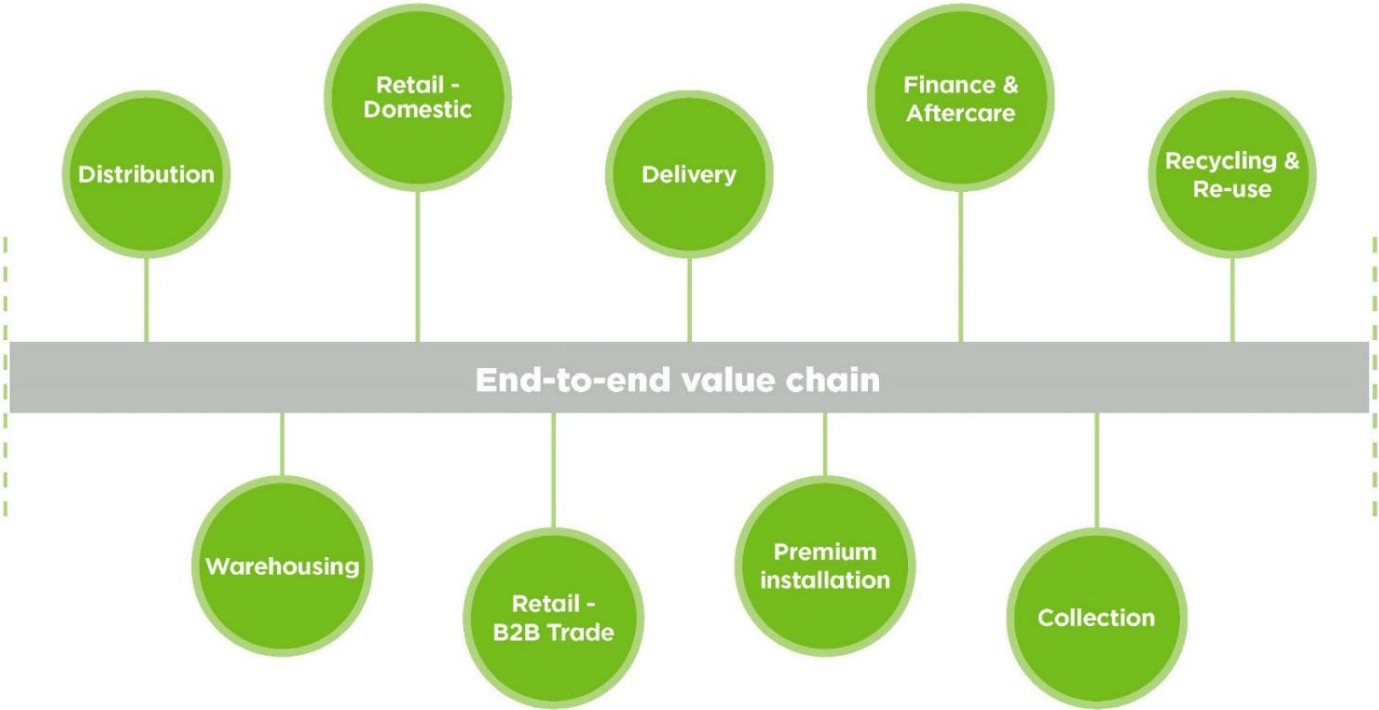
Strategic objectives: Competencies



Competencies

Leveraging our
expertise

Leveraging our core competencies into our supply / value chain



Competency developments

B2B

- B2B division formalised to capitalise on a fragmented & regionally served market with low levels of customer service
- Grown customer and client base across multiple industries
- Agreement in principle for trial with major home builder
- Achieved preferred supplier status for a number of large organisations



Recycling

- Second recycling site identified in South East of England
- Orders placed for hi-tech plastics recycling site and machinery



Competency developments

Logistics

- Exploiting market demand for AO's 2-man delivery expertise - commenced trial to deliver for third party furniture retailer with others in the pipeline
- Upskilling premium engineering fleet



Financial Services

- Developing offering for all categories and territories with a focus on care and service



Strategic objectives: Customers

Customers

Consolidate leading
position in core markets
in UK

Strong UK customer proposition



Easy to find the right product by providing content that brings products to life



The quickest and most convenient customer journey

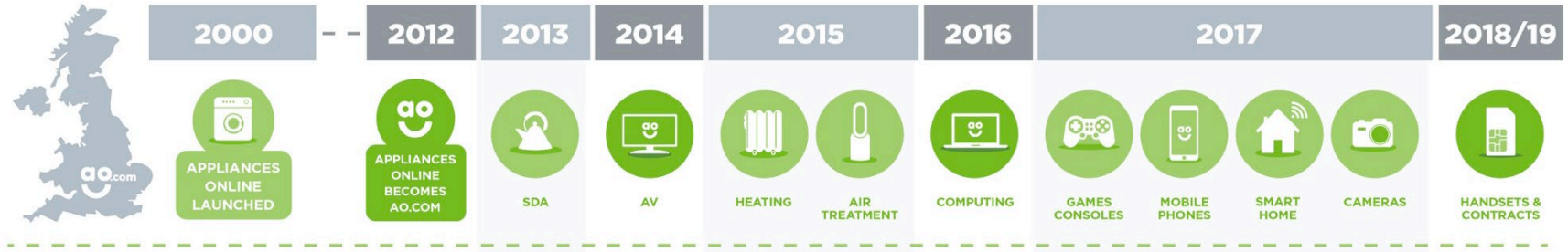


Amazing customer service



The winning value proposition

Multi-category retailer



- Attach / cross sell is a significant revenue and profit opportunity encouraging customers to purchase multiple items
- Customers want a broader range of product categories from AO.com
- Range growth continues supported by suppliers and distributors
- Cross category repeat trends are positive

UK customer developments

- NPS score maintained at a consistently high level of over 80
- Continue to enhance the customer journey
- New outbase opened at Telford, two new outbases opened in Luton and Coventry post period end
- Continued growth and development of UK premium service
- Improved routing capabilities
- Proposed acquisition of Mobile Phones Direct will broaden customer offering



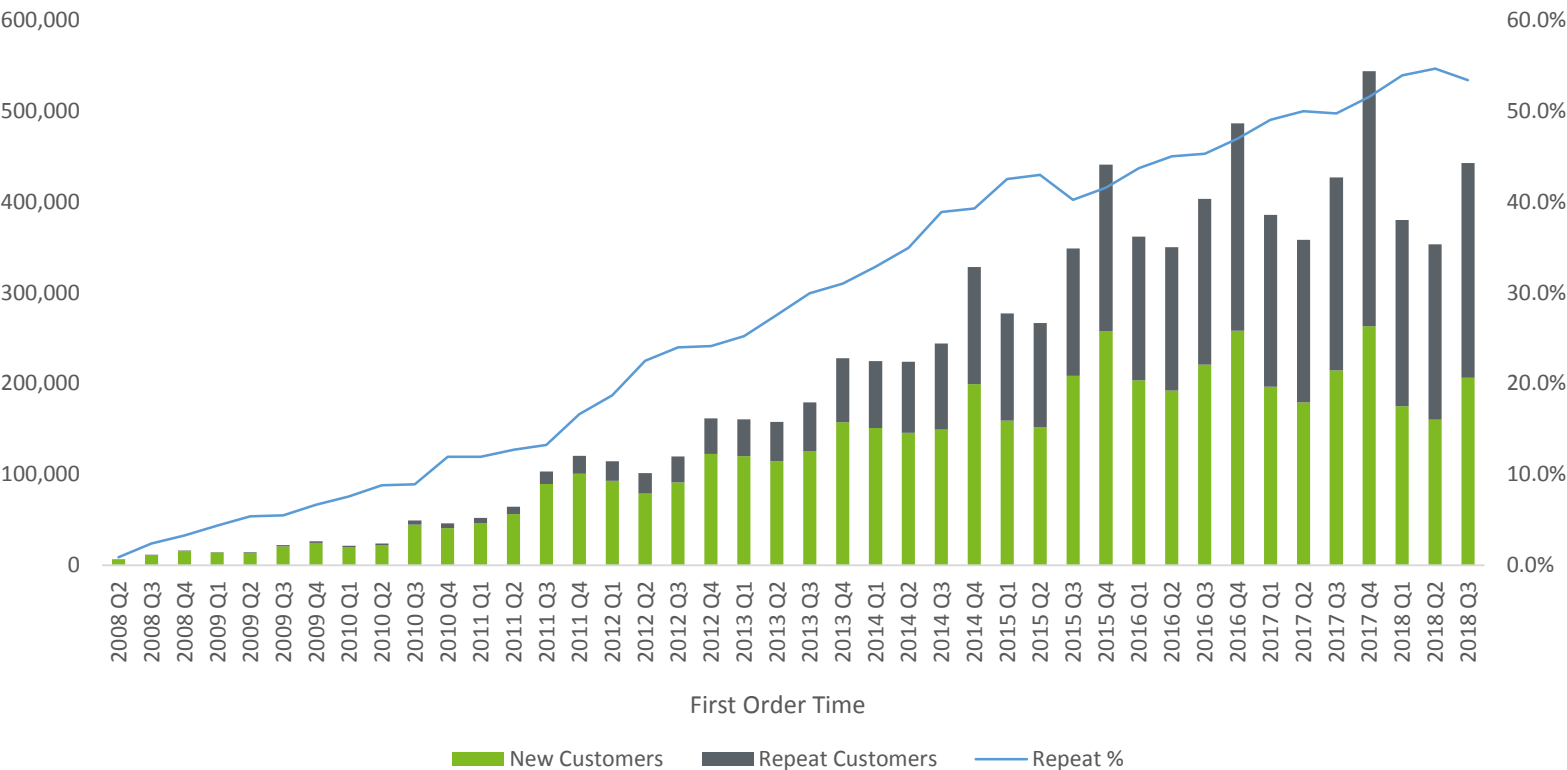
UK brand progress

- Awareness / trust / consideration challenge
- To try AO is to trust AO: Unique mix of humanity and efficiency
- Launched new brand platform, 'Delivering tomorrow'
- Delivering an integrated communications platform
- Results encouraging†:
 - Spontaneous awareness - up 2 ppts
 - Spontaneous consideration - up 6 ppts



UK new and repeat customers

UK Customers vs Repeat Customers %



Strategic objectives: Countries



Countries

Establish profitable
business in DE/NL

Countries

- Significant revenue growth
- NPS score maintained at high level of c.80
- Growth achieved with minimal traditional marketing activity and sales growth from AO branded Amazon shop and PAYBACK customer loyalty scheme
- Working through changes to German driver operating model – no material long term effects
- Continued progress with suppliers, move to positive gross margin
- New outbases opened in Stuttgart and Leipzig
- Premium service and MyAccount launched in Germany and the Netherlands post period end



Summary & outlook

- Continued strengthening of position as a multi-category, multi-country, vertically integrated retailer
- At least maintained UK MDA market share against a challenging market and gained market share across all other categories and all countries¹
- Competency objective progressing well, proposed acquisition of Mobile Phones Direct further develops the Group's strategic objectives
- Europe on-track with plan to achieve a profitable run-rate during FY21²
- Encouraging results from new 'Delivering Tomorrow' brand campaign
- Well placed to capitalise on peak trading period

To have the **happiest customers** by **relentlessly striving** for a **better way**

¹Source: GfK MDA market data to September 2018

²By "run rate" we mean achieving a positive Adjusted EBITDA for the Europe segment in at least one month of the financial year ending 31 March 2021, as we set out in our Capital Markets Day in February 2017

Q&A
