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 Caunce, 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

Source: GfK and management estimates of MDA market volumes from third party data source, calendar periods.
AO’s UK total addressable market has grown significantly since IPO

- Mar-14: £5.3bn
- Mar-15: £9.3bn
- Mar-16: £9.8bn
- Mar-17: £13.3bn
- Mar-18: £21.0bn

Source: GfK 12 months to March, all figures include VAT
† Source: Management estimate based on a variety of sources, represents full mobile handset market value (airtime market excluded)
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

For the 6 months ending 30 September 2018
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.
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

Notes
*Excludes impact of ERP share plan charges, restructuring costs, European set-up costs and professional fees relating to the acquisition of MPD which are categorised as exceptional
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.
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)

Notes
*Excludes impact of ERP share plan charges, restructuring costs, European set-up costs and professional fees relating to the acquisition of MPD which are categorised as exceptional.
Certain financial data have been rounded. As a result of this rounding, the total of data presented may vary slightly from the arithmetic total of such data.
**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

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

<table>
<thead>
<tr>
<th>As at 30 September (£m)</th>
<th>HY19</th>
<th>HY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted EBITDA</td>
<td>(5.4)</td>
<td>(6.3)</td>
</tr>
<tr>
<td>Europe set-up costs</td>
<td>-</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Non-cash movements</td>
<td>(0.7)</td>
<td>0.6</td>
</tr>
<tr>
<td>Net change working capital:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Movement in trade &amp; other receivables and accrued income</td>
<td>(15.3)</td>
<td>(12.9)</td>
</tr>
<tr>
<td>Movement in inventories</td>
<td>(0.2)</td>
<td>(11.0)</td>
</tr>
<tr>
<td>Movement in trade and other payables</td>
<td>9.4</td>
<td>28.8</td>
</tr>
<tr>
<td>Tax received/(paid)</td>
<td>0.2</td>
<td>0.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash generated from / (used in) operating activities</th>
<th>HY19</th>
<th>HY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash generated from operating activities</td>
<td>(12.0)</td>
<td>(0.7)</td>
</tr>
<tr>
<td>Capex and interest received</td>
<td>(1.2)</td>
<td>(2.1)</td>
</tr>
<tr>
<td>Acquisition of shares in minority undertaking</td>
<td>(0.4)</td>
<td>-</td>
</tr>
<tr>
<td>Financing activities</td>
<td>(1.3)</td>
<td>(2.5)</td>
</tr>
<tr>
<td>Placing proceeds</td>
<td>-</td>
<td>48.1</td>
</tr>
<tr>
<td>Movement in cash</td>
<td>(14.9)</td>
<td>42.8</td>
</tr>
</tbody>
</table>

| 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

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.
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...

- **COUNTRIES**
  - We currently operate in the UK, Germany and the Netherlands

- **GROUP REVENUE**
  - £800m+

- **CATEGORIES**
  - 6 categories with over 180 brands and 7,000 products

- **Trustpilot**
  - Based on 100,000 reviews

- **Trustpilot**
  - Around 60,000 deliveries a week

- **EMPLOYEES**
  - Over 2,500 across the UK, Germany & the Netherlands

- **APPROACHING**
  - 6,000,000 customers*

- **Recycling over**
  - 700,000 fridges per annum

* A customer is defined as an individual who has purchased from ao.com, ao.de or ao.nl
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

<table>
<thead>
<tr>
<th>Retail</th>
<th>B2B</th>
<th>Financial Services</th>
<th>Logistics</th>
<th>Recycling</th>
</tr>
</thead>
</table>
| • Market leading customer satisfaction  
  • Product focus & supplier relationships  
  • Ecommerce & innovation | • Leveraging AO capability into new markets  
  • Strategic focus  
  • Huge growth potential | • Partnership with D&G for insurance  
  • Outbound sales specialists  
  • Developing our finance offering | • Leading UK home delivery specialists  
  • Nationwide Gas/Electric Installation & product setup  
  • Broadening to further 3rd party opportunities | • 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

End-to-end value chain

- Distribution
- Retail - Domestic
- Delivery
- Finance & Aftercare
- Recycling & Re-use
- Warehousing
- Retail - B2B Trade
- Premium installation
- Collection
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
• 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

*A customer is defined as an individual who has purchased from us*
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

†Source: The Nursery Brand tracking survey, July-Sept 18, Large Kitchen Appliances
UK new and repeat customers

UK Customers vs Repeat Customers %

Source: Internal Data
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

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