Moonpig Group plc

FY24 Full Year Results - Year Ended 30 April 2024

Analyst Q&A Conference Call Transcript

27 June 2024

Participants

- **Nickyl Raithatha** Moonpig Group plc – Chief Executive Officer
- **Andy MacKinnon** Moonpig Group plc – Chief Financial Officer
- **Jonathan Pritchard** Peel Hunt – Analyst
- **Andrew Wade** Jefferies – Analyst
- **Caroline Gulliver** Equity Development – Analyst
- **Sean Kealy** Panmure Liberum – Analyst

Operator

Good day, ladies and gentlemen, and welcome to the Moonpig Group FY 2024 Full Year Results Q&A session. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session.

(Operator Instructions).

I would like to remind all participants that this call is being recorded. I will now hand over to Nickyl Raithatha, CEO, for his opening remarks.

Nickyl Raithatha *Chief Executive Officer, Moonpig Group plc*

Hi, everyone, and thank you for joining today for the full year results Q&A session. Hopefully, you've all had a chance to look through the announcement and to watch the presentation video. I'll say a few words and then we'll get straight on to Q&A.

I'm really pleased today to report a strong set of results for Moonpig Group with the underlying trends in our business giving us confidence in our outlook for the future. The second half of the year in particular saw a significant step up in growth trajectory and this momentum has continued into the current year.

The growth was underpinned by our card-first brands, Moonpig and Greetz, where order growth stepped up 10 percentage points in the half from minus 5% to plus 5%, and new customers stepped up 11 percentage points in the half to plus 3% growth, back into positive territory for the first time since the pandemic. We're 18 months into completing our tech re-platforming and we're only now really starting to see the benefits translate into customer metrics, which is powering this change in growth levels.

We delivered this growth whilst maintaining high profitability levels, Adjusted EBITDA and Adjusted PBT margins up in the year and it all translated into a 30% increase in operating cash flow, which reduced our leverage to 1.3 times at the end of April, ahead of expectations that we laid out earlier.

Our strategy is to build a customer loyalty business, driving an increasing share of wallet from our customers each year and we've made strong progress on our strategic goals in the last 12 months. Our subscription service, Plus, has exceeded expectations and is driving significant value in the business. Our new creative card features are being adopted at record rates. Our AI roadmap is running at full speed and driving a more relevant and personalised customer experience than ever before. And we're making great progress with digital gifting by integrating the gift experience, into the Moonpig card and unlocking instant delivery capabilities. These initiatives and more, delivered by our continued investments in technology, our product range and our brands, are powering our growth and underpin our growth expectations for the current financial year.

We expect revenue growth in the mid to high single digit range in FY25. And in the medium term, we expect the business to deliver double-digit revenue growth, Adjusted EBITDA margins between 25% and 26%, and consistent mid-teens Adjusted EPS growth.

Our continued strong cash generation has the potential to drive another 0.7 turns of deleveraging this year, taking us below our leverage target of 1.0 times, which in turn will give us the financial flexibility to consider returning excess capital to shareholders.

So, in a macroeconomic climate that remains challenging, the resilience of our market, the loyalty of our customers, and the return on our technology investments is really starting to show as Moonpig Group continues to demonstrate a unique combination of top line growth, high profitability, and strong cash generation. And we're excited for the long-term prospects of the business.

We'll be sharing more details on our key strategic initiatives and our outlook for the medium term at our Capital Markets Event on 16 October 2024. But for now, I'll turn over to questions.

Operator

Thank you. (Operator Instructions). Our first question comes from Jonathan Pritchard at Peel Hunt. Please unmute yourself and begin with your questions.

Jonathan Pritchard *Peel Hunt*

Good morning. Two, if I may. Just the stronger performance in the second half, was that a case of you just sort of nailing the big events of a great Mother's Day, Valentine's, or is it something utterly more fundamental that you've actually got this, and you sort of cracked it from a growth perspective, just a bit of your thoughts on that?

And then, I'm sure this is in your pack of Q&A, but just on the timing of any sort of distribution, it would appear that you're not going to make a huge amount of progress -- this isn't criticism-- but not a huge amount of progress in the first half? So, would you think any sort of conversations would be more second half or 12 months from now, or do you think it might be sooner than that in terms of the cash return?

Nickyl Raithatha *Chief Executive Officer, Moonpig Group plc*

I'll take the first and I'll pass to Andy for the second question. The changing growth we saw was pretty much consistent across the second half. So, we did have three peak events in the half and those were all successful. But the key change, which is the moving into positive order growth, that has been every month in the half. Moving into new customer growth that's got consistently better through the half as we've kind of gone on, peaks haven't been different to the non-peaks. So really, we look at this as an underlying trend in our all year-round business; it has really just stepped up, and that's new customers, existing customers and orders, which I think is a really healthy place to be, so yeah.

And maybe on cash returns, Andy?

Andy MacKinnon *Chief Financial Officer, Moonpig Group plc*

Yes. Hi, Jonathan. I think you're right. I think, what you are calling out is the fact that our cash generation is strongly weighted into the second half of each financial year, and therefore we'd expect our net leverage to be broadly unchanged at 31 October 2024, but then reduce significantly in the second half of the year.

In terms of approach to returning capital to shareholders, I think that's something we're looking to update further on at the Capital Markets Event that we'll hold in mid-October. Clearly, if you look at the trajectory of cash flow in the business, if we chose not to return cash to shareholders in the second half of the year, we'd be lower than our target leverage by the end of the financial year. And so, on the other side of summer, I think it'll be appropriate to provide a further update.

Jonathan Pritchard *Peel Hunt*

Lovely. Thank you very much, gents.

Operator

(Operator Instructions). Our next question is from Andrew Wade at Jefferies. Please unmute yourself and begin with your question.

Andrew Wade *Jefferies*

Good morning, chaps. Congratulations on a strong second half there. Just, first of all, just wanted to touch on squaring the circle on the guidance. You're sort of talking about mid-single digit growth from the ex-breakage number, so say 5% of that. If you take even the top end of that 25% to 26% Adjusted EBITDA range, it gets you sort of 91-ish, and that compares to consensus of 94-ish for Adjusted EBITDA and you say you're trading in line, so I'm just wanting to square the circle on that. Will it come up slightly above that 25% to 26% EBITDA margin range? Is that the balancing factor in there?

Andy MacKinnon *Chief Financial Officer, Moonpig Group plc*

Yeah. Hi, Andy. So, I think what we're trying to say in terms of the revenue guidance is obviously we've printed revenue for this year of GBP341 million. Within that, there's mid-single-digit breakage and so, GBP5 million to GBP6 million worth of excess breakage from Covid vouchers. So, we're saying effectively apply our revenue guidance to the lower number, so around by the GBP335 million rather than the GBP341 million.

Andrew Wade *Jefferies*

Yeah.

Andy MacKinnon *Chief Financial Officer, Moonpig Group plc*

In terms of Adjusted EBITDA margin, we'd expect to be sort of towards the top of the, or maybe slightly above, our medium term range. And if you look ...

Andrew Wade *Jefferies*

Yeah.

Andy MacKinnon *Chief Financial Officer, Moonpig Group plc*

... we've obviously just reported an Adjusted EBITDA margin rate of 28%, but within that there's just under 2 percentage points of benefit from that one-time breakage. So, if you sort of strip that out, you get to a rate which is slightly ahead of 26%, and we'd expect to broadly meet that in the year ahead.

Andrew Wade *Jefferies*

Great. Okay. That's very clear. Thanks. Secondly, I think I already know the answer, but just to sort of run it by you, I guess the math on the mid-teen EPS growth versus double-digit revenue growth, presumably the differential comes from leverage over the interest rate, interest and depreciation there, rather than anything else? Or is factored into that some benefit on the interest line or some lowering of depreciation? Sort of interested as to the mechanics there.

Andy MacKinnon *Chief Financial Officer, Moonpig Group plc*

Yeah. Absolutely. I think, the primary driver there is deleveraging. So, obviously, we've got a business ...

Andrew Wade *Jefferies*

Right.

Andy MacKinnon *Chief Financial Officer, Moonpig Group plc*

... that is generating, in this current year, GBP50 million to GBP60 million worth of operating cash flow and growing in future periods thereafter. If you just take an interest rate on that, you'd see that's enough to bring you into sort of the mid teens.

Andrew Wade *Jefferies*

Okay. Yes. So implicit within that is that there's some benefit from deleverage?

Andy MacKinnon *Chief Financial Officer, Moonpig Group plc*

Yeah. If you think about the ways that we might allocate capital, you'd either get benefit from deleveraging or as we've signalled in this ...

Andrew Wade *Jefferies*

Yeah.

Andy MacKinnon *Chief Financial Officer, Moonpig Group plc*

... morning's announcement, you'd look at returns to shareholders, and there are ways to do that that would be EPS accretive.

Andrew Wade *Jefferies*

Got you. Thanks. And then finally, on the sort of, well, I guess question for Nickyl. Sort of looking at the gift attach side of things, could you sort of talk about what momentum is looking like on the gift attach side? If your aspirations in terms of where you can get to on gift attach have changed and what the big initiatives that you've got coming up to drive gift attach are? Thanks.

Nickyl Raithatha *Chief Executive Officer, Moonpig Group plc*

Yeah, thanks. So, I think, probably the first thing to say is we are operating in a world where sort of the cyclical impacts on gifting are much more pronounced than they are on cards. But despite that, I think what we showed in this half was gift revenues up 4% year-on-year in what is likely a challenging market. So, it really talks to sort of the power of the business model where we bring customers in for cards, we upsell them to gifts and we can drive gifting growth even without having to push that and kind of push water uphill from an online marketing perspective.

That said, attach rate was kind of stable in the second half. That's not kind of where we want it to be. I think what we'd expect going forward is that attach rate is back in growth. Our attach rate is in the sort of high teens range at the moment, and we see no reason why that shouldn't move into the high-20s, even 30s in the sort of medium term. So, our aspirations for the amount of customers that can add gifts to their cards hasn't changed. We think there's still a huge runway to grow. And it really comes down to continuing to improve our algorithms and improve our range.

And, actually, I think on the algorithm side where we're really excited, there's a lot of developments using sort of new machine learning and AI capabilities that are kind of allowing our recommendations to be powered by much more intelligent models than previously. So, previously, where we would have had a rule based model that would essentially say, if you see card X show gift Y. I think now we're starting to introduce semantic search, where we can really interpret the customer's intent from all of their behaviour, from the message they write inside the card, from the way they browse, how they browse, and use that intent to suggest the range of gifts.

And so, I think over the next six to 12 months, we'll expect to see the quality of that cross-sell, in particular on sort of the smaller missions, so birthdays were pretty well optimised, but on get well soon, or new baby, we haven't put the same focus, but I think these new models allow us to really catch up fast. So, expect to see the data science capabilities really start to come through in the next year.

And on the range side, we're making great progress. So, we launched a couple of new brands like Hotel Chocolat was one of the big launches this year.

Andrew Wade *Jefferies*

Yeah.

Nickyl Raithatha *Chief Executive Officer, Moonpig Group plc*

It's been incredibly successful and moved straight to, like, number one in terms of our chocolate sales, which was really good to see and obviously a slightly higher price point than our previous chocolate offering.

Andrew Wade *Jefferies*

Yeah.

Nickyl Raithatha *Chief Executive Officer, Moonpig Group plc*

And we've got some exciting launches coming this year, in particular in the sort of the kids' categories. We've got some really exciting brand launches coming and we're very confident those will kind of further step up. So, attach rate, look, challenging environment. I think the model is working, but we have a lot we can do organically to push it.

Andrew Wade *Jefferies*

Great stuff. Thank you very much, and well done.

Operator

(Operator Instructions). Our next question is from Caroline Gulliver at Equity Development. Please unmute yourself and begin with your question.

Caroline Gulliver *Equity Development*

Good morning, and congratulations from me too. A really, really good turnaround, really good set of results. I just had a -- oh, hang on. Good morning, it's Caroline Gulliver here. Congratulations from me too on a really strong set of results momentum. I just had a follow up question to Andy's question really on gift attach and all the initiatives you've got going on. I completely get that it's cards first and that's the best way to market and best way to get people in. But I'm just wondering what you're doing as sort of overall brand marketing and maybe introducing new customers to the idea that you're actually selling gifts and selling experiences and how you're getting the message across more widely, or whether you just want to focus very much on cards first from a marketing perspective?

Nickyl Raithatha *Chief Executive Officer, Moonpig Group plc*

Thanks, Caroline. It's a great question. It's something we've definitely -- we've talked about in the past. So, I think, the beauty of our model is that we sell gifts without having to market them directly. And, I think, if we look at our flower business, we know we're probably top three online florist in the UK, but we have no marketing costs associated and so we're probably more profitable than the rest of the online flower industry combined. And so that kind of talks to the model of, like, why we believe so firmly in card first, where you drive the volume and you can use upsell and cross-sell to sell gifts.

And I think when we have tried in the past to just sort of acquire customers profitably from a gift-first perspective, so trying to acquire a flower customer or a chocolate customer, it's hard to get the paybacks on those customers, because they tend to be less loyal. Because when you come to our site and buy flowers, you don't give us the same data about who you're buying for and why you're buying that you do when you buy a card. And data is ultimately what powers the loyalty, which powers the sustainable, profitable growth.

That said, I think there is a really interesting point about how can we increase awareness and perception of the fact that Moonpig is a great place to get a gift from as well as your card? And so, I think, what we've really been doing on that front is, apart from improving the range, I think we're using different marketing channels to sort of make it clear that you can put a Buyagift with a card. And so, for a couple of years, a lot of our above-the-line marketing on TV didn't feature any sort of gifts, whereas now we're starting to sort of introduce gifts in the background and alongside the card.

We're experimenting quite a lot with new digital channels. We're seeing some great results with TikTok at the moment in terms of some of the campaigns we're running there. And, again, those are probably things where actually highlighting the fact that you can actually put a gift inside a card now is a really powerful combo. And I think that's driving awareness as well.

So, that -- alongside the fact that we're continuing to improve our packaging, improve the unboxing experience, so that actually everyone that receives our gifts is becoming more and more comfortable that Moonpig is a great place to buy gifting. So, I think, it's a combination of the algorithms, the brands we are bringing on board, photography on the site, all of those things, alongside starting to introduce elements of gifting into our marketing. But we're not going into a gift-first marketing world, because we just don't see the paybacks. And, quite honestly, now, when we're starting to see the order growth in cards that we're seeing, we don't feel the need to.

Caroline Gulliver *Equity Development*

Yeah. Makes sense. Thank you.

Operator

Our next question is from Sean Kealy. Please unmute yourself and begin with your question.

Sean Kealy *Panmure Liberum*

Good morning, guys. How are you all doing today? I just wanted to follow up on the gift attach point, if I can. So, I was wondering if we could dig a bit more into some of the more expensive experiences in particular. Are there any different strategies for driving attach, particularly for those more expensive products as compared to some of the slightly lower ticket items?

Nickyl Raithatha *Chief Executive Officer, Moonpig Group plc*

Yeah. Thanks. Yes, it's a good question. I think it's something that is probably one of the key reasons why kind of we've done the acquisition of Experiences two years ago, and we're only really now starting to see the momentum of those experiences sales on the Moonpig side. It's because it's a more complex product and a more expensive product than our average gift.

I think there are sort of two elements. One is for customers that -- our average gift previously was in the sort of GBP15 to GBP20 range. That's kind of what customers tend to pay for a gift on average at Moonpig. And the Experiences businesses -- Buyagift and Red Letter Days themselves on their consumer websites -- the average experience they'll sell is in the sort of GBP80 to GBP90 range. So, quite a difference.

What we really focused on is the sub-GBP50 range for sales on Moonpig, and that's been -- and that's kind of where we've really seen the traction. So, actually, I think as a starting point, just making sure we have a great range of products that are available for sub-GBP50 and there's a lot of gourmet products, so dinner for two, meals for two, afternoon tea for two, there's subscriptions, so Hello Fresh subscriptions and the like, that have been really successful with our customers. So, kind of, I think, rather than trying to get them from GBP15 to GBP80, I think we're kind of moving from GBP15 to GBP50. And actually that's where we're seeing traction, bearing in mind that most experience gifts are for two people to use, because it tends to be an overnight stay for two or afternoon tea for two. So, when people look at the price, they can kind of rationalise it that way.

I think the other element, and this is really, really important, is that the new capabilities we're building into our recommendation algorithms using these kind of new AI technologies is going to allow us to personalise our recommendation engine in a much more powerful way than we've done before. And so we've launched kind of version one of this about six months ago, where we had a relatively crude recommendation that basically looked at whether you bought a gift above GBP30 in the past. And if you had, we would show you a different, more premium gifting cross-sell page to others. And, I think, that's kind of a very, very basic version. We're getting much more sophisticated at that. And so, over the coming year, we'll be able to differentiate customers based on their previous history and based on what we know about them, which I think, again, unlocks a way for us to show higher priced items to customers that have the propensity to buy that and much lower priced items to others. And so, we're confident that, like, over time this will continue to grow and we've seen great growth in digital gifting in the past months.

Sean Kealy *Panmure Liberum*

Perfect. Thank you very much.

Operator

(Operator Instructions). There are no further questions on the webinar. I will now hand over to Nickyl Raithatha for closing remarks. Please go ahead.

Nickyl Raithatha *Chief Executive Officer, Moonpig Group plc*

Thank you everyone for your continued interest in Moonpig and for joining today. We've announced a pleasing set of results. It's a step change in revenue and profit growth during the second half of the year and we're really confident that the growth will continue as we go through the rest of the year. Our business has a unique combination of top line growth, high profitability, and strong cash generation, and we remain extremely well positioned to continue this consistently over the next years. And we look forward to seeing you again in a few months at our Capital Markets Event on 16 October 2024. Thank you very much.