moonpig group plc

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FY25 Half Year Results – Presentation Script

Six months ended 31 October 2024

10 December 2024

Corporate participants

- **Nickyl Raithatha** Moonpig Group plc - Chief Executive Officer
- **Andy MacKinnon** Moonpig Group plc - Chief Financial Officer

Section 1 (00:00) - Introduction

Nickyl Raithatha - Chief Executive Officer

Good morning, and welcome to the Moonpig Group half year results presentation. I'm Nickyl Raithatha, CEO, and I'm here today with Andy MacKinnon, our CFO.

First, I'd like to draw your attention to the disclaimer, please take a moment to read it. In terms of the running order today, I'll give a quick overview, I'll turn to Andy to run through the financials and then I'll close with an update on our strategic progress.

It's been another good period for the Group, with the Moonpig brand driving both top line and bottom line growth, reinforcing our long term ability to deliver consistently. Moonpig saw another half of double-digit growth, supported by an expanding customer base, higher purchase frequency and an increased attach rate.

At Greetz, the revenue profile continues to improve, with a 4% decline in the half, equivalent to a 2% decline on a constant currency basis.

The overall growth is driving operating leverage through the business, with Adjusted EBITDA margins exceeding our medium-term target levels and a 9% increase in Adjusted PBT.

The transformation in our Experiences business is progressing at pace, however the challenging macro environment has extended the timeframe for realising the full growth potential of this business, and as a result, today we are recognising a non-cash impairment charge.

The overall cash generation of the business however continues to be extremely strong, and in line with our commitment to return excess cash to shareholders, we are announcing our inaugural interim dividend of 1.0 pence, alongside the ongoing up to £25 million share buyback programme.

The growth at Moonpig is a direct result of the investments we have made in data and technology over the last years. We are leveraging these investments to consistently drive the lifetime value of our customers higher each period, with features such as Moonpig Plus, occasion reminders and creative features all driving higher loyalty from our customers.

Our scalable platform also allows us to expand into new markets with a disciplined investment approach and we continue to see high growth across Ireland, Australia and the US.

We continue to make strong progress on our adoption of AI throughout the organisation, with a particular focus on leveraging intelligent content, search and recommendation capabilities. But we are also excited to launch customer-facing features - and only last week we rolled out our new AI handwriting tool, a world first, where customers can create a digital version of their own handwriting.

So, while the macroeconomic climate remains challenging, Moonpig Group continues to demonstrate growth, profitability and cash generation and we are confident in the prospects for the business.

We maintain our full year revenue growth target of mid-to-high single digits and in the medium term we expect to deliver double digit revenue growth. We are upgrading our medium-term target range for Adjusted EBITDA margin to between 25% and 27% and this will support sustained mid-teens earnings growth.

With that, I'll pass on to Andy to take you through the results in more detail.

Section 2 (03:18) – Financial performance

Andy MacKinnon - Chief Financial Officer

Thanks, Nickyl. And good morning, everyone.

We're pleased to report another good set of financial results, with continued year-on-year growth underpinned by the robust performance of the Moonpig brand.

Group revenue increased by 3.8% to £158 million. After adjusting for prior year excess breakage on Covid period vouchers at Experiences, this is equivalent to year-on-year growth at 6.1%.

We delivered an Adjusted EBITDA margin of 26.5% without relying on the tight cost control and investment deferrals that were a feature of the first half of last year.

Adjusted profit before taxation also grew by 9.0% year-on-year, highlighting the strength of our underlying performance.

Our net debt position remains well managed, with net leverage standing at 1.25x at October 2024. We have now moved into a period of strong operating cash inflows, reflecting the seasonal weighting of our cash flows towards the second half of each financial year.

Overall, these results reflect Moonpig Group's strong financial model, which combines revenue growth; the resilience of our loyal customer cohorts; high profitability and strong operating cash conversion.

Now, let me begin by reviewing the revenue performance of our card-first brands. Together, Moonpig and Greetz delivered year-on-year revenue growth of 7.3%, driven by a 4.7% increase in order volume. This growth in orders was achieved through a combination of expanding our customer base and increasing the frequency of customer orders.

We continue to see consistent growth in the number of active customers across Moonpig and Greetz, which has risen from 11.3 million at the end of October last year to 11.5 million by April and further to 11.7 million at 31 October 2024.

Purchase frequency amongst new customer cohorts is typically lower in their first year, as it includes consumers who make a single purchase and do not subsequently return. This dynamic can create a short-term headwind for total frequency during periods of strong new customer acquisition. We were therefore pleased to have delivered a 1% increase in orders per active customer over the last twelve months. This improvement was driven by the ongoing expansion of our Plus subscription membership base and by leveraging our growing database of 96 million occasion reminders. These reminders now account for four out of every ten orders on Moonpig, underscoring their importance in driving customer engagement and repeat purchases.

We also delivered growth in average order value, which increased by 2.5% year-on-year. This growth was driven by a few key factors: a moderate increase in the gift attach rate, the impact of higher first class postage prices and the use of AI-driven personalisation to make promotional activity more efficient.

We are also driving growth in sales where Moonpig acts as an agent rather than as a principal. This relates both to gift experiences and more recently, children's toys, following the launch of our partnership with The Entertainer in September. For sales where we act as agent, revenue and average order value are based on commission earned from the supplier, which is lower than the figure for gross transaction value.

Moonpig and Greetz both operate a card-first strategy, and more than 19 out of every 20 orders at these brands include a card. In the first half of the year, we delivered growth in card revenue at 9.2%, driven primarily by strong order volumes.

A core strength of our business model is that even during periods when gift attach growth rate is below its full potential, we can still deliver growth in attached gifting revenue by driving more card orders. This was evident in the first half of FY25, when attached gifting revenue grew by 5.8%. This growth reflected a 4.7% increase in order volume, alongside a moderate year-on-year improvement in the gift attachment rate.

All of this enabled us to deliver double-digit revenue growth at Moonpig, with revenue increasing by 10% year-on-year.

At Greetz, the rate of revenue decrease has continued to slow. It improved from minus 9.8% in the first half of last year, to minus 5.3% in the second half, and further to minus 4.0% in the most recent half year. This progress was despite the appreciation of Sterling, with the year-on-year reduction in Greetz revenue narrowing to minus 2.0% on a constant currency basis.

We remain focused on driving the adoption of key technology features by Dutch customers, including encouraging uptake of Plus subscription memberships, expanding the database of occasion reminders and increasing app share of orders.

We continue to execute our transformation plan for the Experiences Division, despite difficult trading conditions. Nickyl will speak shortly about the steps we are taking to improve performance at this Division, including leveraging our new technology platform and ongoing initiatives to enhance and broaden the customer proposition.

The headline reduction in revenue at Experiences includes the impact of annualising £3.2 million in temporary excess breakage on Covid period vouchers that was recognised in the first half of last year.

Given the challenging external environment, we now expect a longer timeline to fully realise the revenue growth potential of Experiences.

In our last full year accounts, we stated that the carrying value of Experiences goodwill was a source of estimation uncertainty that had a risk of requiring a write-down in FY25. We also set out sensitivity analysis to show the potential future impact.

The decrease in Experiences revenue in the first half of this year is an indicator of impairment under IAS36. We therefore performed an impairment assessment as at 31 October 2024, and the outcome of this assessment is the recognition of a £56.7 million non-cash charge for the impairment of Experiences goodwill, which is classified as an Adjusting Item.

Turning back to underlying performance. We have grown gross margin rate to 59.2%, driven by a 2.0 percentage point increase in Moonpig's gross margin rate, which reached 57.5%.

Moonpig's strong gross margin reflects several factors: further operational efficiencies at our UK fulfilment centre, including margin benefits from insourcing balloon fulfilment; more efficient targeting of discounts through personalised promotions; and growth in recognised revenue from income streams with a 100% gross margin rate, which totalled almost £5 million during the six-month reporting period. These income streams include Plus subscription membership fees, marketing income from suppliers and commission from selling toys and gift experiences as an agent.

Offsetting this in part, the growth of our Plus subscription membership programme – which now accounts for one in five Moonpig orders – has increased the volume of member discounts.

At Greetz, the gross margin rate decreased by 0.6 percentage points, reflecting additional promotional activity. Conversely, the gross margin rate for Experiences improved, as the prior year included provisions for old gift box inventory, which are no longer impacting results.

This growth in gross profit enabled us to deliver Adjusted EBITDA of £41.8 million, equivalent to an Adjusted EBITDA margin rate of 26.5%.

For the Moonpig segment, Adjusted EBITDA margin increased to 31.1%, reflecting pass-through of the 2.0 percentage point increase in gross margin rate. This was offset - only in part - by a return to more normal indirect cost management. As we set out in last year's H1 results announcement, during the first half of last year, we took a cautious approach to cost management in response to the external environment, deferring some investments to maintain flexibility.

Adjusted EBITDA margin was lower at Greetz reflecting the operational leverage impact of lower revenue. At Experiences, the year-on-year movement in Adjusted EBITDA margin reflects excess breakage revenue in the prior year which had a 100% gross margin rate.

Moving now to the bottom half of the P&L. We delivered Adjusted PBT of £27.3 million, representing an increase of 9.0% year-on-year. Consistent with our approach at year-end, Adjusted PBT now excludes the amortisation of brands and other intangible assets arising on the acquisition of Greetz and Experiences. These are treated as an Adjusting Item for consistency with comparable companies, with both current and prior year figures adjusted for consistency.

Depreciation and amortisation for the first half of the year totalled £9.2 million. Whilst this represents a year-on-year increase, the rise is lower than we had expected, reflecting the later-than-expected commissioning of work-in-progress projects. We therefore anticipate a higher charge in the second half of this year, with full year depreciation and amortisation in the range of £19 million to £21 million. More broadly, we expect the charge to increase over time, aligned with our guidance for capital expenditure as a percentage of revenue.

The net finance charge decreased by £2.8 million year-on-year, reflecting lower utilisation of our revolving credit facilities, and the benefits of refinancing to a lower-cost and more flexible revolving credit facility in February 2024. We were also helped by unrealised foreign exchange gains on loan balances and a 3.0% interest rate cap that expired in November 2024.

For FY25 we now expect net finance charges of approximately £11 million, with this figure remaining stable year-on-year in FY26. Over the medium term, we expect net finance costs to grow as absolute net debt on our balance sheet rises in line with our leverage target of 1.0x LTM Adjusted EBITDA.

Turning now to how we convert EBITDA into cash.

We generate cash on a very consistent, predictable basis. In the first half of this year we delivered £17.6 million of operating cash flow, which was equivalent to operating cash conversion of 42%.

Total tangible and intangible capex was £7.0 million in the first half of the year. This was lower than we had expected, reflecting a temporarily higher proportion of technology team time spent on projects that don't meet capitalisation criteria, for instance those related to SaaS configuration. This means that the relevant costs are charged to profit and loss, rather than initially being capitalised as an intangible asset.

We expect capital expenditure for the remainder of the year to be approximately £1 million higher than this run-rate, reflecting a normalisation in capitalisation rate and the fact that our FY25 spend on tangible assets is weighted into the second half of the year.

Our business remains highly cash generative on an annual basis, with cash inflows that are seasonally weighted towards the second half of each financial year. As such, we expect strong cash inflows across the period from November 2024 to April 2025.

Our strong, consistent cash generation is clearly demonstrated by the Group's rapid de-leveraging profile. Over the past two years, we have continuously reduced net debt to Adjusted EBITDA, which now stands at 1.25x.

As outlined at our recent Capital Markets Day, we follow a disciplined approach to capital allocation. Our target is to maintain net leverage at approximately 1.0x over the medium term; and we continue to prioritise organic investment to drive growth, in particular in areas like technology and marketing.

Whilst we will always prioritise investment for growth, our strong cash generation provides us with the flexibility to return excess capital to shareholders; and this is reflected in our new dividend and share buyback policies.

In October, we announced the introduction of a progressive dividend policy, committing to maintain a dividend cover of 3x to 4x in the medium-term. For FY25 we indicated a total dividend of £10 million, with the intention to grow this in line with Adjusted EPS over time.

Accordingly, the Board has declared an interim dividend of 1.0 pence per share which will be paid on 20 March 2025 to shareholders on the register as at 21 February 2025.

In addition, we commenced our first share buyback programme in early November. This programme is expected to run until 30 April 2025 and will utilise up to £25 million to repurchase Moonpig Group shares. Our policy is to only conduct buybacks when they both use excess capital and enhance earnings per share.

Turning now to current trading and outlook.

Moonpig Group current trading remains in line with our expectations. Growth has been underpinned by consistent strong sales and orders at Moonpig and is supported by steady progression at Greetz. Given ongoing macro headwinds in gifting, trading remains challenging at Experiences and we remain focused on delivering our transformation plan. Accordingly, our expectations for full year revenue remain unchanged.

Our business is well positioned to deliver sustained growth in revenue, profit and free cash flow, driven by our continued focus on data and technology. With respect to the medium-term, we continue to target double-digit percentage annual revenue growth.

To reflect continued growth of high-margin revenue streams such as Plus subscription fees, we have revised our medium-term target for Adjusted EBITDA margin from a range of 25% to 26% to a range of 25% to 27%. We continue to target growth in Adjusted earnings per share at a mid-teens percentage rate.

And now I'll hand back to Nickyl, who will talk through the strategic progress that we've made in the last six months. Thank you.

Section 3 (17:55) – Strategic update

Nickyl Raithatha – Chief Executive Officer

Thank you, Andy. I'll now give an update on the strategic progress we've been making across the business.

We are the clear online leaders in a card market that is still in the early stages of shifting online. Our strategy is straightforward, we operate on a card-first, gift-attach model, that maximises customer loyalty and profitability.

Cards are the key to generating incredibly rich customer data, which we leverage to build loyalty, increase purchase frequency and cross-sell gifts effectively. Over 60% of cards are given with a gift and our strategy allows us to capture this gifting opportunity without additional marketing costs. We use the data to recommend highly relevant gifts based on customer preferences in our cross-sell page. The beauty about this model of profitably acquiring sticky customers is that it creates a compounding cohort model as each group of newly acquired customers sits on top of previous cohorts, which drives sustainable, profitable growth.

Let's take a look at some of those cohorts now. What we have seen in the last few years is that our customers have universally and unequivocally become more loyal than before. If you look at the chart on the left-hand side, you can see that prior to the pandemic, all of our customer cohorts displayed astonishing resilience. Essentially, each group of customers became an annuity from year 2 onwards, with 100% revenue retention.

While the pandemic clearly disrupted that pattern, it only served to improve it. What we have seen is that all of those cohorts have now settled at a new baseline, 20% higher than the previous levels.

What's great is that it's not just the older cohorts that have improved. What you can see on this slide is that all of the new customers we acquired during, and since, the pandemic have shown higher revenue retention than customers did prior to Covid. This is the result of all of our strategic investments paying off, driving higher customer lifetime values across the board.

There is still a long runway of growth ahead of us, and this is most clearly demonstrated when we break down the opportunity into three compounding growth levers. Our growth will come from capturing more card buyers in our markets, increasing the number of cards they buy from us each year, and getting them to add more to their basket each time. There is no reason why we shouldn't aim to double each of these metrics, given the opportunity shown here.

In fact, if you look at the right-hand side of the page you can see that each of these levers has contributed significantly to our growth over the last 5 years. We have seen 60% growth in customers, 20% growth in their frequency and 25% growth in average order value.

Looking at these drivers one by one. The growth in our active customer base continues to accelerate, fuelled by a combination of strong new customer acquisition and exceptional retention of our existing customers. Our focus on creating a seamless customer journey has been pivotal. Enhanced technology features, such as simplified sign-up and sign-in processes, have significantly improved conversion rates, making it easier than ever for customers to engage with our platform. In addition, we have expanded our reach through a series of targeted marketing partnerships launched in recent months. These partnerships allow us to connect with new audiences across diverse channels, reinforcing our leadership in the market and driving sustained growth in our customer base.

Our subscription service, Moonpig Plus, is now well into its second year and continues to deliver impressive results. With strong customer adoption, it remains our flagship driver of increased purchase frequency, with each customer buying 20% more than before. At the same time, we are continually innovating to give customers more reasons to use Moonpig. Just last week, we launched our groundbreaking AI handwriting feature, a world-first that allows customers to create a digital version of their own handwriting. This unique tool not only adds a deeply personal touch to cards but also gives customers an exciting new reason to return to Moonpig, reinforcing their connection to our brand.

We are now seeing positive growth in attach rates, driven by our dual-pronged strategy. Firstly, we continue to improve the range, by adding more loved and trusted brands. Secondly, we are leveraging our advanced data science capabilities to deliver ever more personalised gift recommendations. On both of these fronts, there remains a huge runway ahead of us.

Turning now to our Experiences brands. We have made significant strides in transforming the business despite the challenging macroeconomic conditions of the past two years. At the time of acquisition, we laid out a clear transformation programme focusing on three major workstreams.

The first workstream was a comprehensive operational transformation. We relocated our head office, outsourced non-core functions and built a new leadership team. This workstream is now largely complete, delivering greater efficiency and over £1 million in realised cost synergies.

The second workstream focused on overhauling the technology platform. We replaced two decades of legacy systems with a modern, AI-powered technology stack, significantly enhancing the customer experience. This replatforming has already generated over £20 million in incremental gross sales over the past 24 months.

The third workstream is now our main area of focus: enhancing the customer proposition. The new platform that we have built enables us to expand our range, to introduce exciting new brands and to create innovative ways for customers to discover and book experiences. I will outline some of these initiatives next.

Improving the customer proposition is critical to staying ahead of shifting preferences and delivering the most exciting and relevant experiences. We are continuing to add loved and trusted brands to our portfolio, whilst also building a new subscription gifting offering with instant nationwide appeal. In addition, we are also tapping into the growing demand for immersive and social experiences, ensuring that our portfolio reflects the latest consumer trends.

As we look beyond the transformation plan, and the current macro headwinds, we see four key drivers of long-term growth in our Experiences brands. First, increasing order volumes by expanding our range, enhancing marketing efforts, and utilising our advanced technology. Second, steady growth in average order value, driven by price optimisation and smarter upselling strategies. Third, significant growth potential from third party sales, not only through Moonpig (which is absolutely key) but also via partnerships with major online platforms like Amazon and Argos, as well as exclusive retail agreements with partners such as WHSmith and John Lewis. Fourthly and finally, we see a unique opportunity to boost the value of each order by engaging directly with gift recipients. By offering tailored upsell and cross-sell opportunities, this strategy is already delivering results, with over one thousand experiences now available for live booking and upgrading on our platform. Our transformation plan and these four long term revenue drivers position our Experiences brands to thrive as market conditions improve.

Our expansion strategy is straightforward and focused. In new markets, we aim to bootstrap our way to product-market fit, which is the point where we can acquire customers profitably. The approach applies to all of our new markets, allowing us to limit investment, maintain a rigorous testing process and only scale once we identify a clear path to profitability and the potential for significant returns. Our efforts in the past 6 months continue to provide encouraging early signs, with growth of 43% across our three markets of Ireland, Australia and the US.

In particular, we have seen positive impact once we annualise marketing efforts, as the power of our reminders kick in, as we just started to see in Australia. Alongside local marketing activations, we have taken multiple steps to improve the product offering in each market. We have partnered with local printers to offer a better delivery proposition and we have now launched physical gifts in both Ireland and Australia and digital gift cards in the US. We expect to continue this lean strategy over the next 12 months as we establish a clear and scalable path to profitable growth.

In summary, it has been another good half for the Group, with technology continuing to drive a double digit growth rate at Moonpig. Our expectations for full-year revenue remain unchanged, and our confidence in the business leads us to increase our medium term Adjusted EBITDA margin target to a 25% to 27% range.

Thank you for listening and see you shortly at the question and answer session.

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