moonpig group plc

Moonpig Group plc

FY24 Full Year Results – Presentation Script

Year Ended 30 April 2024

27 June 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 full 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 take us through the financials and then I'll close with a strategic update on our business.

I'm really pleased to report a strong set of results for Moonpig Group today, with a significant step up in our growth trajectory in the second half of the year, putting us well on track towards our medium-term double digit growth targets. The growth was underpinned by Moonpig and Greetz, with order growth stepping up 10 percentage points from minus 5% to plus 5% in the second half, and new customers back into positive growth for the first time since the pandemic. We did this whilst continuing to deliver strong profitability, with Adjusted EBITDA and Adjusted PBT margins up on the year. The business remains highly cash generative, and we increased operating cash flow by over 30% this year to GBP74 million, which drove our leverage down significantly to 1.3 times.

Our strategy is to build a 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 past 12 months.

We launched our subscription scheme, Moonpig Plus, and it has exceeded our expectations, with over half a million members now active, and we're seeing a similar path at Greetz. Customers are loving our new creative features, with stickers, videos, AI messages and the like being used over 10 million times, further differentiating us from the competition and, crucially, driving up customer lifetime value.

We've made strong progress on our adoption of AI throughout the organisation, with a particular focus on leveraging intelligent content, search and recommendation capabilities to drive a more relevant customer experience. And thanks to the integration of our Experiences business, we now have a compelling same-day gifting proposition at Moonpig, which is showing really encouraging momentum.

So, while the macroeconomic climate remains challenging, Moonpig Group continues to demonstrate growth, profitability and cash generation, and we are confident in our prospects for the business. This year, we expect revenue growth in the mid to high single digit range, and in the medium term, we expect the business to deliver double digit percentage revenue growth, Adjusted EBITDA margins between 25% and 26%, and consistent mid-teens percentage Adjusted EPS growth. Strong cash generation has the potential to drive another 0.7 turns of de-leveraging this year, which will in turn give us the financial flexibility to consider returning excess capital to shareholders.

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

Section 2 (03:21) – Financial performance

Andy MacKinnon - Chief Financial Officer

Thanks Nickyl, and good morning everyone.

We've delivered a strong set of financial results, with year on-year growth in revenue and profit, accompanied by continued strong cash generation.

We increased Group revenue by 6.6% to GBP341 million, equivalent to pro forma growth of 4.5%, adjusting for the acquisition of Experiences. We delivered a 13% increase in Adjusted EBITDA to GBP95.5 million, raising our Adjusted EBITDA margin rate to 28%, and we grew Adjusted PBT by 5%. In addition, operating cash flow remains strong, and we've reduced net leverage to 1.3 times. These results reflect our strong financial model, which combines revenue growth, the resilience of our loyal customer cohorts, high levels of profitability, and strong operating cash conversion.

Organic revenue growth accelerated through the year, increasing from 2.1% in H1 to 6.6% in H2, underpinned by continued technology innovation. Revenue growth strengthened in the second half of the year at both Moonpig and Greetz, driven by a 10 percentage point increase in the rate of orders growth. That strengthening in orders growth meant that H2 revenue growth rates increased for both cards and attached gifting, with strong performance from existing customer cohorts and revenue from new customers returning to growth at 3.3% year on year.

The Group's revenue growth was underpinned by the Moonpig brand, at which revenue growth strengthened from 5% in H1 to 11% in H2. Growth at Moonpig in the second half includes the impact of last year's disruption from industrial action at Royal Mail, excluding which growth would have been at a high single digit percentage rate.

Greetz revenue continues to improve strongly, as we drive customer adoption of new technology features that Greetz benefits from, now it is on the Group's unified technology platform. Greetz revenue performance improved during the year, with the rate of reduction abating from minus 20% in FY23 to minus 10% in the first half of FY24 and minus 5% in the second half of the year. And we expect that Greetz revenue will grow in the first half of the new financial year.

Trading at Experiences remains resilient, given the macroeconomic context, the discretionary nature of its gifting range, and its higher average selling price. And we continue to make good progress with strategic delivery.

Revenue and profit at Experiences in FY24 include a mid-single-digit million upside from temporarily higher non-redemption of vouchers that were sold during Covid with extended expiry dates. As the expiry dates of these vouchers have now passed, this benefit is not expected to recur in future periods.

We delivered a 10 percentage point step-up in the rate of growth of orders from minus 5% to plus 5% in the second half of the year, which is a strong sign of the underlying health of our business. Moonpig new customer orders continue to strengthen moving into year on year growth in the final quarter of FY24 and we expect orders at both our brands, including Greetz, to be in growth in the first half of the new financial year.

AOV growth in FY23 and the first half of FY24 was driven by card price increases, which we annualised at the start of H2. AOV growth of 2.7% in the second half of the year reflected not only the pass-through of higher first-class postage prices but also growth in subscription membership fee income from Moonpig Plus and Greetz Plus.

We were particularly pleased by an 11 percentage point step-up in growth of revenue from new customers, which increased from minus 8% in H1 to plus 3% in H2. We expect that both revenue and orders from new customers will be in growth in the first half of the new financial year.

Existing customer cohorts grew at 9% in the second half of FY24 reflecting our focus on frequency-driving initiatives such as Moonpig Plus, the Greetz app and occasion reminders. Existing customer cohorts continue to account for nine tenths of Moonpig and Greetz revenue.

Turning finally to the category mix of revenue. Moonpig and Greetz both operate a card first strategy which leverages the resilience of the single greeting card market. More than 19 out of every 20 orders at these brands contains a card. We accelerated growth in card revenue to 12% in the second half of the year and returned attached gifting to growth at 4%, with gift attachment rate remaining stable.

The strengthening revenue growth rate was accompanied by continued focus on profit margin. We have grown full year gross profit margin by 13% to GBP203 million, with gross margin rate increasing by 3.3 percentage points to 59.4%. Gross margin rates improved at Moonpig and Greetz, reflecting operational efficiencies at our UK fulfilment centre and the full year impact of prior year card price changes. Experiences gross margin remained relatively consistent year on year and is high because the only cost of sale is postage and packaging for experience vouchers delivered in physical boxes.

This growth in gross profit enabled us to deliver Adjusted EBITDA of GBP95.5 million, up from GBP84.2 million last year. The Adjusted EBITDA margin rate of 28% reflects pass-through of higher gross margins, higher non-redemption of Covid period Experiences vouchers and disciplined management of costs. Consistent with how we've run the business throughout the downturn, we've continued to invest for growth, and this includes maintaining investment in marketing in FY24 at levels consistent with prior year.

Moving now to the bottom half of the P&L. We delivered Adjusted PBT of GBP58.2 million, up 5% year on year. Adjusted PBT now excludes the amortisation of brands and other intangible assets arising on the acquisition of Greetz and Experiences. These are now treated as an adjusting item for consistency with comparable companies, with both current and prior year figures stated on the revised basis.

Amortisation of internally generated assets increased to GBP10.8 million, driven by investment in technology following the expansion of our technology teams in the second half of FY22 and the first half of FY23.

The net finance charge in FY22 was GBP20 million, and we expect this to come down to in the region of GBP12 million in FY25 reflecting de-leveraging, lower interest rates, the fact that we refinanced to a cheaper and more flexible revolving credit facility in February 2024, and the one-time impact of refinancing, which required us to take an accelerated charge of GBP3 million for the unamortised arrangement fees on the former term loan.

Turning now to how we convert profit into cash, we delivered operating cash conversion of 78% and increased operating cash flow by 32% year on year to GBP74 million. Key drivers of this were a GBP9 million reduction in capital expenditure, reflecting prior investment in new operational facilities, and a GBP5 million improvement in inventories, reflecting management action to improve the efficiency of stock management.

Offsetting this in part, there was a reduction in trade creditors and in the merchant accrual at Experiences. Looking forward into FY25, our cash inflows will remain seasonally weighted into the second half of the financial year, so we would expect leverage in October 2024 to be broadly unchanged from the position at April 2024, with FY25 de-leveraging concentrated into the second half of the year.

Over the past two years, the Group has rapidly de-leveraged, with net debt to Adjusted EBITDA falling from 2.8 times at the time of the Buyagift acquisition to just under 2.0 times in April 2023 and 1.3 times in April 2024.

In February, we put in place a new GBP180 million revolving credit facility, which has a four-year commitment and provides us with significant liquidity and covenant headroom. The Group's continued strong cash generation means that there is potential for a further reduction in net leverage, similar to the decrease of 0.7 turns seen in FY24.

Our approach to capital allocation remains unchanged, and we are targeting net leverage of approximately 1.0 times over the medium term. We will continue to prioritise organic investment to drive growth, and we will consider value-added M&A opportunities, but with a high threshold for both strategic and financial returns. Given our consistent, strong operating cash generation, and the progress being made with de-leveraging, we will also have the financial flexibility to consider returning excess capital to shareholders.

Finally, turning to guidance. Trading since the start of the year has been in line with our expectations, with both new and existing customer orders in growth. In the context of the current macroeconomic environment, we expect FY25 revenue growth (after adjusting for temporarily higher breakage on experience vouchers in FY24) at a mid to high single-digit percentage rate underpinned by growth in orders at the Moonpig brand.

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 are targeting annual revenue growth at a double-digit percentage rate, an Adjusted EBITDA margin rate of approximately 25% to 26%, and growth in Adjusted Earnings Per Share at a mid-teens percentage rate.

And now I'll hand you back to Nickyl, who will talk through the strategic progress that we continue to make.

Section 3 (13:31) – Strategic Update

Nickyl Raithatha – Chief Executive Officer

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

Our brands are built on a model of card-first and gift attach. We are the clear online leaders in a card market that is still in the very early stages of shifting online. We acquire customers with short payback times, and we can then leverage the valuable data we get from each card to make the customer experience more personalised and relevant each time they come back, which drives both more loyalty from our customers and profitable upsell into gifts.

And the beauty about our model of profitably acquiring sticky customers is that we end up with a cohort model which compounds over time, as each group of newly acquired customers sits on top of previous cohorts, driving sustainable, profitable growth. That's why it's been particularly exciting to see new customers back in growth in recent months.

Today, only 15% of the card market is online, and there is still a long runway of growth ahead of us. And that's most clearly demonstrated when we break down the opportunity into the three compounding growth levers. We're still early in the journey of capturing all card buyers in our markets, of capturing a significant share of their card wallet and of getting them to add more gifts to those cards. Our strategy and the initiatives that we continue to invest in through the cycle are all focused on moving these three growth levers of customers, frequency, and attach forward.

At the beginning of this year, we launched our subscription scheme, Moonpig Plus, and results over the past 12 months have exceeded our expectations. We now have over 500,000 active subscribers, and we are consistently seeing a sustained increase in purchase frequency from these customers. As we start to annualise the first cohorts, we're focused now on managing and optimising the renewal rates, but very early indications are promising. We've also launched the scheme in Greetz at the start of 2024, and we've seen a very similar customer reaction there. We're more confident than ever that Plus is going to be a critical pillar of our future growth story.

The velocity of our data science work has seen a step change in improvement in the past year; using AI to add more personalisation to all parts of the user journey from reminder emails and homepage banners to promotions at checkout. One particularly exciting development is the introduction of user-level data into the gift cross-sell, meaning that gift recommendations are no longer just based on the card you choose but also on some aspects of the customer's previous purchase history. The first release allowed us to segment customers with a high and low propensity to spend on gifting and we have a long roadmap of opportunities ahead to improve this.

We're also experimenting with AI-powered semantic search, which uses large language models to understand a user's intent when they're searching, which unlocks far more relevant search results than we had previously. It's early stages but we have high confidence in the customer impact this is going to have.

The structural growth in our business ultimately comes down to continuing to pull the greeting card market online, as we have done for the past two decades. A core pillar of our strategy is to focus on product differentiation versus the high street, making sure that we can offer something that the high street cannot replicate.

In the last year, we've really moved that point of differentiation significantly further on by adding a number of exciting features to our cards including audio messages, AI-generated messages, flexible photo tools, creative stickers and more. Our customers are loving these features and, critically, we are seeing lifetime value increase for customers that interact and use these features, which is over 10 million times in the past year alone. What's also great is we have a long list of additional exciting features that are coming in the next 12 months.

Another key strategic initiative for us is integrating and cross-selling gift experiences on the Moonpig platform. We've made solid progress on this front, significantly growing the range of available products, improving the design of the products, and most importantly, upgrading the product information pages, which are critical in selling these more complex products on the Moonpig site. While still small, the attach rate of gift experiences has grown consistently through the period, and we remain really excited about the future potential. We've been particularly encouraged here by the growth in same day gifting, which is unlocked by adding a gift experience voucher into a Moonpig e-card. Our focus so far has been promoting this new fully digital same day product to customers on peak days (such as Mothering Sunday or Father's Day itself) after the postal cut-off times and we're seeing consistent peak-over-peak growth as our customers become more familiar with the concept.

Same-day gifting is something we've not previously been able to offer, and so this new capability unlocks a potentially large segment of the market for us for the very first time. The Experiences business itself continues to see strong strategic progress. We have refreshed the visual identity and brand positioning of both of our brands, Buyagift and Red Letter Days, giving each brand a defined customer segment to go after and in the process, expanding our market reach.

We're taking strong steps to bring in more high-profile brands onto the platform, with partners such as Harvey Nichols, BrewDog, Gaucho, and Vue all added to the offering in recent months. The rebuild of the technology platform continues at pace, with significant improvements across the website, enhancements to our upsell capabilities and integrations with more and more suppliers to enable live booking. As we go through the next 12 months, we expect to see an acceleration in new customer features and optimisations, leveraging the new platform that we've built.

We're also starting to see early signs of potential in select new markets. Our expansion strategy remains taking a very lean, bootstrapped approach to find product-market fit in markets where there is a high propensity to send greeting cards. Efforts in the past year have given us some early signs of encouragement, with growth of 34% across the three markets of Ireland, Australia and the US. Alongside local marketing activations, we've taken steps to improve the product offering. We've partnered with local printers in each market to offer a better delivery proposition and we've launched physical gifts in 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 these markets.

In summary, it's been a great year with a step change in revenue growth in the second half underpinned by a return to both order growth and new customer growth. We've hit an inflection point in our technology cycle with the velocity of feature releases materially higher than before and this is accelerating our strategic delivery of driving higher customer lifetime value. The momentum in our business and the pipeline of exciting initiatives that we have planned give us confidence in the future and we expect to see mid to high single digit growth in the coming year with continued strong profitability and high cash generation that will give us the flexibility to consider returning capital to shareholders.

Thank you for listening and see you shortly at the Q&A.