Moonpig Group plc

FY25 Half Year Results – Six Months Ended 31 October 2024

Analyst Q&A Conference Call Transcript

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Participants

- **Nickyl Raithatha** Moonpig Group plc - Chief Executive Officer
- **Andy MacKinnon** Moonpig Group plc - Chief Financial Officer
- **Alison Lygo** Deutsche Numis - Analyst
- **Andrew Wade** Jefferies – Analyst
- **Anubhav Malhotra** Panmure Liberum - Analyst
- **Georgina Johanan** JPMorgan - Analyst
- **Adam Tomlinson** Berenberg - Analyst
- **David Hughes** Shore Capital Markets - Analyst
- **Charlie Rothbarth** HSBC - Analyst

Operator

Good day, ladies and gentlemen and welcome to the Moonpig Group FY25 half year results Q&A 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.

Section 1 (00:36) - Introduction

Nickyl Raithatha - *Chief Executive Officer, Moonpig Group plc*

Hi, everyone, and thank you for joining the Moonpig Group half year results question and answer session. Hopefully, you've had a chance to look through the announcement and to watch the presentation video. I'll just say a few words, and then we will move quickly to Q&A.

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 itself saw another half of double-digit growth, supported by an expanding customer base, higher purchase frequency, and an increased attach rate. At our Greetz business, the revenue profile continues to improve with a 4% decline in the half, equivalent to a 2% decline on a constant currency basis, getting closer to growth.

The overall growth is driving operating leverage throughout the business with Adjusted EBITDA margins exceeding our medium-term target levels and driving 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 the business. As a result, today, we are recognising a non-cash impairment charge on that business.

The overall cash generation of the Group, however, continues to be extremely strong. And in line with our commitment to return excess cash to shareholders, today, we are announcing our inaugural interim dividend of 1 pence alongside the ongoing GBP25 million share buyback programme.

The growth we are seeing at Moonpig is a direct result of the investments we have made in data and technology over the last few years with features such as Moonpig Plus, our reminders, and our creative features now consistently driving the lifetime value of all of our customers higher every period. We continue to make progress in new markets with limited investment. We saw 42% growth across Ireland, Australia and the US. And our adoption of AI throughout the organisation continues.

And just last week, we had the exciting release of our new AI handwriting tool, a world first, where customers can create a digital version of their own handwriting, and I encourage you all to try it and let us know how it is. So, whilst the macro climate remains challenging, Moonpig Group continues to demonstrate growth, profitability, and cash generation, and we're confident in the long-term prospects of this business.

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

With that, I'll turn over to questions.

Operator

(Operator Instructions)

Our first question comes from Alison Lygo at DB Numis. Please unmute your line.

Section 2 (03:44) – DB Numis

Alison Lygo *DB Numis*

Thank you. Morning guys and thank you for taking my questions.

I wonder if maybe we could just kick off with a bit of thinking about the revenue bridge for H2. Greetz, I guess if we start there. Clear that you're seeing a sequential improvement back to minus 2% on a constant currency basis. I guess from your current point of view, does it feel like it's realistic that we expect that business gets back to positive territory for the full year? Or, actually, are we looking at just a sequential improvement getting back to a growth into 2026?

And then I suppose just on the -- making sure I'm clear in terms of the phasing of the Experiences business and the Covid voucher cancellation, you guided to a mid-single-digit impact for the full year and GBP3.2 million of that, I think you called out as coming in the first half. So, I assume we should be expecting something similar in H2?

And then I guess the final part is Moonpig and how we should be thinking about momentum in that business. So obviously, the comparable steps up materially into H2. Are you seeing this near term against this backdrop as a consistent double-digit growth business? Or should we be maybe tempering our expectations there? Thank you.

Nickyl Raithatha - *Chief Executive Officer, Moonpig Group plc*

Great. I'll take the point on Greetz, Andy can talk through Experiences and Moonpig. So, I think on the Greetz side, what we've seen over the last two years is a very consistent improvement in the revenue trajectory. So, we said this a couple of times, but if you go back for the last four halves, we've gone from minus 20% to minus 10% to minus 5% and this half, obviously, to minus 2% in euros.

I think the point here is that actually what we're seeing is, Greetz continues to follow the path of Moonpig with a lag. And that lag is driven for two reasons. The first reason is just simply that Greetz moved onto the Group platform about 18 months later than Moonpig. And so only really the loyalty benefits and the true flywheel of the business, it works because of the platform, because of what the platform allows us to do in terms of capturing data, using those data to build customer loyalty and improve personalisation. So, Greetz just started that journey later.

But the second point is that, actually, the way that the platform delivers value is essentially by capturing that data and our data science models, seeding each country with the data from that particular country and over time, optimising the experience for those customers. And so naturally, at Greetz, given it's about a quarter of the size of Moonpig, it takes roughly four times longer for those algorithms to get up to speed just because of the smaller amount of data points that we have in the smaller business.

And so, it's taking longer for Greetz to catch up. But what's really important to us is that we just -- we continue to see that consistent improvement in the business, and that's something that we're focused on delivering. And so, I guess, if you look at where the trajectory is now, you can extrapolate where we should be in the end of this year and certainly moving into next year.

Alison Lygo *DB Numis*

That's absolutely clear, thank you.

Nickyl Raithatha *- Chief Executive Officer, Moonpig Group plc*

Yes. Andy, do you want to talk to --

Andy MacKinnon *Chief Financial Officer, Moonpig Group plc*

Yes, I'll pick up the other points. Hi, Alison. Your second point was on Experiences and breakage in the prior year. And it's GBP5.9 million for the full year, so GBP3.2 million in H1 and GBP2.7 million in H2. So, in the second half of the year, you'll see a similar effect, whereby there is headline annualisation against prior-year breakage.

I think your third question was around Moonpig. We are really pleased with the composition of the growth that we've seen in Moonpig in the first half of the year and we expect that momentum to continue with a broadly similar level of growth in the second half of the year. So Moonpig staying in double-digit growth. I think, in particular, we're pleased by the fact that we're seeing robust growth in orders with both new customer acquisition and frequency in growth.

And obviously, you do have an effect whereby in a period where new customer acquisition is strong, that can be a drag on frequency because in a new customer cohort, you do see lower-than-average frequency. So having both of those in growth is good from our perspective.

And then on average order value, you've obviously got the fact that as in the first half of the year, there's been some support for average order value from first-class stamp price increases, which we passed through. And then actually, we have seen a strengthening in attach rate through the first half of the year. We'd expect that trend to continue into the second half.

Alison Lygo *DB Numis*

That's great. Thank you very much. I will get back in the queue.

Operator

Our next question comes from Andrew Wade at Jefferies. Please unmute your line.

Section 3 (09:13) – Jefferies

Andrew Wade *Jefferies*

Morning, chaps. A couple from me. First one on Moonpig gross margin, more Moonpig brand gross margin. You talked to quite a few factors that are supporting that: Moonpig Plus, supply marketing income and so on and so on. Just wondering which have been the most significant in that bridge and what the outlook looking further ahead is?

Because I mean, if you think about some of those -- Moonpig Plus in particular, and the commission on some of those gift categories, which sound like they could be growing -- it feels like there could be further opportunity on that in outer years. So that's the first one around Moonpig gross margin.

Nickyl Raithatha *- Chief Executive Officer, Moonpig Group plc*

I think that's yours, Andy.

Andy MacKinnon *Chief Financial Officer, Moonpig Group plc*

Yes, I'll take that one. So, as you say, a strong half performance in terms of Moonpig gross margin. And actually, it's broadly evenly balanced between each of those drivers. So, we've seen good performance from our commercial teams in terms of just the basics of supplier negotiation. We've seen a good contribution from our operations team in terms of operational efficiencies and the insourcing of certain projects, including moving the fulfilment of balloons from a third party into our Tamworth facility.

And we have seen a benefit from the 100% margin streams. The uptick in gross margin, in particular, comes from the move to The Entertainer and our toys range from acting as principal to acting as agent. And therefore, we are recognising commission at 100% of revenue rather than GTV. So that's obviously a bit of a drag in terms of AOV growth, but it's positive for gross profit margin.

Probably one thing I would call out is on all of the Plus subscriptions are positive for gross margin. You actually also have the -- that countered by the fact that we are, therefore, offering discounts to Plus members and one in five of orders on the Moonpig brand now is through the Plus subscription scheme. And obviously, you do have a bit of a counterweight there.

Overall, I would certainly expect that the gross profit improvement that we've seen in the first half of the year will be sustained in the second half of the year. I think after that, it will be down to us to drive further improvements and to deliver margin improvement, but there's nothing that we have scheduled at the moment.

Andrew Wade *Jefferies*

Cool. That makes sense. Thanks.

Then obviously, looking on the Experiences side of the business. I mean, the way you've discussed it in the statement, it sounds like you're talking about it purely as a cyclical effect. But, I guess trying to dig a bit below that. Is the business fundamentally what you thought it was? Or are there some other challenges on the impairment? I know it's more symbolic than anything else, but I guess question really, should we be worried about it?

Nickyl Raithatha *- Chief Executive Officer, Moonpig Group plc*

I think the answer is no. I mean, I think this is -- the strategic rationale for buying the business remains exactly the same as it was, and we obviously talked about that at the CMD in October. I think we knew this was going to be a full transformation of the business to really unlock higher growth potential. We didn't know we'd be doing it in two years of challenging macro conditions.

When we look at actually just the wider market, so the gifting market, we think that actually there is still a global megatrend away from material gifts towards experiential gifting. And actually, the unique characteristics that our businesses have in terms of how we can package those gifts up to the customer in a way that gives them a delightful experience, flexibility, peace of mind. And an ability to cross-sell, upsell, I think, is again something that no one else can do other than gift experience aggregators of which we're the largest. And so, I think the strategic rationale and the assets of the business remain absolutely intact.

I think the point for us that we're leaning into now is that we've completed the operational transformation, which was just the ways of working in the team structure internally. We've re-platformed the tech platform that's delivered a huge amount of value, which we think is the main driver of why we believe we've outperformed the wider market over the last year or so. And that will continue now to deliver value.

But the third part is actually now looking to really evolve the range of products. And I think there's something that actually having a new platform allows us to be much more agile now in the way that we think about adapting our range so that we're really selling products that are very relevant for the customer today.

And I think the point is, when you're in a changing external macro climate, customer preferences are changing. Some of those might be long-term changes. People weren't going on axe throwing parties in the evenings five years ago, right? So, customer behaviours do change over time, but also just allows us to move into different categories. So, moving into lower price points, which means we push more into gourmet. So, the launch of Slug and Lettuce and other casual dining brands has been really successful, moving into subscription products, which didn't really exist from a digital enablement perspective a few years ago, moving into those, moving into the immersive experiences. And so, I think now the focus for that business is: we've got the platform, we've got the team, it's about actually how do we now really evolve the range and then how do we package and market that range to pull customers in and to excite them again.

And that's a journey that we're going on, and we're confident that we can -- we'll make the progress and that will deliver value for us. And I think in the meantime, the value of the revenue synergies between the two businesses continues to grow at a really exciting pace. And so, there are more and more Moonpig customers every day adding gift experiences to their cards. And I think we're still scratching the surface of making that a great experience in a great range. And so that's, again, a big driver of the business going forward.

Andrew Wade *Jefferies*

Great. Thanks very much.

Operator

Our next question comes from Anubhav Malhotra at Panmure Liberum. Please unmute your line.

Section 4 (15:47) – Panmure Liberum

Anubhav Malhotra *Panmure Liberum*

Hi, team. A couple from me, please. Firstly, do you have plans to move any of the other categories to the agency model, which could benefit gross margin in the future, whether for the Moonpig business? Or -- and I don't know whether it has been tried already in the Greetz business at all? Or is there scope to do that in the Greetz business as well?

And the second question, if you could break down the improvement in the performance of the Greetz business in terms of whether it's been driven more by growing the active customer base, getting more new customers in, average order value or frequency? Thank you.

Nickyl Raithatha *- Chief Executive Officer, Moonpig Group plc*

Sure. Do you want to take the first, Andy? And I'll take the second.

Andy MacKinnon *Chief Financial Officer, Moonpig Group plc*

Yes, sure. So certainly, in terms of -- you're right that one of the changes in the past six months has been moving the toy category across on to an agency model. I suppose the point I'd make is that that's not driven by the financials and financial engineering. It's because we think that it's a really great way of improving our range in one of our key categories. So, for customer purchase missions that involve children's toys, we've now got a specialist which is merchandising the range on our behalf. And it does actually give us some benefits in terms of inventory management as well. But it's not really about gross margin per se.

We are looking at other arrangements with other providers for different categories. They could be on either a principal basis or an agent basis depending upon the specific arrangements that we put in place with each category manager. I suppose the point I would make is that really in terms of absolute gross profit, it's a net-net because you get a higher gross margin, but obviously, there's a drag in terms of average order value because you're not recognising the GTV.

Nickyl Raithatha - *Chief Executive Officer, Moonpig Group plc*

Yes, and then on Greetz, I think if we look at the three drivers of the business.

Customer growth is pretty healthy. So, we're seeing new customers coming through the business, which gives us confidence that the marketing strategy, the relevance of the product and the platform that we offer is working. So, we're bringing new customers in at very encouraging levels.

Frequency hasn't -- it's probably where there's a bit of a delta from the Moonpig business, and it's to what I spoke about earlier, which is that point on actually, we're waiting for the loyalty drivers to kick in. And there's just a lag because there's an annual lag when customers are taking actions on when they come back the following year, and that's when the loyalty model really kicks in. But there's also just a lag on the data science models and the algorithms being seeded with enough data to optimise every part of that experience. And that's a journey that we're on. So as those things kick in, we're just confident that the platform will deliver just like it is now doing in the UK.

On the third driver of the business, average order value. There's a nuance with Greetz that actually when we look at the business from two lenses. We have a very clear card-first lens, which is when a customer comes in, they choose their card, they design their card, and then they add a gift. And that's our core model. We talk about it. That's our core strategy. That's what the Moonpig business is built around. And on that front, we're seeing really encouraging trends at Greetz. So, card orders being strong and people attaching gifts to those cards at increasing rates.

What you have in Greetz though is you still -- we still have a legacy business or legacy customer behaviour of gift-first buying. And this is something that we inherited when we bought the business six years ago, where Greetz has made a push into gift-first sales. And so, a lot of customers in -- Greetz customers, the older customers will start with a gift and then maybe add a card almost as a gift note. And that doesn't drive the loyalty and the compounding cohorts that we want to drive in this business. So, it's not something we proactively push.

So, what we see is, we see that gift-first business in pretty steady decline, the card-first business in growth and there's a transition period. And what that means is that our overall average order value and attach rate optically looks worse even though the strategic value is growing. And so that's probably the biggest delta when you look at the growth rates between the UK and Greetz are in that basket size, and that's really primarily because you've got the legacy gift-first customer base in Greetz continuing to decline.

Anubhav Malhotra *Panmure Liberum*

Thank you so much. That's very helpful.

Operator

Our next question comes from Georgina Johanan at JP Morgan. Please unmute your line.

Section 5 (20:45) – [JP Morgan]

Georgina Johanan *JP Morgan*

Hi, good morning, can you hear me?

Nickyl Raithatha - *Chief Executive Officer, Moonpig Group plc*

Yes.

Georgina Johanan *JP Morgan*

Great, great. Thank you. Just two quick ones from me, please.

First of all, just on the Greetz gross margin, I think there was some extra promo activity going in there in the half. Can you maybe just talk a little bit about whether that's the same promotions that you historically have used at different times for the Moonpig brand or if that's something different there, just be good to understand.

And then also just in terms of the medium-term guidance for a double-digit top line. Is that something that you would anticipate achieving next year? Or is that more something that we should anticipate that you'd be achieving on a one-to three-year view? How should we be thinking about that, please?

Nickyl Raithatha *- Chief Executive Officer, Moonpig Group plc*

Yes, sure. I'll take the first, Andy takes the second. I think the promotional activity in Greetz in the past year, I think we're relatively dynamic on this front. So, it's more reactive to market conditions to competition and the environment, the macro picture and the political picture in the Netherlands hasn't been particularly supportive this year, and obviously, Greetz is not quite at the level we want it to be. It's improving, but we'd love to see that business back in growth.

And so there is -- where we've been more proactive on promotions is really trying to drive behaviours from customers that we know will deliver for us in the future. So, for example, being more aggressive on moving customers to the app with a discount, being more aggressive on giving new customers their first card for 50% off or for free.

And likewise, being reasonably aggressive on a promotional level, once a new customer signs up, then encouraging them to buy that second card within the first two weeks and almost we'll give that card for free for them to come back for the second time, because we know what that does to their long-term lifetime value. And so, that's where we've been pushing quite hard on the Greetz side.

Another area is partnerships where we didn't do that many external partnerships, and that's something we're really switching on. So, for example, just this week, we've got a partnership going live with Vodafone in the Netherlands where all Vodafone customers will get one Greetz Christmas card included as part of their subscription. And again, it's a great way to bring new customers on board, but obviously increases the short-term promotional levels of the business. But we're doing it because we believe it will pay back in long-term lifetime value.

Andy MacKinnon *Chief Financial Officer, Moonpig Group plc*

And then on your second question, Georgina, around medium-term guidance. The way I'd characterise it is that on the medium-term target for Adjusted EBITDA margin rate, we'll be there very quickly. So, my expectations will be that we're towards the top end of that range in the current financial year. But on revenue growth, it will take us a period of years to get there. So obviously, you've got the Moonpig business is in double-digit growth. And to the comments earlier on this call, we expect that to sustain into the second half of this year and beyond. But Greetz is on an improvement trajectory. And we've clearly got some work to do in terms of continuing the transformation plan within the Experiences business.

Georgina Johanan *JP Morgan*

Super clear. Thanks so much.

Operator

Our next question comes from Adam Tomlinson at Berenberg. Please unmute your line.

Section 6 (24:30) – Berenberg

Adam Tomlinson *Berenberg*

Good morning, gents. Can you hear me okay?

Nickyl Raithatha *- Chief Executive Officer, Moonpig Group plc*

Yes. Hi, Adam.

Adam Tomlinson *Berenberg*

Great, thanks. Quick question for me, please. Just on the -- some of the new growth initiatives, so I'm thinking about Moonpig for Work here, the international, which is obviously growing well, but from a lower base. So, can you just give an update on your thoughts on those? And I suppose the question is, with your confidence in getting back to double-digit revenue growth a few years out, does that factor in a significant contribution from these new channels or is this all upside? Thanks very much.

Nickyl Raithatha *- Chief Executive Officer, Moonpig Group plc*

Yes, great. I'll give an update and Andy can talk to the medium-term piece.

So, I think starting with Moonpig for Work, we obviously gave a demo of that six weeks ago or so. That business is -- it remains -- in private mode with a select group of customers that we're getting constant feedback on where we -- we've launched version two of it to them. The feedback has been better, but there's still a few features that we want to build before it's ready to release to the wider public or the wider market. And so, version three, internally, we've got version 3.0, we will probably launch some point in January. And that's probably the point at which we'll expand it to a larger customer base and start monetising it. But again, it's going to be very small scale this year. I wouldn't expect it to impact the P&L in any way this year and still be reasonably limited next year.

But the feedback is very good. We're getting very positive feedback from the customer. Just to illustrate one of the features that we think we want to build in the next month or so before we release is, actually a lot of customers want to use this for work anniversary cards for sending to someone -- thank you for two years at Berenberg, thank you for five years at Berenberg. And actually, being able to automatically change the front design of the card so the number changes dynamically. Those are the sorts of features that we think are important rather than having to buy everyone's first anniversary and second anniversary card separately. So, there's just some more features we're introducing. But those -- again, they should be live mid-January and then we'll see if it's ready to release.

On the international side, I think no major change from what we spoke about a couple of months ago, where we've got three markets that are all growing quite nicely.

Ireland moving almost to maturity stage where it's growing at a healthy growth rate, but it's profitable growth that's delivering Adjusted EBITDA and we're reinvesting that Adjusted EBITDA back into Australia and the US, and we think Ireland is just a market that continues to grow healthily where we have a pretty strong market position and have had a great run in the last couple of years.

Australia, every month we are getting closer to that magical product market fit point, and that's the point at which we can profitably acquire customers and know that they will pay back. And obviously ramping up into the Christmas peak in Australia, we're looking at our year-on-year cost of customer acquisition and those again are down year-on-year. So, we're just continuing to make progress. And I think it's really -- what we really see now is that actually, Australia is now at the point where we are annualising marketing activity from last year. We started last August; September was the first time we put any real effort into that market. And as you start to annualise, as customers can activate their reminders and the brand awareness has an annual impact, we've seen that step down in customer acquisition costs, which is really encouraging for us. So that's great.

The US, we're in year one. We're very much in testing phase. I think everyone will know it's a big market. So, we're taking it slowly. We're taking it carefully. We're just testing lots of different channels to see if there's something that we can look to scale and find a way to product-market fit, but we're a long way from that.

Andy MacKinnon *Chief Financial Officer, Moonpig Group plc*

Yes. And on the point around medium-term guidance, we see it as being within our existing guidance, both from the perspective of revenue and Adjusted EBITDA margin rate. So, the growth that we're getting is a contribution to our trajectory of medium-term revenue growth, but equally, that revenue growth is being funded through our Adjusted EBITDA margin without incremental investment. Clearly, that's based on where we are in terms of the evolution of those brands and businesses at the moment. Should you get to a point where we see very clear product market fit, then we could take further decisions in the future, but our position at the moment is that it's all within existing guidance.

Adam Tomlinson *Berenberg*

That's very clear. Thanks a lot.

Operator

(Operator Instructions)

Our next question comes from David Hughes at Shore Capital Markets. Please unmute your line.

(pause)

Nickyl Raithatha - *Chief Executive Officer, Moonpig Group plc*

Hi David, are you there?

Section 7 (30:05) – Shore Capital Markets

David Hughes *Shore Capital Markets*

Hello? Can you hear me?

Nickyl Raithatha - *Chief Executive Officer, Moonpig Group plc*

Hi, yes, we can hear you now.

David Hughes *Shore Capital Markets*

Sorry about that. I was just saying in terms of Moonpig Plus, obviously, you've had success getting up to 750,000 subscribers, I think you mentioned about one in five transactions going with it. Where do you think the target is long term for that? What do you think is a reasonable share to get to versus your customers in terms of subscribers?

Nickyl Raithatha - *Chief Executive Officer, Moonpig Group plc*

Yes, great question. I think we are doing quite a bit of work on this internally. We don't have a long-term target to share. I think the key thing for us was obviously getting through the first year and just making sure that actually the subscription worked for us, but also worked for our customers. And what we saw in that first year was every customer saved money, which is great for them, but also every customer was more valuable to us because the subscription fee plus the additional cards that they bought and the additional gifts they bought more than offset the discount that they got. And so it was a win-win for us and them. And that's what's driven pretty good -- very good, actually -- renewal rates into year two and therefore, continued growth in the base.

The next piece is actually to see what happens to customer behaviour in year two. And actually, does that continue to -- does frequency increase again? Or does it remain stable? Or does it actually fall back down? And that's something that we are monitoring very closely. We've got the first few cohorts of renewals. We can now start to see that early data, but it's still a bit too early for us to draw the conclusion. And we really need to know what year two behaviour is. So, before we can start to extrapolate what does a three-, four-, five-year model of this look like.

The big question that we have internally, and we haven't answered this question yet, we need more data and more time to be able to answer it, is probably where your question is going is: does this remain a product which is 5%, 10% of our customer base, delivering 20%, 30%, 40% of orders? Or if could subscriptions be a more core part where it's maybe half our customer base delivering 80% or 90% of orders. I think we're still very much in the former camp at the moment. That's the way this is going.

But we're constantly reviewing it to see, is there more we can do? And we're aware that there are many businesses out there that have started with a simple subscription scheme and then launched tiers to try and make sure every customer gets on it. There are other businesses that haven't -- the big ones, the Amazon, the Ubers, which have one scheme and that's what they work on.

So, we're constantly reviewing it. But as things stand, we're very happy with the fact that our best customers are joining this and they're saving money, we're making more, and that's a win-win situation, which I think is something we want to maintain.

David Hughes *Shore Capital Markets*

That's great. Thanks very much. And just in terms of behaviour of subscribers, you talked before about increase in transactions. Are you also seeing that higher attach rate? And particularly in experiences, are you seeing stronger performance there? So, can Moonpig Plus be something that helps drive that experience growth that you're looking for?

Nickyl Raithatha *- Chief Executive Officer, Moonpig Group plc*

So Moonpig Plus customers naturally tend to be our better customers in terms of from a frequency perspective, just given it makes more sense to sign up if you buy more cards. So, they tend to be -- and actually, those customers do have a slightly higher attach rate on average than customers that aren't signing up. And so, what's been really good to see is that as Moonpig customers have signed up, and bought and their frequency lifted, their attach rate has remained exactly the same.

So, what we have is an uplift of frequency at a higher attach rate, which helps the attach rate mix. And so absolutely, Moonpig Plus is, without it being a scheme that encourages gifting, it's very much a card frequency membership scheme, but it is indirectly also supporting Group attach rate, which is great.

There isn't a huge link between the Moonpig Plus subscription and the Experiences direct sales. There is one of the benefits of Moonpig Plus is you do get a discount on all experiences, but really, for us, the sales of our Experiences business are primarily driven through those websites (buyagift.co.uk and redletterdays.co.uk) and those aren't linked to the Moonpig customer base subscription at the moment.

David Hughes *Shore Capital Markets*

Got it. Very helpful, thank you.

Operator

Our next question comes from Charlie Rothbarth at HSBC. Please unmute your line.

Section 8 (35:05) – [HSBC]

Charlie Rothbarth *HSBC*

Morning, Nickyl. Morning, Andy. I hope you can hear me.

Nickyl Raithatha *- Chief Executive Officer, Moonpig Group plc*

Yes, hi, Charlie.

Charlie Rothbarth *HSBC*

Can I just quickly ask about the gifting ranges as you go into your -- into a Christmas period? Are you still seeing that the GBP10, GBP15 range is about right? If you had to make any tweaks for that?

And then next question is the key -- the experiments that you run on a microcosm of your customer base. What are the next ones that you're looking at? How are you thinking about these?

And then final question is, can you just please remind me how the cost base for your international businesses work? Is it still about 10% is onshore and 90% is offshore?

Nickyl Raithatha *- Chief Executive Officer, Moonpig Group plc*

Yes, sure. I'll take the first two, and Andy can touch on the third.

So, in terms of the gifting range, I think the average gift is in the GBP15 to GBP20 price point actually. I think there was a period a couple of years ago where we were seeing stronger growth in the sub-GBP15 price point, but that's probably no longer the case. I think what's really been just good to see is actually it's the quality of the product and the brand that drives the sales, not necessarily the price point.

So, we saw earlier this year when we launched Hotel Chocolat, it jumped to the top of the charts in terms of our internal gifting brand sales, even though it's obviously significantly more premium than Lindt and Cadbury's, which have always been very good sellers for us. And so, the right product will sell.

And then on the flip side, I think what we've seen is, with the launch of the Early Learning Centre and The Entertainer brands where our toy range and our kids' range is just exponentially improved just overnight since October and through November. You have the right products. And so, we've seen gift attach for kids grow. And actually, products, LEGO and Paw Patrol and Peppa Pig and these sort of toys, Play-Doh, all these toys, that range -- they do tend to be lower price point toys because a lot of them are in the GBP10 to GBP12 to GBP14 price points. So really for us it's -- we're much less focused on driving and actually trying to target price points. I think it's about you have the right product and customers will buy it. And so, we're just trying to continuously improve the range, whether that is at high price points or low price points, and obviously, making sure that we have a good spread for every customer.

In terms of experiments, I think we're doing probably the 20 to 30 experiments a month. So, it's a difficult thing for us to run through all of them. I think in terms of some of the larger ones we're doing, I think one of those is the launch of handwriting. So, we've just launched that last week and so that is something we're going to be monitoring very closely to see our customers engaging with it. Are they using it? Is it delivering what they want? And how can we iterate on that? So that's something we're launching.

AI stickers we talked about. That's coming very soon, hopefully in the next week or so where customers will be able to create their own stickers, again, just I think adding something that is a unique feature that no one else does and can really improve the impact of a card if you can create your own sticker.

In terms of some of the more intelligent features, I guess, there is a larger upgrade coming to our search capabilities in the next two months, I think at some point in the end of January, we're targeting to release, which is a feature called ‘learn to rank’. And what this really is, is actually the way that your cards -- so when you're looking for a birthday card or whatever card you might be looking for, the way that those cards are sorted on a gallery page is a factor of which cards have been bought by other customers and looking at the global data that we have that suggests which card should we put at the top for a generic customer searching for that. ‘Learn to rank’ takes your personal browsing history and your personal engagement with Moonpig historically, and actually will sort the range of cards you'll see and the order you'll see those cards on every gallery to you specifically. So, if you open the birthday card page, you'll see cards in a different order to what I’ll see and I think that's a really exciting brand-new capability that the team is pretty excited about.

It will be an experiment, we'll need to see how it works. And sometimes the first version doesn't work because you need to seed the data and optimise the model. But I think that's one of the big ones coming.

And probably the last one I'd say is something that we've just launched, but something that we're looking to grow is called 'Magic Link', which is a -- it's a way that if you -- now so when customers receive a reminder from us, previously, if you clicked on a reminder e-mail or push notification or e-mail in particular, and you weren't logged into the website, it would take you to the login page and it would say, please log in and you need to type in your username and password, which is a bit of friction. Now it will automatically log you in when you click on that reminder link. And so, it removes a huge amount of friction. And because you're logged in, obviously, the experience is a lot more personalised. And so, that's something I think we launched to a small group of customers a couple of weeks ago, and I think we're pretty confident that's going to have a big impact in terms of reducing friction.

So those are just a couple of examples. But like I said, we're doing about 20, 25 a month. So, there's lots coming and sometimes we're very surprised by the ones that have greater customer impact. And sometimes, we are disappointed by things we thought would be fantastic and are not. So, every -- depending on which week you speak to us, we can always talk about which features have worked, and which haven't.

Andy MacKinnon *Chief Financial Officer, Moonpig Group plc*

And then on the question around cost base. So, I suppose the key thing is that our tech platform allows us to connect to third-party fulfilment partners very quickly, on an API basis. As an example, in both Australia and the US in the last six months, we've opened a second distribution facility in Sydney and Las Vegas respectively. So that means that actually on a very capital-light basis, we can connect with a third party to do the printing and the fulfilment for us and effectively operate on the cost per unit basis. So actually, all of the cost right down to gross profit and then marketing costs is effectively in the local markets, and then all of the indirect costs effectively sit in the UK.

As a reminder, 'bootstrap' is probably the word that describes the approach to new markets the best. It's a handful of people based in London that are doing all of the work in the US, Australia, and Ireland. And obviously, we leverage the existing technology platform. So, the incremental costs in terms of tech are limited.

Charlie Rothbarth *HSBC*

Perfect. Thank you both so much.

Operator

Our next question comes from Anubhav Malhotra at Panmure Liberum. Please unmute your line.

Section 9 (42:37) – Panmure Liberum

Anubhav Malhotra *Panmure Liberum*

Hi team. Thanks for taking a second question from me. Just on one -- which is a follow-up from an earlier question on Moonpig Plus. Clearly, a very interesting customer base that you are creating there, you're building there. That would probably be very interesting for your partners as well, for something like in the toys category like The Entertainer. Are you testing maybe bringing another tier or at least thinking about bringing another tier to that subscription scheme, which gives people access to maybe a discounted range of gifting as well? Thank you.

Nickyl Raithatha *- Chief Executive Officer, Moonpig Group plc*

So, at the moment, we're not. It's -- do we discuss it internally? Absolutely. But I think there is something really important in the way we try and run the business, which is simplicity, and just trying to keep things as simple as possible. So, whether that's pricing or whether that's just choice, whether that's just the subscription scheme.

I think we've looked at other businesses which have Plus and then Pro and then Premium and then Gold and Silver and Elite and it gets reasonably confusing for the customer. And we think actually that's when subscription schemes can go wrong and not to mention the complexity of managing it internally.

And so, I think from our side, what we've done is for now, we've launched a scheme which really, we think, can generate the most value with a single scheme for the widest part of our customer base. And I think if we change that, it would be a pretty big decision, but it'd be one we'd want to test.

I think probably the one thing I would just say, though, is the benefits of the existing scheme are not fixed. And so, we've -- over time, over the last year or so, we've changed, and we've added to those benefits. So, not only do you get a 30% discount on cards when you sign up, but you do also get a free postcard every month. There is now a range of, I think, 300 or 400 cards, which are GBP2 for the card. And so, it's a 50% off range. And so actually, a lot of our Plus customers just use Plus to buy cards from that range. You can personalise those cards, there are some great designs there. And so, there's no reason why we -- we've tested to our Plus customers doing a bouquet of the month. So, every month, there's a different flower bouquet they can buy at 50% off.

And so, I think there are other ways to do this that don't require changing the tier but give a benefit to our customers and potentially those could be supplier-funded things with The Entertainer. So those we will explore.

Anubhav Malhotra *Panmure Liberum*

Very clear. Thank you.

Operator

As there are no further questions on the webinar, I will now hand over to Gareth Davis to read out the written questions. Please go ahead.

Section 10 (45:29) – Written questions

Company representative

This is Gareth Davis from the finance team here at Moonpig. We have a couple of questions. Firstly, we have a single question from Karl Burns at Canaccord, which reads: "What impact has the Moonpig Plus subscription had on Group order frequency? And what do your renewal rates look like?"

Nickyl Raithatha *- Chief Executive Officer, Moonpig Group plc*

Yes, I mean, I guess if we -- if you look at it, you can see the number of active customers we have, you can see that we have three quarters of a million Moonpig Plus subscribers and each of them has increased their frequency by about 20%. So, you can do the math. It's clearly contributing pretty positively to overall frequency. As Andy mentioned, the Group frequency number that we report is obviously influenced by the proportion of new customers in that active base because new customers naturally have a lower frequency in their first year than customers that come back.

So, Moonpig Plus continues to add value. Renewal rates, we talked about when we launched a scheme that our business case and baseline expectations were that roughly 50% of customers would renew because we think that's the global benchmark for subscription schemes. What we've seen from June -- consistently every week since June, so now almost six months of cohorts -- it's consistently been significantly higher, just north of two thirds of customers are renewing. And there's probably more we can do to even further increase that. So very, very happy with renewal rates at Plus.

Company representative

The second question -- and there's no further written questions following this -- there's two questions from Matthew Evans at Equity Development with the first one reading: "The loyalty schemes are doing very well with around a fifth of Moonpig orders using Moonpig Plus. Are you happy with both the level of discounts offered and with the return on investment that you are seeing?"

And then the second question reads: “You've explained how gift experiences are taking longer to reach their potential. How are you thinking about the marketing of gift experiences going forward, recognising Moonpig's card-first acquisition strategy?”

Nickyl Raithatha *- Chief Executive Officer, Moonpig Group plc*

Great. So, the first question, I think we probably covered that already. But we're happy with the scheme. Like we said, it's a win for the customer, and it's a win for us. And I think that is the magic ingredient that makes a good subscription scheme that customers will stick with. I think on gift experiences, the marketing -- so just -- maybe to clarify, so Moonpig's card-first acquisition strategy doesn't apply to Experiences.

Experiences as you would expect, is an experience-first and experience-only gift sale. I think really the point for us is this third piece of the transformation, which is making sure we have the right proposition for what customers want -- is all about, do we have the right products? Are those products on trend? Are those products at the right price point? Are those products playing into what's topical in the market and what people -- what customers want to do and want to gift? And are we able to present those and package those in a way that's exciting?

And so, I think that means there's work on both the range building side, there’s work on the merchandising side and there's work on the marketing side to make sure we're doing that. And I think one of the things that we've really thought about is -- it feels like gift experiences are inherently suited to being a product that you could make exciting through social channels. It's like should this be a -- TikTok or Meta be -- an exciting channel for us. I think it should because I think the whole point of experiences is they're exciting things that you do with people, with friends and family.

And I think we really don't tap into that now. We're still pretty reliant on Google and search and intent. So I think, as the product becomes more exciting and more relevant over time, there's an opportunity for us to revisit how we market these products as well. And ultimately, what is important for us to build the long-term sustainable business that we set out to build two years ago for Experiences is absolutely that. We need to reduce our dependence on Google, and we need to make sure we can increase our direct traffic, our loyalty from customers, and we do that by building brand and there's probably a different marketing approach needed for that.

Company representative

Given there are no further questions, we shall hand back to Nickyl for closing remarks.

Section 11 (50:41) – Closing remarks

Nickyl Raithatha *- Chief Executive Officer, Moonpig Group plc*

Thank you, everyone. Thanks for joining today. Thanks for listening. Thanks for the great questions. And we will see you again at the full year results in June. Have a lovely Christmas.

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