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CMPR.OQ - Q2 2023 Cimpress PLC Earnings Call

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CORPORATE PARTICIPANTS

Meredith Burns *Cimpress plc - VP of IR*

Robert S. Keane *Cimpress plc - Founder, Chairman & CEO*

Sean Edward Quinn *Cimpress plc - Executive VP & CFO*

PRESENTATION

Operator

Welcome to the Cimpress Second Quarter Fiscal Year 2023 Earnings Call. I will now introduce Meredith Burns, Vice President of Investor Relations and Sustainability. Please go ahead.

Meredith Burns - *Cimpress plc - VP of IR*

Thank you, Catherine, and thank you, everyone, for joining us today. After a positive investor feedback from our Q4 FY '22 public earnings call, we have decided to reinstate quarterly public earnings calls, and we'll continue them as long as they continue to be useful to investor understanding of our financial and operating performance.

With us today are Robert Keane, our Founder, Chairman and Chief Executive Officer; and Sean Quinn, EVP and Chief Financial Officer. I hope you've all had a chance to read our earnings document. We really do appreciate the time that you've dedicated to understanding our results, commentary and outlook. This live Q&A session will last 45 minutes to an hour, and (inaudible) questions. You can submit questions via the question-and-answer box on the bottom left of the screen.

Before we start, I'll note that in this session, we're likely to make statements about the future. Our actual results may differ materially from these statements due to risk factors that are outlined in detail in our SEC filings and the documents that we published yesterday on our website. We invite you to read them.

And now I will turn things over to Sean and Robert for some brief remarks before we take questions.

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

Great. Thanks a lot, Meredith, and thanks, everyone, for joining us today. I'm just going to start by highlighting a few key points from the results that we published yesterday, along with our outlook. As we outlined back in our September Investor Day, the fiscal year results for this year, we're going to be characterized by margin compression in the first half of the year as we annualize the impact of cost inflation that accelerated in the second half of last year. Also as we annualize the impact of last year's investments in Vista, and we experience some unfavorable shifts in our product mix from a margin perspective. And we said that as we exit this fiscal year, we expect to be on a path through expanding our EBITDA, both through margin expansion and through revenue growth.

All of this remains the case, and our second quarter results reflect this. Our total revenue grew in constant currencies across all segments, including growth in revenue from new customers in the Vista businesses last quarter. However, constant currency revenue growth slowed from the first quarter.

Revenue from consumer products was down slightly and has more weight this quarter, particularly in the months of November and December. That being said, in January month to date, as mix shifts [backs] our organic constant currency revenue growth has accelerated back above the 9% consolidated growth rate that we reported for the 6 months ended December. And over the remainder of the fiscal year, we're going to be comping last year's Vista slight migrations to our new tech platform in large markets like the U.S., like in France and Germany that we expect to support higher year-over-year growth as well.

From a cost perspective across Cimpress, we see signs that our year-over-year pressure on many input costs is stabilizing and in some cases costs are starting to decrease. That said, gross profit did weigh on our year-over-year results and it's still impacted by both increased input costs, net of the pricing increases that we've taken as we're still lapping cost increases that accelerated in the second half of last year, but also product mix shifts, particularly in the Vista business also had an unfavorable impact.

If you look at it in total, consolidated gross profit declined year-over-year by $36 million. About $22 million of that decline was from unfavorable currency fluctuations on our gross profit that are offset throughout the rest of the P&L, including from our hedging gains. Of that remaining $14 million of operational decline in gross profit, that was really from our Vista business. All of our other businesses had constant currency growth in gross profit.

So for Vista, in addition to increased input cost year-over-year, as I mentioned before, gross margins were impacted by product mix as we had constant currency decreases in consumer and in digital product bookings which represented a combined $7 million decline. Those are categories that have high variable gross margins. While we had very strong constant currency bookings growth of over $16 million in our promotional products, apparel and gifts category and that has very strong customer economics, but it has lower variable gross margins.

Sticking with Vista, our full funnel advertising test that we outlined back in September generated differential performance. New customer count and new customer bookings both grew this quarter overall for Vista and that was helped by markets where we had been testing mid and upper funnel advertising spend and new customer growth was one of the specific outcomes we were looking to deliver. As previously disclosed, it was always our plan that the spend behind that testing will be front-loaded in the first half of the year, that remains the case. And we'll now use the learnings from this testing to continue to evolve and test our channel mix going forward. In the quarter, we actually decreased our performance advertising spend year-over-year in Vista, and that includes during the consumer-driven holiday peak.

The following actions that we took to reduce operating costs as we enter the fiscal year, we took some further actions this quarter to contain our operating cost. Operating expenses, excluding restructuring charges, were up only modestly year-over-year in constant currencies despite the significant investments we made in Vista throughout last year that we're still lapping and despite continued growth in our businesses.

On the net income and EPS side, we had sizable losses there due mainly to noncash drivers, including the establishment of $116 million valuation allowance that drove tax expense in our P&L but doesn't have an impact on our cash taxes. That was a reversal of a tax benefit that we reported back in fiscal 2020 for net operating losses that aren't available to use until 2025 to 2030. We still expect to use a large portion of those NOLs, but we are unable to support maintaining that deferred tax asset based on the U.S. GAAP rules. Additionally, given the weakening of the U.S. dollar against our largest currency since last quarter, we had unrealized losses from currency hedges that flow through our P&L and affect net income.

Moving on to cash flow, last quarter, we told you we increased our safety stock of certain raw materials to mitigate supply chain disruption, especially related to risk related to energy disruption in Europe. We started to work this inventory down in Q2, and actually we had cash inflows from inventory as a result when we would typically see cash outflows in our December quarter. We expect to continue to work that inventory down in the back half of FY '23 as well.

With that said from a working capital perspective, we didn't see as large but overall benefit as we have in recent years due to the lower sequential increases in our cost base given some of the actions that we've taken. And therefore, we also should not experience a significant of an outflow as we go into the third quarter.

During Q2, we did pay $95.6 million to acquire noncontrolling interest in our businesses. $91 million of that was for the settlement of a put option for over 90% of the noncontrolling interest in the businesses in our PrintBrothers segment, which has been our fastest-growing segment. Last quarter, we told you that we were preparing for that likelihood so that actually happened, and those payments reduced our liquidity, which was down sequentially, although still sufficient at $213 million.

Net leverage increased this quarter. We did expect an increase given the lower year-over-year EBITDA. The settlement of the put options and the noncontrolling interest payments overall, of course, had an impact on our net leverage. That alone drove about half of the increase in that leverage from last quarter. As of December -- at the end of December, our net leverage was 5.52x, and our first lien net leverage was 3.34x.

Finally, let me just say a few words about the guidance that we provided in last night's release. As I said earlier in our past commentary we described an expectation for margin compression in the first half of the year for all the reasons I outlined and profitability expansion as we were exiting the fiscal year with growth in the years ahead. We are committed to expanding profitability. We're committed to delevering the balance sheet. I previously mentioned that revenue growth in January has accelerated, but we will not rely on revenue growth alone to drive those profit improvements.

We've taken multiple steps over the last year to contain or reduce cost, but over the remainder of the fiscal year, we plan to take further steps to significantly reduce our cost base in support of expanding profitability as we exit the fiscal year. As I noted or we noted in our release last night, in light of anticipated cost reduction measures, we expect that we'll be able to return to our prior fiscal year high adjusted EBITDA of $400 million in fiscal 2024, that's next year. This higher adjusted EBITDA, combined with the expected free cash flow generation would bring that leverage levels to approximately 3.5x or below.

We have a mid-year strategy update plan for investors on March 21st, and there we'll share more details on the steps that we're going to take to drive that profitability expansion including cost reductions and the associated net leverage improvement.

Now I'll hand things over to Robert to say a few words about the Vista CEO transition that was referenced in the document last night.

Robert S. Keane - *Cimpress plc - Founder, Chairman & CEO*

Thanks, Sean. Good morning to everyone who's calling in today. Given the guidance, as Sean just outlined, I also wanted to share a few updates on Vista given its importance to Cimpress overall. When I returned to Vista 4 years ago Vista had strengths but also areas that needed really significant attention in order to transform the business for the coming decades. In January 2019, I expected that would take a couple of years to establish strong foundations for Vista's future, and then pass the baton to Vista's next CEO. The pandemic slowed down our progress for a time, and we have been focused on multiple major multiyear investments. These included replatforming the Vista technology, shifting away from past brand positioning that had been highly dependent on deep discounts, better serving higher-value customers, and laying the groundwork, upon which we can revitalize Vista's traditional strength in design and service. Thanks to those investments and thanks to the great talent that Vista already had, to new talent that we attracted over the last 4 years and to the contributions from people from Cimpress who also played dual roles like Sean and Maarten, Vista has made substantial progress.

I told you at the Investor Day in September that Vista was ready to run, and that certainly remains true today. Notwithstanding the fact that macro conditions are causing us to look at significant cost reductions for the coming months. Vista will be able to consistently improve how it serves customers, thanks to the strong foundations we've built across technology, data and analytics, marketing, product ranges and the beginnings of a full spectrum of design capabilities and certainly, the talent pool at Vista that is driving these capabilities.

That's why at this juncture, it's the right time for me to now pass the baton to Vista's new Chief Executive Officer; Florian Baumgartner. Under Florian's leadership and his strong executive team, I expect Vista will progress steadily towards its North Star to be the design and marketing partner for small businesses while delivering the financial results necessary to support what Sean has just outlined, and the continued growth beyond that.

In my role as Cimpress' CEO, I look forward to spending my time supporting all of our business abilities to drive both higher levels of customer value and higher financial returns for our investors as we focus on delivering the guidance outlined in yesterday's release and ultimately, on growing the per share value of Cimpress.

With that, let's open up to questions.

QUESTIONS AND ANSWERS

Meredith Burns - *Cimpress plc - VP of IR*

Great. Thanks, Robert. (Operator Instructions). We received a significant number of pre-submitted questions as well. Also thank you so much, we really do appreciate that. There -- in some overlapping areas, which is good. So there's going to be a couple of cases where I will ask a representative question that we got from multiple people, and then our answers will do our best to cover everybody's questions. We'll get to as many as we can, and we'll make sure that we get to a variety of topics that are on people's minds.

So let's take our first question, which was a pre-submitted one, which is this: In the last earnings document published in October, you wrote, "as we publish this, our customer demand picture remains strong across Cimpress, however, organic constant currency growth has slowed materially from the mid- to high teens to the mid-single digits. What happened in November and December that changed things for the worst."

Sean, do you want to take that one?

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

Yes, I'll take that. So that's right. A lot of that impact is from Vista. And so in October -- October was a stronger month for Vista than November and December. One of the big drivers there is mix and in particular, the mix of consumer. Just to put that in perspective, consumer in our October bookings was about 13% of our overall bookings. In November, it was 31% and December is 38%. So you can see the weight really ramps up throughout the quarter. And that really does have an impact on overall growth kind of month by month, especially given the fact that the consumer category declined slightly year-over-year.

So that's the big driver. I think it is also worth noting that just from an advertising perspective in Vista, and this is in our results from last night, but our performance advertising was 13% of revenue this quarter. It was 16% last year. And we had made some choices, including through the high-volume weeks to operate with tighter payback thresholds and stick to that. In October, we were also at the full pace of our full funnel testing, and in particular, kind of the full rate of spend in our mid- and upper funnel categories where we were testing in certain markets. So ad spend did have some impact on that month-by-month profile as well, but product mix is the big driver.

Outside of Vista, there really was not one trend. In some of our businesses there was acceleration in growth throughout the quarter, and some others there was deceleration.

Meredith Burns - *Cimpress plc - VP of IR*

Great, thank you, Sean. So I'm going to stick with you for the next question which was on revenue growth. So was there a slowdown in growth in the Vista segment revenue ex consumer products? And another person asked a similar question, what was the constant currency growth rate for the business, marketing products in the quarter.

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

Yes, it did slowed slightly of constant currency growth rate for -- just for the small business products, it was a little bit lower than Q1. That number was a little bit over 7% growth in those categories, so ex consumer in the December quarter. And then just to kind of bring that all the way forward to today, as I mentioned in the upfront remarks, our constant currency growth in January overall on a consolidated basis, accelerated above the 9% year-to-date growth that we reported for the 6 months of December. Vista's bookings growth did accelerate in January as well. That's actually one of the biggest components of that acceleration and that's also helped by less consumer in the mix as well.

Meredith Burns - *Cimpress plc - VP of IR*

Great. Okay. So sticking with consumer, this may be one that you both weigh in on, but we'll start with Robert. So this is the second year in a row where we have had poor performance in consumer products, which has historically been an important profit driver for the business. Two questions. Does Vista's consumer products offerings still resonate with the consumer? If yes, what gives you confidence and what steps are being taken today to avoid another poor seasonal period next year? And if consumer products aren't as important to Cimpress moving forward due to changes in what the consumer wants and/or our inability or unwillingness to meet those changes, what structural changes need to happen to make the Q1, Q3 and Q4 relatively more profitable quarters?

Robert S. Keane - *Cimpress plc - Founder, Chairman & CEO*

Thank you. Frankly, this is a topic we discuss often internally. You're right, the consumer is an important part of Vista's profitability, and it's been traditionally that remains the case. To put some numbers on it, on an annual basis, it's roughly 20% or so of revenues, although, of course, it's higher in Q2. One thing, Sean, and you can jump in and correct me if I'm wrong. I think there was a thing I mean, you just mentioned a moment ago that performance advertising, we've limited in Vista - pulled back last quarter, it was 13% in the quarter versus 16% the year before. So we have made some choices to operate with tighter paybacks.

But if you go beyond that, I think the core is we are focusing so much on small business customers where we have our biggest opportunity. A consumer has had less focus. And -- we had to be clear in terms of our priority which is small business - to move that, and that certainly has impacted things like our brand messaging, our go-to-market and resource allocation generally. Again, the consumer business, like all of this traditional business was very discount driven. And as we shift away from discounts for consumers, but there has been a shift there. That said, we have created a dedicated consumer team that looks after the consumer category and we've added resources so they can be focused on consumer around the year rather than just seeing it as a holiday. And that team has improved the product and service offering already this year. We had planned for a flat year overall in revenues in Q2 year over year. It was in fact down $4 million, although we did that with less advertising spend, as I just mentioned, than planned.

So the consumer category should also benefit from the improvements that we have been making and will be making across the website. So it could be getting to the ease of getting new products launched, improved experiences on the site that impact conversion, integration of design services and many other things. Now -- another thing that should, over time, help consumers is the new products we're introducing for business, for example, promotional products have interesting use cases for consumers where drinkware and apparel are good examples. And consumer-focused promotional products recently launched and have been performing well during holiday. That being said, we do recognize that consumer is a far -- is a far more competitive space, and we see the competitive set there when holiday season comes around really spiking up discounting and the cost of advertising goes up. And we did not -- we intentionally did not chase bookings, we really try to be disciplined to stick to our return thresholds.

A couple of more comments. I'd say we do have some key products like holiday cards, invitations and announcements where we are seeing changes in behavior over time that are likely leading to overall market declines. But if you look at consumer as an overall category, we still feel there's a great opportunity there. Again, it's important to us, it's secondary to the revenue that comes from small business. But going forward, we'll keep pushing and having consumer benefit from improved experiences, product selection and solutions across the site.

Sean, do you want to add anything?

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

Yes, I think that covers. Just to touch on -- I think there was part of the question, which was the things that we can do in other quarters to change if we are going to not focus on consumer, which is, as you heard from Robert, not the case, it's still as important. It just has been secondary. And the answer there is basically everything that we're doing across Vista to support small businesses, how we serve them, how we partner with them and how we can serve them across their entire lifestyle -- sorry, life cycle and in turn, increase volume across the year in serving small business customers in addition to improvements that we can continue to make in consumer as well.

Meredith Burns - *Cimpress plc - VP of IR*

Okay. I'm going to move into a couple of questions that we received on both pricing and inflation. So we'll start on the pricing front. Sean, how much pricing has been taken in Vista and in other businesses? Also how much was overall inflationary pressure? How much more pricing is there to take over the course of the next 12 to 18 months?

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

Yes. This is an important question, and frankly, it's one that -- it's difficult to answer with precision because there are a lot of nuances here, business by business, market by market. And there's all sorts of impacts of changes in volume and discount rate and mix and so on. So let me -- I'll do the best to answer here. We'll also think about how we could package this up as well in our March session to add -- add a little meat to this. But -- all of our businesses have seen increased input cost. We've been talking about that for the last 4 quarters in particular, 5 quarters. Some have been impacted more than others. So just as an example of that, things like energy costs. In Italy, they've increased a lot. In France, they have it, right? So there's things like that, that will have an impact business by business.

There's also, obviously, depending on the raw material profile for our businesses, that has a big driver. Some impacted more than others, some are more directly tied to commodity prices, including paper. And in other businesses, including, for example, for National Pen, they do a lot of sourcing from China. There we've actually seen, and this is an overall market thing, we've seen meaningful decreases in things like inbound freight costs, which are more material for that business. So there's a lot of nuance here.

In our Upload and Print businesses, in National Pen and to some extent in BuildASign, we've been able to largely offset those cost increases with price increases, and that remained the case through Q2. Again, differences business by business. They're not fully offset, but we've been able to largely offset those cost increases.

In Vista, of course, our largest business, that's where we've seen the most net impact, the timing of the ramp-up in those cost increases we talked about last year coincided with our technology migration that we're doing, some of our largest markets that delayed when we could start to put those pricing benefits in market. We implemented broad-based price increases back in June and then we continue it from there. We talked last quarter about some of the benefits we are seeing. Those benefits were higher in the September quarter than they were in December because of the mix of consumer and the level -- also the level of discounting for holiday promotions. And the consumer, just given the price sensitivity there and the fact that we had brought down our discount levels over the last 2, 3 years, there, it's a more price-conscious customer. There is more price sensitivity on the consumer side. And so we've done less in terms of the pricing benefits there. And that has an impact given the mix in the December quarter.

We said back in our September Investor Day that for Vista, we expected to deliver at least $20 million through pricing changes in FY '23. There's, again, a lot of nuance to that, but we're definitely -- we're on track to that -- for that, we're on track to achieve more than that. But the relative benefit in the December quarter was less than it was in the September quarter. I think as we get to the March quarter and that mix shifts back again more towards the small business products, we'll see more benefit in Q3.

There is still room for improvement, especially on the Vista side, it continue to optimize. We have specific plans for that. We have teams that are focused on that every day. But I do think that the pace of that especially after this fiscal year is likely to slow. So to the question of kind of what's left to go get, I think the opportunity set is lower than it was over the last year, just given the steps that we've already taken. But there still is opportunity, and we monitor that very closely.

Meredith Burns - *Cimpress plc - VP of IR*

Great, and then this one can be, I think, a quick follow-up because you've already talked a bit about what we're seeing in terms of the cost inputs lately. But inflation peaked in the late summer and has been gradually coming down, but the gross margin pressure this past quarter was more pronounced than 2 quarters ago, 400 basis points of compression this quarter versus 200 quarters ago. Why is that?

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

Yes, just like anything, we will experience the market over time. And when it comes to how we buy, we always seek to be below the market, but we have to move with the market over time because a lot of that is underpinned by things like commodity pricing and so on. But we don't move exactly with the market. So we do see stabilization, I mentioned that, but we don't see cost overall coming down yet -- at least in most of our main input costs. Although, as I just mentioned, things like inbound freight are down quite a bit, and we're seeing stabilization elsewhere. So cost did still have an impact over the last 6 months because I think the question is referring to gross margins in the December quarter versus the June quarter. So costs still did have an impact, although the shape of that is definitely improving.

Product mix, again, here is a big driver. So in some of our businesses, gross margins did -- sorry, did increase in the December quarter versus June. And in some cases, they were lower. But again, Vista has the biggest impact here. In Vista, our gross margins were down about 400 basis points in the December quarter versus June, if you compare them back with June. There's really 3 drivers to that. One is that, like I said before, consumers where we've done less on a net pricing basis given the competitiveness there and the price sensitivity and consumers much higher (inaudible) in the December quarter. Two, business cards and stationery that category is amongst our highest variable gross margins, and that has a higher concentration in the June quarter. There's a little bit of seasonality there, but that was 32% of our bookings in the June quarter, it was 25% of our bookings in the December quarter. So again, mix.

And then the other thing is that we did have a -- we mentioned this in yesterday's release, we really had a $3.1 million charge in Q2 that comes through gross profit. And so that's about (inaudible) points alone of that overall 400 basis points -- so consumer, some of the business card mix and then that charge has an impact as well.

Meredith Burns - *Cimpress plc - VP of IR*

Robert, we continue to grow headcount at a time when results are weak and other businesses are entering cost-saving mode given the macro uncertainty. Why does it make sense to continue to add where we are adding.

Robert S. Keane - *Cimpress plc - Founder, Chairman & CEO*

Well, first of all we think our anticipated cost savings makes sense given the macro uncertainty. We certainly talked about that in our prepared comments that we released last night. So some of the growth in headcount comes because we are growing in our Upload and Print businesses, but if I focus on Vista, there are roles that impact our operating expenses and our fixed costs in the plants, in customer care actually decreased year-over-year in the quarter. We also have significantly curtailed hiring across Vista and in the Cimpress central teams as well, and actually reduced those back in June. Now in the data we provide - still related to Vista, our headcount is up, but that is really because of the staffing for a seasonal peak specifically in Vista's largest production facility in Canada, where these roles are classified as permanent. But you can see in our normal pattern that comes down in the March quarter.

Meredith Burns - *Cimpress plc - VP of IR*

Great. Okay. So I'm going to ask 1 or 2 more questions on the quarterly results, and then we're going to shift to a couple of other topics. But this one is on geographic growth in Vista. I get the economy isn't what we thought it would be, though I have been hearing Europe is worse than the U.S. And here, your European business continues to look great. While the predominantly U.S.-focused Vista continues to lag, especially in gross profit. More context on any callout drivers on what's good in Europe or bad in the U.S. would be helpful.

Robert S. Keane - *Cimpress plc - Founder, Chairman & CEO*

Sure. Good question. First I'd start out by saying our Upload and Print businesses - if you recall - 4-plus years ago, we really pushed to more autonomy and more decentralization. In PrintBrothers and The Print Group - entire teams in both of those businesses are just doing a great job. They're firing on all cylinders, and we're just really proud of what they're doing and that's having a positive impact there. We do believe this market overall has room for consolidation, and then we can lead that. And I think in a tough competitive market like the Upload and Print market in Europe, the fact they were doing well demonstrates that belief.

Now at Vista, we are actually seeing higher constant currency growth outside the U.S. compared to how we're doing in the U.S. So that's true in Canada, it's true in Europe and it's true in Australia. Now consumer revenue was mixed year-over-year, down slightly overall, but there are a few markets where it grew stronger outside of the U.S. I think the main issues that we really have to understand our customer sentiment. They do not so far see a drop in demand from business-oriented products but again, that changes market by market. If I look at the ability to increase prices that changes market to market. And again, I realize in this comment, I'm mixing Upload and Print and Vista, but we've been able to really get quite a bit of pricing changes in Upload and Print earlier. We will be lapping some of those and so we see growth rates moderating there.

Sean, you may add a few more comments. I guess the last thing is in the U.S. the consumer market is tough and competitive. As I mentioned, we didn't chase revenues with advertising. And in this quarter, the second quarter that has a big impact, especially in the U.S. Do you have any other thoughts on the difference between Europe and...

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

Yes, I think you covered most of it. We've seen -- I think the -- as you indicated, the -- a lot of the -- sort of differential growth in our Upload and Print businesses versus let's say, Vista in North America is not necessarily market specific. There's other dynamics at play there, including the speed at which they've been able to operate, crack into new product categories, acquiring new customers, especially over the last 2 years, take share. And so there's market specific, but also kind of business-specific factors there.

I think just in Vista, our absolute growth in revenue was basically -- roughly the same between Europe and North America in Q2. Just to kind of give you a sense of that weight. And I think there's all sorts of dynamics here. A lot of it does come down to also product mix. You see that as a kind of a theme throughout this call, where the performance of consumer had a little bit more weight on the U.S. in particular, than it did in Europe in terms of overall growth. That said, PPAG growth is stronger in North America, as well in absolute dollars. So all those things are at play. All these markets are in focus. The only other thing I'd say is there are a couple of European markets that have been very strong, especially France. France is also where we have been doing some of our full funnel testing, and that had differential performance this quarter, as I referred to earlier. So I think that's it.

Meredith Burns - *Cimpress plc - VP of IR*

Great, okay. I'm going to shift gears to some questions on liquidity and capital allocation. So first one, Sean, is on the minority interest purchase this quarter. What was the EBITDA multiple of that acquisition? And what will that do to for our cash flow going forward, if anything? I'll stop there and please...

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

Yes, sure. So the way that this arrangement works, we had a -- so there was a reciprocal put and call, and the valuation for that was -- it was a formulaic valuation that had 2 main inputs. One was revenue growth, and the other one was -- revenue growth in order to determine the multiple and then unlevered free cash flow before tax to determine the actual value. So that's kind of -- that's how that worked. These businesses had revenue growth last year, which was over 30%. And actually, 30% was the kind of the cap in terms of how that multiple table worked.

But they also have really high free cash flow conversion. There we had some caps in terms of how that valuation was calculated in terms of contribution of certain elements of cash flow. The way I would think about this is that in terms of a multiple, we paid between 8x and 9x the unlevered free cash flow before tax on these businesses for that purchase of the noncontrolling interest. These are businesses that continue to grow at rates that are amongst the highest across Cimpress as a segment. They are the highest over 20% year-to-date. And going forward, in terms of the impact on our future cash flow, what that purchase means is that we will maintain almost all of the cash flow generated from those businesses, whereas before -- we only retained about 90%. The other amount that were roughly 11% we were paying out as effectively a dividend to those minority holders in the past, so we'll retain more of the cash that they generate.

Meredith Burns - *Cimpress plc - VP of IR*

Great. And just a quick follow-up that we had as a live question. What other noncontrolling interests are left to be put to us. Is there -- what's the materiality of what's left potentially?

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

Yes, it's pretty small now. So the -- you have a little over 1% of these PrintBrothers businesses that remains. Otherwise, we -- in addition to the PrintBrothers put option that we settled -- there was also the purchase of noncontrolling interest in BuildASign. So that's now cleared out. All of this is disclosed in our 10-Q. We have a table that kind of walks through that in the footnote, so you can refer there. But the short story is that this is the vast majority of it.

Meredith Burns - *Cimpress plc - VP of IR*

Right. Okay. Any updated thoughts on the liquidity threshold at which point the company would be willing to deploy capital for bond repurchases? We had multiple questions on bond repurchases.

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

Yes, there's no specific number that we've given. We'll continue to not give a specific number. We've said consistently over the last couple of quarters that our focus and our priority has been on liquidity. That remains the case. That was especially in focus because we viewed and we had previously disclosed that there was a high likelihood that we would be settling that put option that I just went through. And so therefore, necessitated a focus on liquidity versus taking advantage of things like the way that our bonds we are trading.

We don't have any active plans to repurchase our bonds. Liquidity remains the focus. I think that as we execute on the things that we outlined in our guidance and we execute on our delevering over the quarters ahead and throughout FY '24, then capital allocation opportunities start to open up, but there are no plans to -- no active plans to buy our bonds.

Meredith Burns - *Cimpress plc - VP of IR*

Great. So a couple of people noticed, obviously, that our first lien leverage was above the leverage test if we were to have any amounts drawn at the end of the quarter. So there's been some questions on our revolver. So would we think about extending the maturity of the revolver in the near term, would we think about amending the credit facility in order to get a waiver? Multiple questions on that front, Sean.

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

Yes, no. So the short answer to all that is no. The revolver matures in 2026. We aren't actively looking to extend that. Of course, as we get closer to that maturity, we will. But that's in the sort of 12 to 18 months' time frame, not in the -- next kind of 3 months' time frame. And then as it relates to the first lien leverage, so just to be sure it's clear as you referenced to the question, Meredith, that only applies. That test only applies to the extent that we have a draw in balance at the end of the quarter. We had not had that. We don't plan to have that. We are just slightly above that first lien test, which is at 3.25x first lien leverage. However, if you think about the guidance that we provided last night, as we -- again, as we start to march up that EBITDA expansion curve and also delever, then we would quickly be below that first lien test. So there's no active plans to either seek an amendment there or anything like that, nor look to extend the maturity. We don't need to do that now.

Meredith Burns - *Cimpress plc - VP of IR*

Great. Okay. Robert, I'm going to ask you a question. Given increased leverage, will you consider issuing equity or monetizing one or more divisions to reduce debt?

Robert S. Keane - *Cimpress plc - Founder, Chairman & CEO*

Well, first of all, I want to repeat what we said in our earnings document yesterday which is to say our plan is to reduce leverage -- net leverage through adjusted EBITDA expansion and returning to our historical high adjusted EBITDA levels and the cash flow that comes with it, so kind of full stop. Now in the past we have divested businesses, so divestiture is certainly something we understand and we consider if the right conditions are there, and if we believe we're better off using that capital for other things. But this is not something we would do without a lot of thought about the long-term capabilities of Cimpress. And certainly, in the near term, the environment right now is not really favorable to divestitures.

Meredith Burns - *Cimpress plc - VP of IR*

Great. Thank you. So I'm going to hit one question. This is more of a strategic question before I move to the outlook section, but I thought worth asking. How has the development and the mass customization platform changed your acquisition strategy? For example, it seems your recent tuck-in acquisitions are able to quickly implement several MCP products. If it's easier and the technology gains are relatively larger for smaller firms, in the future, could you see Cimpress pursue several tuck-in acquisitions annually compared to one large acquisition every few years as was the case from 2016 to 2018?

Robert S. Keane - *Cimpress plc - Founder, Chairman & CEO*

Well, it's a good question. Let me start off by saying we do not anticipate material M&A in the near term because of everything we've been saying about EBITDA expansion, bringing net leverage down. But if you look at from a longer-term perspective, yes, we do think there are lot of advantages that could drive value. And they are certainly in tuck-in acquisitions, as well as larger acquisitions. Given the strength of MCP - it may not be so obvious, but we have made -- I don't know if, Sean, you can tell me over the last 5 years, 6, 8 small acquisitions that are -- or investments that are really relatively small, often well under $10M that have gone very well. Is that rough number correct, before I go on?

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

Yes, that's right...

Robert S. Keane - *Cimpress plc - Founder, Chairman & CEO*

Yes. Okay. Great. Going back to MCP. At this time, our focus is very much on internal -- leveraging it in the businesses we have. A great example of this - in January, Pixartprinting, which is the largest part of Print Group and Print Group is doing very well, including Pixartprinting is doing very well. Pixartprinting migrated Italy. And Italy is their largest revenue country and the last country that migrated to MCPs e-commerce tools, they have migrated France and Spain and the U.K. and others previously. And that migration went very well. So we're really leveraging MCP on the assets we have today.

As to future M&A, and we're not really looking right now. The size really depends on the type of acquisition - we've successfully done multiple smaller acquisitions of the sort you mention, which is for an emerging product capability, or we've also done some tuck-ins that are for vertical integration of a supplier, and they're relatively easy -- nothing is easy, but relatively easy to extract value from those and (inaudible) for those long term.

Meredith Burns - *Cimpress plc - VP of IR*

Great. Okay. Sean, quick one for you. How much cash do you need to run the business?

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

We haven't provided a specific number of minimum cash, so I'll say, we have -- at the end of December, it's [$213] millions of liquidity. That is sufficient including any sort of working capital outflows that we normally -- seasonally have in Q3. So that remains sufficient. That revolver is there, too, if we needed during the quarter in terms of just movement of cash around the business and kind of timing there, but that liquidity is sufficient and then we expect that to build over time given the guidance that we released. So no specific number there, but liquidity that we have is sufficient, again, including any outflows from working capital in Q3.

Meredith Burns - *Cimpress plc - VP of IR*

Great. Okay. So let's get into the outlook. So first on revenue, you called out that overall trends have improved in January. Anything more to call out there? Can you give us a sense of how much constant currency revenue growth has accelerated relative to the first half of the year?

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

Yes. So we didn't give a specific number, but we said it was higher than 9%. We were at 5% consolidated organic constant currency in Q2, so that's the acceleration and it's above 9%. I think the thing that I would call out is really Vista in those numbers. There was improvement elsewhere too, relative to Q2, but Vista was really the one to call out. And I do think that as we track through the March quarter, there's a few things at play there. One is last January and February, there was quite a bit of COVID impact on demand, especially in Europe. So that will have some impact just in terms of the comps. And then as I mentioned before, too, we had the site launch of our U.S. market in, roughly, the third week of February last year.

And as we talked about throughout last year, when we did those migrations, they would have an initial impact on revenue and then we would grow from there. So we'll be lapping all that, which will help to support higher growth rates as well. And then the last thing is just, again, from a mix perspective, that Vista acceleration in growth in January is helped by the fact that the mix shifts back to small business products, and they've been growing more strongly.

Meredith Burns - *Cimpress plc - VP of IR*

Great. So you all, but answered this next question with that one, but I just want to be very clear for everybody. Does the previously provided guidance for Vista revenue growth to accelerate in FY '23 versus FY '22's FX neutral rate of 5% still stands?

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

It does.

Meredith Burns - *Cimpress plc - VP of IR*

Great, okay. Now we've had many, many, many presubmitted questions about the guidance that we gave yesterday from an EBITDA perspective. Everybody wants details. How do we get there? What is that going to look like in FY '23? What is that going to look like in FY '24? Where are the costs going to come out? Are they going to come out of advertising? Are they going to come out of operational expenses? Where are these things coming from and what is the math to get there. Robert, do you want to take this one?

Robert S. Keane - *Cimpress plc - Founder, Chairman & CEO*

Sure, I'll jump in and Sean feel free to jump in, obviously, if you have anything to add. I want to reiterate that we have in March an Investor Day which we have said we want to give you a lot more detail. And that's when, based on the question that you're asking, we can talk to. Although certainly, we have begun our scenario developments and planning for the cost reductions. We have not completed that work, and so it would be premature to give you a lot of detailed answers. We certainly believe there's an opportunity here, and we're going to work through those different scenarios. The answer will depend on how much revenue growth we're seeing. We do expect, as Sean just said, to have revenue growth but we believe that EBITDA bogey of $400 million in fiscal '24 will require substantial cost reductions in addition to that revenue growth.

So I think the framework to thinking about this is internally we're saying we are not simply cutting costs with a goal of getting to $400 million alone. We believe that we can really do more with less. We can drive efficiency, performance, simplification. And that tightening down if it's done right, can really lead to some significant acceleration beyond that. No one likes to go through this at any business. Certainly, we don't like to do this at Cimpress, and actually at Vista we have done this in the past for those long-term shareholders who benefit - when these are done the best, we had very much achieved the dual objectives of saving costs and improving the velocity of the business. So again, we certainly look forward to giving you more details in our midyear strategy update which is on March 21st.

Meredith Burns - *Cimpress plc - VP of IR*

Thank you, Robert. Sean, do you want to add?

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

Yes, maybe just to add 2 things. I think the matter of point here is there's a lot more that we'll share in March. But yes. I think some of the thread of questions and if I were an investor too, why and why now? And Robert alluded to this to some extent. But I think our view is like our profitability has been impacted by external factors over the last year or 2 years. And we just feel, because of our commitment to expanding EBITDA in the ways that we talked about and also delevering that we need to do this through things that we can control, really drive us through things that we control, and yes, we also expect revenue growth as well to contribute to that, but we really need to drive this through things we control. And as Robert said, we think that there's opportunities to do that and do that in ways that are supportive of. Of course, not just getting the $400 million, but growth beyond that.

There was -- and one of the questions that was referenced to like how should one think about this, should we look back to what we did back in the pandemic as the guide to the actions that we might take. And I would say there, of course, what we had -- what we went through during the pandemic is informative. But I think this playbook is quite different in its context. There we were trying to very quickly reduce cost wherever we could with the primary motive being make sure we protect liquidity. This is a very different context. We've been investing a lot, we've made significant improvements, including in our largest business at Vista and also with the replatforming, which has a really, really significant impact on that business and how we can operate.

And so now we need to take a step back, look at both the investments that we've made, some of those that are longer duration and make some assessment about, should we bring some of those in, make some choices there, but also how can we operate in different ways and how can we -- and where can we operate more efficiently. And so from that perspective, I think it's a different playbook than what we went through in 2020. But of course, that's always informative in terms of what's possible.

Robert S. Keane - *Cimpress plc - Founder, Chairman & CEO*

Yes, Sean, I 1000% agree with that. Just for context, my example was back to almost 2018 or so, we -- and certainly, the financial crisis, the global financial crisis in 2007, '08, we've done similar things.

Meredith Burns - *Cimpress plc - VP of IR*

Okay. A quick one, Sean. Does getting down to 3.5x net leverage involved actively paying down debt or mostly driven by EBITDA expansion and cash generation?

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

It involves -- well, first of all, we -- I mean, this is all on a net leverage basis. So in terms of paying down debt, that doesn't necessarily factor into the math because cash generation, including -- just increase in liquidity on the balance sheet, funded liquidity does have an impact on net leverage as well. So there's not an assumption of will we pay down debt or not. That's stuff that -- we will consider going back to a prior question of would you repurchase your bonds, for example. So therefore, most of this is driven through EBITDA expansion and then the resulting cash generation.

Meredith Burns - *Cimpress plc - VP of IR*

Great. Okay. So I've had a couple of follow-up questions, and we had a presubmitted question really around, what should people take from the fact that we have decided to pull back on costs? So this one particular person, I read the comments on cost cuts driving profit improvement as a view that revenue growth is likely to be less than previously modeled. And as such, cost controls will be needed to meet the $400 million bogey. Can you confirm on that front, just to be very clear.

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

Well, I think in terms of this year, and there was a prior question about being above 5% constant currency growth in Vista this quarter, which is our prior guidance, and I said that was still the case. So I don't think from a near-term perspective, that there's necessarily that type of a correlation between cost reductions and growth. Over time, that might be the case, including, as I mentioned before, looking at where we have sort of longer-term investments that have longer-term paybacks and where we might look to make some different choices. So those things can impact growth in the years ahead, but I wouldn't see them as directly connected.

And also, I think in terms of the why, I go back to what I said in reference to one of the recent questions. Like I think the why here really is that we were committed to EBITDA expansion. We're committed to delevering, and we can't just rely on revenue growth, which is subject to factors that some of which are outside of our control. And so we really feel like we need to do this even more so, kind of boosted through things that are in our control, and that's really the main thrust of the why.

Meredith Burns - *Cimpress plc - VP of IR*

Thanks, Sean. Okay. I'm going to try to sneak in 2 more questions before we end this call. So first one for Robert, given the mix shift in Vista, will Vista margins go back to where they were or will margins be lower than previous years, even after recouping higher input costs, currency headwinds, et cetera, due to the mix shift?

Robert S. Keane - *Cimpress plc - Founder, Chairman & CEO*

Yes. I think it depends on the timeframe we're talking about and the margins we're talking about, but if I think of segment EBITDA, we certainly believe that Vista can achieve those in the 20% range over time. Gross margins have shifted, and we think that those are more permanent. But they often come with a lot lower gross margins often come with higher lifetime value of customers. So we think it's a factor that we can manage.

Meredith Burns - *Cimpress plc - VP of IR*

Great. Okay. And then, Sean, I'm going to go back to the liquidity topic here from an outlook perspective and from a very near-term perspective. So short-term liquidity looks tight without access to the revolver, especially in that -- there are likely to be restructuring costs around the announced cost controls. Coupled with the seasonally weak working capital period, and this person says I think 3Q normally sees something like $60 million in working capital burn in addition to normal expenses. It feels like liquidity could get very tight next quarter. Can you comment on how the company thinks about that, how we think about it?

Sean Edward Quinn - *Cimpress plc - Executive VP & CFO*

Yes, yes, sure. So the -- just kind of going back to that picture of what FY '23 was planned to look like in terms of first half of the year, margin compression, second half of the year as we exit EBITDA expansion. If you think about that in reply to our liquidity, also to our leverage, like it was always our expectation that we have increasing leverage in the first and second quarter. And then we would start to march down that curve. We had prior commentary that we expected to delever from last year's levels that was before the noncontrolling interest payment. So relative to Q3, as I said before, we have sufficient liquidity, [$213] million at the end of December. We do seasonally have working capital outflows in Q3. We've planned for that. And the plan had been and continues to be that Q3 would be the low point, and then we'd be marching up from there.

As it relates to the impact of restructuring costs, typically, those are paid over time. And so the way to think about that is as we experience EBITDA savings, the cash flow savings attached to that will be on a delay because we'll still be paying out those restructuring costs for a number of months while we are starting to experience the EBITDA benefit. So that's how we think about that. So that doesn't -- for the most part, it doesn't lead to something like onetime large cash outflow, but rather the sustained kind of cash outflows that we already have in our run rate for longer, then we will have those things in our EBITDA. So hopefully, that sets the picture for everyone.

Meredith Burns - *Cimpress plc - VP of IR*

Thanks, Sean. All right. We are almost at time. Robert, any parting remarks?

Robert S. Keane - *Cimpress plc - Founder, Chairman & CEO*

Well, first of all, thank you, everyone, for the time you've all invested reading our published quarterly results, the questions that you've all asked and the time you've put into this call.

As we said, we're optimistic about the future of Cimpress, of Vista specifically within Cimpress, and about the opportunity for us to demonstrate our ability to come out of this sustained period of investment and return to our traditional or historical high levels of adjusted EBITDA and beyond. So we look forward to you all joining us on March 21st for the midyear strategy update, and until then, have a great day and a great 1.5 months.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.
