Cimpress plc (FY2023 Mid-Year)

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Corporate Speakers:

- Meredith Burns; Cimpress plc; VP of IR
- Robert Keane; Cimpress plc; Founder, Chairman & CEO
- Sean Quinn; Cimpress plc; EVP & CFO
- Florian Baumgartner; Cimpress plc; EVP & CEO of Vista

PRESENTATION

Meredith Burns^ Hello, everyone, and welcome to the video webcast of Cimpress' Midyear Investor Update. I'm Meredith Burns, Vice President of Investor Relations and Sustainability at Cimpress.

Joining me today are Robert Keane, our Founder, Chairman and CEO of Cimpress; Sean Quinn, Executive Vice President and CFO of Cimpress; and of our largest business, Vista; and Florian Baumgartner, CEO of Vista.

So today's session is going to go until 9:30 Eastern U.S. time and is going to be split between prepared content and live Q&A. Many of your pre-submitted questions will be answered through the presentation content and we'll take remaining pre-submitted questions and live questions after the prepared remarks. You can submit questions via the questions and answers box at the bottom left of your screen at any point during this meeting.

Non-GAAP reconciliations are posted in the webcast viewer under the handouts tab and once the replay is posted at ir.cimpress.com. So before we start, I will note that in this session, we're going to make statements about the future, why are we going to make statements about the future.

We may be wrong about our predictions and our actual results may differ materially from these statements due to risk factors that are outlined on this slide and in detail in our SEC filings. We invite you to read them. And with that, I would like to hand the call over to our Founder, Chairman and CEO, Robert Keane, to kick us off. Robert?

Robert Keane^ Well, thank you, Meredith, and welcome, everyone. Following my opening remarks, we're going to cover two subjects today. First, Sean is going to provide financial reviews of how we're doing so far in Q3 and what actions we're taking in order to achieve the FY '24 financial expectations, which we communicated in our January earnings release.

Second, Florian is going to outline the focus areas we have at Vista, especially after his becoming CEO of Vista just about 2 months ago.

Given the importance of those two subjects, we won't be covering our strategy in-depth here today. Please refer to our September Investor Day and/or to my annual letter for more detail there. which, of course, are both available at ir.cimpress.com.

Now in our January 25 earnings release for Q2, we conveyed several important messages regarding our financial plans. And first was that over the remainder of this fiscal year, we're going to reduce our cost base; second, that we expect in FY '24, next fiscal year, we can replicate our highest historical adjusted EBITDA, which was the $400 million that we delivered in FY '20; and lastly, the higher profitability, combined with the expected free cash flow generation would bring net leverage levels to below 3.5x EBITDA by June 2024.

So in today's presentation, Sean is going to walk through the specifics of how we plan to achieve these results as well as to describe our expectations for the remainder of this fiscal year FY '23. You can see those high-level expectations here on the slide, that includes a significant EBITDA expansion and of the balance sheet. But again, I will leave the details to Sean. We are committed to these FY '23 and FY '24 financial expectations.

Equally important, we remain committed to achieving them in a way that protects our most important growth investments, which will continue to improve the value we're able to deliver to our customers and in turn, grow our steady-state free cash flow. We remain optimistic about the long-term opportunity for Cimpress. We are the clear leader in our market relative to pre-pandemic results. All of our businesses, although in Vista, are already delivering healthy growth of both revenue and adjusted EBITDA.

And today, you're going to hear from Florian that Vista has clear plans to ensure that Vista itself contributes to our EBITDA and cash flow expansion while continuing to invest in those clearly defined find priorities, we have -- that should expand the value we deliver to our customers at Vista.

After the close of market yesterday, we filed an 8-K describing our cost reduction plans that we put in place. Sean is going to go through those in more detail. But I want to talk about the human aspect of that. We are going to terminate approximately 600 positions at Cimpress subject to compliance with local laws and processes.

Net of hiring that is connected to some of these changes are the net reduction to head count will be about 500 positions. And our decision to make these cuts wasn't taken lightly, of course, because we are saying goodbye to smart, talented, highly valued team members to who we all enjoy working with, and this decision really doesn't reflect in any way on our key members past contributions or their talent.

And so I want to take a moment to thank every impacted team member for everything they have done for Cimpress. We are committed to treating each department team member with empathy, fairness and respect.

And I personally, and we are all confident that their talents and their experience will allow them to move on to fulfilling next stages in their career.

Despite the difficult nature of cutbacks like these, these changes will make us a better company. Better financial performance will give us more space to execute on our long-term vision.

Equally important, we are sharpening our focus by stopping initiatives that are not in our top priorities. We're cutting management layers and expanding spans to make us a leaner organization that can execute our highest priorities faster. And this is going to enable team members to have more impact and their work will be more fun and more fulfilling.

The changes we're making very much support our long-standing commitment to build a transformational and enduring business for the long term. And I very much look forward to progressing more effectively and efficiently in service of that goal. So with that, let me pass the presentation to you, Sean, to hear about the results so far in the quarter and the plans for FY '24.

Sean Quinn^ Great. Thanks a lot, Robert, and thanks, everyone, for joining us this morning. I'll start today with an update on our results for Q3 since we're only about a week away from the end of the quarter, and then I'm going to turn to Q4 and also to FY '24.

Today, we're going to share a lot more specific guidance than we traditionally provide. And so my hope -- our hope is that we are making things very clear for all of you. We don't expect to give this level of guidance on an ongoing basis, but we do think that right now, it's appropriate in order to give investors visibility and how we plan to achieve the expectations that we outlined at the end of January that Robert just referred to.

So with that, let's get into it first with an update on Q3 results. So if I start with revenue, you see on the left side of the slide here, when we released our Q2 earnings on January 25, we had said that our constant currency revenue growth to date in January had accelerated beyond the year-to-date growth that we had through December, which was 9%.

Happy to share today that we expect our consolidated organic constant currency revenue growth for Q3 to be between 14% and 16%. That's a significant acceleration from where we've been in recent quarters. That's supported by the fact that we're lapping a weaker period last year. We mentioned that in the January call.

But importantly, not only did our consolidated organic constant currency revenue growth accelerate but we expect that in Vista that will deliver Q3 organic constant currency revenue growth that's also between 14% and 16%.

Vista is achieving that through a few things through higher average order values, which has been a trend, but also through growth in new customers. In addition to softer comps because we're anniversary-ing this quarter, the site migration in our largest market, the U.S., which happened in late February last year.

Turning to adjusted EBITDA. As planned, our adjusted EBITDA is now growing year-over-year with Vista benefiting from that higher revenue growth, including through pricing improvements, and we're also passing the anniversary of the largest OpEx increases in Vista last year as well. Outside of Vista, our businesses continue to get leverage from their growth, and so that contributes here, too.

The impact of cost inflation has been stabilizing. Gross margins were flat year-over-year for the first 2 months of the third quarter, which means that the revenue growth that I just went through is starting to contribute more to our bottom line results. Our trailing 12-month adjusted EBITDA is expected to increase from the $228 million that we reported at the end of December to between $255 million and $257 million for the March quarter. So that implies year-over-year expansion between $27 million and $29 million.

That yields a Q3 adjusted EBITDA that would be more than $60 million. That's prior to any material impact of any of the cost reductions that Robert just talked about. And I'm going to cover those shortly and go through those in quite some detail. You'll see in that detail that those cost reductions will start to materially benefit our results next quarter in Q4.

So with the Q3 expectations that I just outlined, that will be the first quarterly year-over-year EBITDA expansion that we've had since Q1 of our fiscal 2021 given the impact of the investments that we've been making, but also cost inflation and the technology migration of Vista, which prevented us from introducing new products and improving the customer experience for a period of time.

At the beginning of the fiscal year, we did say that our expectation was that we'd have EBITDA expansion in the second half of the year. We're finally here. I should add that, that won't fully translate to our GAAP operating income yet because of the restructuring charges connected with the cost savings. And again, I'll go through those in more detail in a subsequent slide.

From a cash flow and liquidity standpoint, the March quarter typically has working capital outflows. That is the case this year as well. We did say on our January earnings call that we expected those seasonal working capital outflows to be lower this year due to the trends in advertising spend, but also decreases in safety stock inventory that we had built up over recent quarters.

We're now at this point in the quarter, we're past those seasonal working capital outflows that occur in January and February, and we can confirm that those were, in fact, lower this year. We do expect to continue to consume that safety stock inventory over the remainder of the year, and that should continue to benefit working capital.

We expect our cash and marketable securities to end the quarter between $135 million and $145 million. And the reason for a little bit wider range there is just due to the timing of working capital as we finish the quarter.

And now in Q4, as we turn to the June quarter in just a week and then looking forward to FY '24 based on the guidance that we're outlining today, we expect to be generating cash and therefore, increasing liquidity from here.

So now let me pan out a little bit and talk about our expectations beyond Q3 going into Q4 of this year. And then what that means for the full fiscal year, and then I'll go through how we'll get to at least the $400 million of adjusted EBITDA for FY '24. And I'm just going to step through this bridge that you see on the slide one by one. And then on some of these components, I'm going to go into more detail on subsequent slides.

So on the waterfall chart here, we start on the left with our reported trailing 12-month adjusted EBITDA as of December. That was $228 million.

Then you see our expectations for year-over-year EBITDA growth in Q3 that I just outlined on the prior slide. That is a year-over-year increase between $27 million and $29 million. And again, that's not benefiting in any material way from the cost reductions that we're outlining today.

We feel good about that number. It's only 1 week until the end of the quarter here, so we have good visibility there. We feel good about that. The next one is Q4. For Q4, we expect another material expansion of our EBITDA. That is consistent with the guidance that we provided at the beginning of the year. It's driven by revenue growth but also gross margin stabilization.

In addition to that, Vista is lapping the site migration still in some of our larger markets in Q4 last year. Also lapping the higher OpEx levels from last year and also pricing improvements that we're seeing now really didn't start until the very end of June last year. So we have a full quarter of benefit there from a year-over-year perspective.

Now we'll also start to benefit from the cost reductions that we're announcing today. That will start in Q4. And you'll see in the next slide as I go through this in more detail. In Q4, we expect those savings to contribute $15 million to $17 million of benefit.

So when you combine that all together, that leads to an expectation for Q4 of a year-over-year increase in adjusted EBITDA between $48 million and $52 million and you see that on the slide.

As previously mentioned, the Q3 increases get you to a Q3 EBITDA expectation of at least $60 million based on these ranges. For Q4, these increases imply an adjusted EBITDA expectation of at least $85 million. And therefore, when you put that together for the full year, our full fiscal year '23 adjusted EBITDA expectation is now between $303 million and $309 million.

I'm going to keep moving now to the right. We've talked about full year FY '23 expectations. So now let me bridge to how we get to at least $400 million of adjusted EBITDA in FY '24.

There's three components to that. The first one is cost savings. Again, I'm going to go through this in some detail on the next slide. But the impact for fiscal '24 of the actions that we've already taken or committed to take is between $80 million to $85 million of expected benefit. That's on top of the estimated impact for Q4. So that range of $80 million to $85 million that's all incremental on top of what I already talked about for Q4.

The next item here on this bridge is that we do have to recognize currency rates change over time. We have an active currency hedging program. That program gives us visibility into what our fiscal year '24 rates will be for the vast majority of our net exposures for the euro and the pound. And then outside of those two currencies, we have visibility to the majority of the exposures for those other currencies.

Based on that and based on current spot rates, we know that there will be a headwind on adjusted EBITDA from a currency perspective. We expect that to be between $25 million and $20 million negative. Of course, that can change over time as spot rates change, but we expect to be in that range based on the visibility we have in terms of contracted rates. So that's a headwind.

And then this last bar here shows the amount that's needed through contribution from growth next year in order to reach at least $400 million of adjusted EBITDA. So that last column, that is not specific guidance. It's just saying that mathematically, knowing everything that we went through already on this slide, what do we need to deliver to get to at least $400 million.

And if you add up all the low ends of the ranges, we would need $42 million of incremental flow-through from growth in FY '24. If you add up all the high end of the ranges, we would need $26 million of incremental flow-through.

Now I think to put that in perspective in terms of what you have to believe for that to be true, if you were to take, for example, just 6% growth on roughly $3 billion of revenue, and assume 20% flow-through on that. That yields $36 million, and so you're in the upper half of that range.

As a point of reference, year-to-date through February of this year, our contribution profit margins. So revenue less all of our cost of goods sold, less all of our advertising and payment processing at a consolidated level is slightly higher than 30%.

So hopefully, that gives you a sense of what's needed there and also that those are reasonable expectations. We haven't completed our full budgeting exercise for FY '24 yet. And so that's why today, we're not giving specific guidance on what FY '24 revenue growth will be. However, based on the forecast that we have, we're confident that we can achieve what's outlined here and therefore, reach at least $400 million of reported adjusted EBITDA for FY '24.

It is worth, I think, being specific about the fact that this is our expectation for reported adjusted EBITDA. So getting to at least $400 million that doesn't assume pro forma adjustments. Each of these components that's on this bridge is what we expect to deliver in our reported results for FY '24.

The cost reductions that we've outlined here, those are known because those actions have been taken or are in the process of being taken. And so for you all as investors, I think the question here is really around our ability to achieve that last element of the bridge. And again, we're confident in our ability to do that. So now let's drill down on the estimated impact of cost reductions, which is a very material component of the prior slide.

In total, we expect cost for these cost reductions to deliver annualized savings of approximately $100 million by the end of FY '24. And you can see we start to benefit from those in Q4 as I talked about earlier as well. I'm going to just walk down the P&L here, so you can understand where the costs are expected to come out. And then I'll also provide a voiceover on how those map from a segment perspective and also how much of that is compensation versus non-compensation as I walk through these.

Everything you see on this slide here is the adjusted EBITDA impact. So I'll touch on share-based compensation and capitalized software later. But just know that everything on this slide is the expected impact on adjusted EBITDA.

So if I start out in our cost of goods sold, we expect about $1 million of benefit in Q4 and between $17 million and $18 million of benefit in FY '24 in that line item. Those will be realized largely in the Vista segment, almost all in the Vista segment. Roughly 30% of the benefit on that line is from compensation related to fixed cost reductions. And the rest is from savings from input costs and supplier negotiations and so on. We think it's possible that on that line item, there will be further decreases in input costs.

We're not making forecast here about what potential decreases in input costs could be based on market pricing as part of this. We're definitely seeing those head in the right direction. But here, we wanted to only include the specific opportunities that are being worked on and not make forecast about what that could be. But we do think that there's the possibility that there would be an additional tailwind there.

In the marketing and selling line, which is next, we break that down into two components. The first one is advertising spend and then there's everything else. On that advertising spend, we expect roughly $2 million of benefit in Q4 we expect between $7 million and $8 million of benefit in FY '24. All that's in the business segment.

There are some incremental benefits that we do expect beyond FY '24 in this line item as we make choices on our channel mix. But in some cases, we do have contracted spend. And so that's not addressable always in this time period, but we do think there's some benefit that lives beyond FY '24 here.

In the non-advertising part of marketing and selling costs, we expect $6 million to $7 million of benefit in Q4 and $27 million to $28 million of benefit for FY '24. We're reducing multiple places in Vista from a headcount perspective. That cuts across brand, creative, data and analytics, customer care.

In some cases, that's driven by reprioritization and more focus and therefore, less investment. In some cases, it's cost reductions that are unlocked by organizational structure changes, which are geared to optimize more for efficiency but also speed and accountability. In some cases, it's moving to lower-cost geographies where we already have scale teams. And then in that line, there's also some third-party spend as well, which we expect to reduce.

Of that line item, roughly 85% of that non-advertising benefit is compensation-related. So very much weighted towards compensation there.

Moving to the next line, technology and development. We expect a $4 million to $5 million benefit in Q4 and between $18 million and $19 million benefit in FY '24 -- that benefit will be recognized largely in the Vista segment, but about 30% of that benefit is in the Cimpress central teams. Roughly 75% of that line item is compensation-related.

In G&A, we expect about $2 million of benefit in Q4, $11 million to $12 million of benefit in FY '24. That's largely in Vista. About 20% of the benefit will be in suppress central costs and roughly 50% of that benefit is compensation related.

So when you add all that up in total, we expect these actions will yield a $15 million to $17 million benefit in Q4 and between $80 million and $85 million benefit for FY '24.

As Robert mentioned before and was referenced in the 8-K last night. As part of this, we're eliminating about 600 positions, and then there's about 800 new roles connected to some of those changes. So on a net basis, it's $500 million.

I hope that this level of visibility by P&L line item by time horizon, split between compensation and non-compensation is useful. I think the important thing to note here is that there's a significant portion of this that is related to comps of the total here. It's about 65% of the savings.

Those decisions have been made or are in the process of being made or executed based on various processes that we need to follow. And so we have visibility on those. For the remaining 35%, which is non-compensation, those decisions have also been made and they're in our control. So we feel comfortable with those savings estimates as well.

And then I just want to add one more time say that this FY '24 estimate of $80 million to $85 million is incremental. So that's on top of what's expected in Q4, and therefore, it's cumulative. And therefore, the total impact here is about $100 million.

I should also note that you can see on the right here, where we talked about the segment impact, we're really only talking about Vista and our Cimpress cost base there. And that's because when we went through this process over the last few months, we were specifically focused on those areas of the business. That doesn't mean that our other businesses aren't focused on costs.

We're not calling those out here because there was no specific plan of action there. But as a matter, of course, all those businesses are regularly reviewing costs. And as I said earlier, we do think when it comes to the input cost and cost of goods sold, over this time period, over this next 15 months or so, we do think that there's some potential for reduced costs there, which would apply to all of our businesses, not just system.

Let me turn to the next slide now and just talk about the charges that we expect to take as a result of these cost savings actions along with the expected timing, and there will be some differences here between P&L impact and cash flow. So we've outlined them on the slide here.

In the table on the first line, you see the restructuring costs and the impact of those on our operating income. That will be between $23 million to $24 million in Q3 and then an additional $2 million to $3 million. We expect those impacts on that line item, they impact our GAAP P&L and our operating income, but those will be excluded from adjusted EBITDA.

The second well on the slide here is the estimated cash outflows from those restructuring costs. You can see we expect cash outflows between $6 million and $7 million in Q3. We expect between $15 million and $16 million in Q4 and then there's some residual in Q1 between $2 million and $3 million.

The majority of the planned restructuring charges here and the cash outflows relate to severance and the related costs from role reductions, other benefits that we provide. There's no meaningful expense related to anything like real estate or contract terminations. We do expect that roughly $1 million to $2 million of that restructuring charge that's on the first line, will relate to share-based compensation.

That's included here because it's impacting operating income. There's roughly $5 million to $6 million of share-based compensation savings that we expect from these reductions on an annual basis. I didn't put that in the prior slide because that was all focused on what impacts adjusted EBITDA and share-based compensation is excluded from that.

But of course, reductions in share-based compensation, run rate expense do have an impact on reducing future potential dilution as well.

So let me continue and make a few comments related to our cash flow expectations, but also net leverage and liquidity -- our cash flow is expected to increase with the adjusted EBITDA expansion I just outlined. From a free cash flow perspective, we do expect adjusted free cash flow to increase and over the last 3 completed fiscal years, the conversion of that -- of our adjusted EBITDA to our adjusted free cash flow, it's about 50% on average.

For FY '24, we will have higher cash interest costs than that 4-year period that averaged at 50%. And so we expect our adjusted EBITDA to convert to cash at roughly 40%. And that would imply free cash flow of roughly $160 million in FY '24 based on at least $400 million of adjusted EBITDA.

As part of that cash conversion, we do expect that our capitalized software cost run rate that will come down slightly from recent levels, given the fact that we've made reductions in technology and development roles, as I outlined on a prior slide, and also just with increased focus there in terms of where we're investing. And so there'll be a slight reduction in that run rate.

And then the hardest thing to forecast as part of this cash conversion is changes in working capital. There's timing impacts even over the course of just a few weeks as we end the year, start a year can be relatively material. So I expect that any variability that may happen, if any, on either side of that 40% cash flow conversion from our adjusted EBITDA would come from working capital.

So based on these numbers, from a net leverage standpoint, we expect that we would get to below 4.5x net leverage by the end of fiscal '23. So when we report in June, that's down from 5.5x at the end of December. So that's really important. That's been a focus of ours. One of the reasons that we start to see that delevering is that we do, and you see this in the third bullet here that our leverage calculation benefits from cost savings actions that we've taken.

We have add back that is allowable 20% of our trailing 12-month EBITDA from a pro forma perspective as we calculate net leverage. So we'll start to see that impact this year. And yes, that will be reflected a little bit in Q3, but also really for the full year for Q4 when we report in June.

By the end of FY '24, we expect to get to 3.5x net leverage, and that's due to the combination of the adjusted EBITDA expansion, but also free cash flow conversion. And the math on that is very simple. You don't need to be thinking about add-backs and so on a pro forma. If you take the adjusted EBITDA expectation of at least $400 million and you do the math with the free cash flow conversion I just outlined, which implies about $160 million of free cash flow in FY '24, you get below 3.5x.

So you can see how that proves out. From a liquidity standpoint, our cash and marketable securities are expected to increase in Q4 based on free cash flow generation, even with those restructuring payments I mentioned. And then based on the free cash flow commentary for FY '24, we expect cash and marketable securities to again increase meaningfully in Q4 as well.

In addition to that, as we bring down our net leverage based on what we've outlined on this slide here, our revolver that we have also becomes more available, we can use the revolver today intra-quarter, but if we have a balance at the end of a quarter, there is a first lien net leverage test based on our net leverage expectations, we'd be able to have a balance at the end of the quarter, starting next quarter in Q4, if we so choose. We don't currently have plans to do so, but that becomes more available really in Q4.

A few other comments here just to round things out. And in terms of assumptions that we've made. As we thought about the impact of input costs on our cost of goods sold, as I mentioned earlier, we're starting to see that the direction of market pricing is one that's got a downward slope to it in recent months.

As I said, we think that there could be potential further decreases in FY '24 on our input cost. But in the numbers we outlined today, we've only captured the things that we actually know about that are opportunities based on supplier discussions.

And then lastly, just in terms of how these cost reductions, but also the EBITDA expansion, how those impact our estimated steady-state free cash flow. That's something that we've outlined every year for the last number of years in Robert's annual letter. Our steady state free cash flow is a critical component of how we think about our intrinsic value per share and the progression of that.

So just a few comments here on how these changes impact our steady-state free cash flow. The first is that our expected EBITDA expansion and also the cost reductions, they do have a positive impact on our steady-state free cash flow. Relative to last year, the impact of inflation that we had on our gross margins. We're starting to see that stabilize as I said before, through both price improvements but also cost reductions. And so that's helpful also to support our steady-state free cash flow.

In addition to that, of the cost reductions that we outlined, there is a material component of that, that is a reduction of our maintenance costs. So to say that another way, a portion of the cost reductions that we're outlining today is not reducing growth investments. it's reducing the cost to run the business. And so those reductions of costs come through in areas.

So just to give you a few examples, where we're increasing efficiency, where we've chosen different organizational structures that allow us to either take out layers, management layers or otherwise get more efficient. That's especially the case in areas like marketing, in technology, in data, but also in our G&A cost. And hopefully, that was clear on the slide when I outlined the cost impact by P&L line item.

I think it's worth noting that we've also pulled back on growth investments with these cost reductions. And so where that's the case, that, of course, does not impact our steady-state free cash flow. And then lastly, in terms of just our noncontrolling interest, we had in the December quarter, a large cash outflow for the purchase of some of those noncontrolling interests.

In the past, those have been a reduction of our steady-state free cash flow because we don't -- we haven't owned all the cash flow of our businesses given the fact that we now do own much more of them, that will also be supportive of higher steady-state free cash flow. When we report at the end of the year.

Just before I finish, one of the questions that I would expect people to have is, well, how do these cost reductions impact expected revenue growth. And as I said, we're not giving today specific guidance on FY '22 -- sorry, FY '24 revenue growth. But in short, we really don't think that these reductions have a material impact on our FY '24 revenue opportunity.

There's changes in advertising spend. So that's kind of one of the first areas to look at. But those are driven by a combination of things between areas we can be more efficient and that we've been testing, reducing some upper funnel activities, but also reducing spend against areas that are less strategic.

While there's -- any time you do a change of the size, there's, of course, organizational disruption to work through and think about. As Robert alluded to though, at the opening, we've attempted to make these decisions by protecting our most important growth investments, but also to allow us to execute with more speed and clarity of accountability and focus.

And so of course, any reduction in growth investments should have some negative impact on longer-term growth. That said, that narrowing of focus, we think, is really important for us, and we believe that actually help us to execute better on the things that are most important for improving the customer experience, especially over the next quarters and as we get into FY '24.

So given Vista is extremely critical to this expansion of profitability but also increasing our per share value. Let's turn there for an update on progress in that business since our September Investor Day, and I'll hand things over to Florian, who was appointed Vista CEO at the beginning of February. Florian, I'll turn it over to you.

Florian Baumgartner^ Yes. Thanks, Sean. I have to share an update on the Vista business. Yes, you've all seen me in past investor events in a different capacity. As Sean said, I became Vista's CEO in February really focused on taking the reins from Robert at this moment as we move past foundation building to really leverage all that we have been working towards. And together, we'll ensure that this business achieves its true potential with our customers and to ensure that those improvements that also translate into financial returns for Cimpress investors.

And with that, I'll start by saying that Vista's North Star has not changed. It remains to become the per design and marketing partner, two small businesses, but we're focusing on our path towards it. And the two uppermost priorities for the management team are to, number one, build products that customers love and number two, elevate the speed and quality of our execution. And just to be clear, when I talk about products that customers love, I'm referring to technology-enabled products and related experiences.

Why do these priorities matter? Well, put simply, they will instill focus on product development, which is our key lever to attract and retain customers and secondly, on execution excellence, which is our key lever to operate successfully in a more cost-constrained environment. As we've shared in past investor updates over the past years, we've significantly grown our per customer economics, but through our own choices, we also shrunk the customer base at the same time.

And so as we look forward, customer acquisition and retention will, over time, become an essential driver as return activities that we expect to start growing the total customer base. And that is now possible because of the foundations that we've built, including our platform migration, investments in data, customer experience and product capabilities, all of those have enabled us to start to drive cumulative and compounding benefits through experimentation.

We're starting to see some good progress, and I'm excited to share a couple of examples with you all today. Just to be sure there was understanding, these are these examples are not massive changes. This is all about driving incremental improvements post migration. And over time, we'll see the cumulative and compounding impact of these improvements.

Next slide, please. Before we go there, let me just briefly go back to the cost actions and org changes that Sean already talked about. Given that the majority of these reductions will come from Vista, I can't stress enough how important it is for us to get this right. And most of the management team's attention has gone into those in the last 2 months.

And some of you may wonder how have we've been able to identify these savings so that we lay out again, what are the key principles that we applied and that will set us up for future success. So firstly, we wanted to create clearer accountability Secondly, we know that we need to reserve -- preserve our ability to grow, but with a much more focused set of objectives. Thirdly, we needed to reduce spans and layers across the organization. which allows us to reduce complexity in our decision-making, increase the speed of our execution.

And then lastly, we also owe it to our team members to act with diligence and transparency. Goes without saying we did not just look at where we can reduce the number of people that we employ. There is a large number of non-comp savings that Sean already referred to.

We're definitely embracing this as an opportunity to increase the speed and quality of our execution within the organization. We had a highly matrixed organization in the past few years, and we'll simplify and delayer that organization through the changes that we're making.

We have made different choices about where we're focused and how we're trying to do -- and then we're trying to do less at once, and that allows us to reduce our cost base. And with that in mind, let me go into a couple of specific examples. And one that you can see on the slide is around the site experience. We have now over 50% of our sessions coming from mobile device and so mobile optimization is more important for us than ever.

Unfortunately, since site migration, which was completed in August last year, we now have the ability to make these changes where while in the past, we were limited by our prior monolithic platform.

A lot of work to improve the overall experience has started, and our product development teams have been making steady progress in recent months. Again, I don't expect massive changes here. This is about making many, many improvements that will have a compounding impact.

But nevertheless, let me call out three things here that you can see on the chart. So the first one is an experience that we call Quick Studio. It's essentially a mobile optimized design experience, which delivered some really promising results in selective tests that we conducted. also to mobile, we did a lot of work on payment options, added a couple of new options for mobile payment and delayed payment that are showing nice traction with customers.

And then as a general theme, we continue to make progress in the use of advanced analytics to improve the customer experience, for example, very recently improved some of the algorithmic ranking of our templates.

Another topic that we'll never stop, obviously, is our focus on quality. As we shared with this group throughout the last year, product quality is a very, very important driver of customer loyalty that we're putting a lot of effort into this. And so let me just highlight some recent progress there.

So first, on quality complaint rate. This metric quality complaint rate refers to orders. The share of orders, of which customers report quality issue. This metric currently stands at 3.5%. That's an improvement of around 100 basis points versus FY '22. And (inaudible) is solid for the industry standard, we're definitely looking to drive that even lower in FY '24.

And we've improved complete rate, taking a range of actions. They include what you see is what you get. So creating a better correspondence between design and manufacturing. We've also switched products that we used to source from high complaint third-party fulfillers to in-house manufacturing. And then we've also evidently also made improvements to our own manufacturing and supply chain to bring that rate down.

Really, I want to tie this back to the site experience because when you improve product quality, you want to make sure that you also get credit for that in the eyes of our customers. And so we also started some work on product star ratings and reviews. These ratings are highly visible for our customers and the site and the influence product quality perception and purchase decisions. Until recently, we generated far to few reviews, which caused a very negative bias in our ratings.

And in January, we switched and have made it much easier for customers to wait their product quality experience starting in the U.S. And as a result of that, we now receive 4x as many ratings as before, and that is starting to improve our product quality ratings overall, which is really good news.

Let me now also talk a little bit about marketing mix where we have great opportunities ahead. So customer acquisition and retention, as discussed earlier, will over time become an essential driver to help us reach our north star and the better we get at driving conversion retention, the easier it will be for our marketing dollars to pay off.

Our hypothesis is that a marketing mix that's more balanced across the funnel for paid advertising channels will enable Vista to accelerate contribution profit growth, especially when we increase the reach, awareness and concentration of our print solutions among new customers.

And so in pursuit of that, in January, we completed the first phase of an experiment that we call full-funnel advertising testing. It's still too early to declare full success of this test. But the evidence from the first round has yielded learnings and enough positive signals to warrant further experimentation.

So let me briefly dive in here a little bit and describe what we did. So first of all, from a methodological standpoint, we took a portfolio approach with rigorous measurement methodologies, testing in France, Australia and for U.S. designated market areas and learnings that we had were, number one, first of all, all tests drove incremental new customer acquisition and variable transaction profit.

And to put some numbers to that, in Australia, the new customer variable transaction profit went from minus 10% year-over-year in the 18-week pretest period to plus 8% year-on-year during the test.

And similarly, in France, we saw that new customer VTP variable transaction profit accelerated from a 3% year-on-year in the pre-period to a plus 20% during the test. We also drove higher print awareness in those 2 countries.

And encouragingly, we see indications that mid and upper funnel activity is also driving more variable transaction profit through our own channels like organic search, dirt type and e-mail and a branded.

So net, we believe there is enough evidence to justify the continuation of the full final testing. And if we're successful in delivering results in line with the stronger performance that we see in those test sales to date. We believe. this can yield an important diversification of our marketing channels and help us acquire more customers at an attractive return.

Separately, besides that, we do continue the work to increase customer engagement and free channels also like search and e-mail marketing that should improve the mix further. On this next slide, I wanted to also give you an update on our pricing actions and new product launches that we've been talking to you about, including in the last year.

So just a quick one on pricing. So overall, we expect to exceed the target that we shared with you all at Investor Day and think that we will deliver at least $20 million in variable transaction profit through pricing improvements in FY '23.

Since our last update, we continue to offset inflationary pressures. To date, we increased prices by a little more than 5% across the portfolio and gross margin percent was flat over year-over-year for January and February despite negative impacts from our product mix.

We also started and we'll continue to automate pricing decisions where we're making continued improvement also in defining and rolling out pricing architecture frameworks that will allow us to manage our good, better, best quality, price tiers and optimize quality curves.

On new product launches throughout the fiscal year, we introduced entirely new products, new material substrates, new shapes as well as new formats. And again, as a reminder for you all in our largest market in the U.S., that wasn't possible until we migrated at around this time last year. So taken together, these novelties have already delivered now over $10 million in variable transaction profit in FY '23 to date.

With all of that, which is very much activities in flight and things that we're incredibly focused on. Let me wrap up by sharing an early view of our FY '24 focus areas for Vista and you'll find that a lot of the topics that I just mentioned to you, will very much blend into these objectives.

So the first one here on the chart, and I think that's obvious with everything we've announced today. Simplifying, reducing costs and automating remains an important part of our agenda. And we will ensure that the changes that we're making now will deliver the operational and financial benefits that we seek. But then there's a lot more that we will do the size of reducing cost, and there's a lot more we can do to improve the experience.

And so the second pillar here on the slide will be all about raising the bar for foundational experiences I talked a little bit already about the opportunities that we still have to improve our site experience, especially in mobile. But then also, remember, we still haven't brought Vista creates amazing social media and digital design capabilities into the Vistaprint experience. So that's very much also an area that we will pursue as part of the second pillar. The third pillar on this chart to delight customers with the most relevant print assortment and design services.

So this will include continued new product introduction, but then also integrating 99designs, expert design capabilities into the Vistaprint experience. Really, these things, lighting customers with an amazing print assortment and design services are things that will make us stand out from competition.

And so we put a lot of emphasis there. And then as I've also already referred to growing active customers and making our advertising spend work smarter will continue to be a big focus. We have an opportunity to optimize marketing mix in our paid channels. I just gave you a little bit of a flavor for that. We will also improve customer engagement through free channels.

And then we also have a few interesting things in flight that we're experimenting on at this stage, but then they will -- if you execute well, allow us to build new customer acquisition models talk to you about some of those things in past Investor Days like our algorithmic logo maker and other things that we have in our pipeline.

And then lastly, we will win with our most valuable customers that improve -- that includes improving cross-sell activities into new categories, across print, design and website.

So with that, as the new CEO, I really look forward to leverage all that we've built over the last few years after a very heavy investment period. The team is moving forward with improved focus and speed of execution enabled by those investments and our organizational changes. And we do expect Vista to return to our previous high levels of profitability and free cash flow with sustainable growth in the coming years. Thank you all, and I'll turn the call back to Meredith.

Meredith Burns^ Wonderful. Thank you so much, Florian, Sean and Robert. So I just want to remind, before we start the Q&A session, I'll remind everybody that you can't submit a question live in the webcast viewer via chat in the questions and answers tab that you see there in the viewer.

QUESTIONS AND ANSWERS

Meredith Burns^ So let's get started. We've got a mix of some live and pre-submitted questions. We'll start out on a couple of financial questions at the start. So I'm going to kick this first 1 over to Sean. Can you provide more color on the significant non-compensation-related cost reduction noted in the 8-K?

Sean Quinn^ Yes, sure. we try to provide that breakdown between compensation and non-compensation, but I'm happy to go further. There were a couple of questions in this. So definitely an area of focus on the non-compensation side of things.

So I'll do the same thing. I'll just kind of walk line by line down the P&L and give you a flavor for what's in there. So if you start out on cost of goods sold, and to use the percentages that I provided.

And here, I'll just talk about the total cost reductions, not split between Q4 and FY '24. That would imply the non-comp side of the cost of goods sold. It's somewhere in the $13 million to $14 million range. All of that is direct input costs, raw material costs and so on energy costs as well, where those have come down. So that's -- I think that's quite clear, but that's a $13 million or $14 million in that line item.

On the advertising spend line, given its nature, all of that is non-compensation. That was the $9 million to $10 million in total. And as I said there, it's a mix of some efficiency opportunities, choosing to do less than some of our upper funnel activations, but then also being choiceful about where we allocate dollars and pulling in dollars that were being spent in some nonstrategic areas.

The next line is that other line in marketing and selling there. Again, if you apply the percentages I used before, it's somewhere around $6 million of non-compensation impact for the other marketing and selling line item. A lot of that is things like agency spend, again, where we're being choiceful about where we're allocating in dollars, where we're investing in and the types of activities including from an upper funnel standpoint that we're going to pursue.

On the technology and development side of things, again, using the percentages of roughly $5 million to $6 million of non-comp spend on that line. That is mostly things like SaaS contracts other technology spend where, again, we're being choiceful about the extent of -- tooling the extent of service, including internal tooling and tools we use, but generally kind of contracts and the like. And then the rest in the G&A line item, that was 1 that was a little bit more weighted towards non-compensation spend, about 50% of that line item. So $6 million to $7 million. And that spans across a number of things.

It's things like with the increased focus that we've talked about. There's just -- there's some reduction in costs that just comes out of that. There's also things like -- that we are investing in from a talent acquisition standpoint in terms of sourcing relationships and so on.

So it's a lot of little items but all kind of third-party costs connected to the activities of the business, some of which we're focusing. So that's the $6 million to $7 million. So Meredith, I'll turn it back to you.

Meredith Burns^ Hopefully, that gives you a flavor. Thanks, Sean. We just had a live question submitted. You haven't seen this one yet. That's sort of the counterpoint to this. And somebody is wondering whether we can provide a little bit more detail on the head count reductions and where those are coming from. Obviously, we did that by P&L line item. They're asking specifically about what areas within the business. Has it come from some of the acquisitions that we've made as it coming in production facilities, et cetera.

Sean Quinn^ Yes, sure. Yes. So I'll start, but please, Robert or Florian to jump in as well. And again, I'll kind of use the P&L construct because I've already gone through that. I think starting out on just the cost of goods sold line there, that is -- any of the compensation impact there is on the fixed cost side.

It's not the direct labor component. And so I won't go into the specific details there, but just looking for efficiency opportunities in our fixed cost base. From a marketing and selling standpoint, of course, that's where that's one of the biggest areas from a comp standpoint.

There's a few things to mention. I think one is as we've thought about including in the marketing area, where we need to narrow some of our focus there were some capabilities that we had invested in, not only in marketing, but also in data and analytics, some of which comes through that line, where we're narrowing the focus and therefore, narrowing the extent of investment in some of those capabilities. So that's one.

Two is that -- and Florian mentioned this in some of his remarks, that we've chosen to organize in a different way in terms of some of the intersections between things like marketing and the way that our P&L ownership is aligned.

And in making some of those choices. And any time you're evaluating organizational structure, organizational design, you're always looking to optimize for something and you're kind of de optimizing for other things.

So we've made choices to optimize in cases for more efficiency but very importantly, for more speed and accountability. And when we've made some of those choices, that does unlock cost reductions because there, we're taking out some of the layers of management and also the extent of matrix organization that we had to generate more of that speed, reduce complexity, but one of the outcomes of that is reduce cost as well.

And then in that bucket, there's also just some opportunities for efficiency as well. In technology and development, and that cuts across Vista, but also our central teams There, too, we've gone through a very rigorous exercise to think about where we want to be choiceful in terms of extent of investment. One of the services that we had been investing in to what extent -- do we want to allocate less resource there. And also even from kind of an R&D type perspective, are there things that we want to de-prioritize to make sure that we're focused on the things that are most important.

And then on the G&A line, which is smaller than some of the others, there, I think a lot of that is a combination of two things. One is some of the kind of the outcomes of choices made elsewhere where whether it's more simplified organizational structure or putting more focus in place the support needed then for those areas of the business lessons.

And so there's opportunities then to rethink how the team is set up to support the rest of the business. And then also things like in talent acquisition, when we're doing less hiring, there's some areas like that where there's just less capacity required at this moment in time. So Robert, Florian, pleased if there's anything else you'd want to offer up, turn it over to you.

Robert Keane^ No, that's perfect. The one thing I will add, this isn't just about look at it at an organization in isolation. There's also decisions that we've taken and that are enabling some of these efficiencies.

Most importantly, we took a decision to focus our path towards Vista on vistaprint.com. So our development effort, our marketing efforts will be focused on vistaprint.com, as the place where the journey towards Vista will unfold. And so that is an example for one of many decisions that we took to focus and that had ensuing consequences for how we're set up organization.

Meredith Burns^ Great. So we're going to move on. We're getting a bunch of live questions, but I'm going to move to a preset question that we have had. And I'm going to throw this one to Robert.

Robert, how are we thinking about and/or preparing for a potential tightening of the credit environment particularly for your small business customers. I think another way of getting up this question is how is the macro going to impact our business.

Robert Keane^ Well, first of all, we don't have any material exposure to any individual customer. They're all very, very small or even to any specific industry. And it's just a large number of orders with very small order values across many different sectors.

Likewise, most of our customers pay upfront. So we wouldn't have credit risk in that direct sense. In terms of credit risk, their business and therefore, in a recessionary environment impact us.

Certainly, in past recessions, we've done well because we offer lower cost alternatives and traditional printing. And I think that has often accelerated this multi-decade shift from off-line to online as in recessionary periods, people customers become more price sensitive and being price sensitive typically tends to lead you online.

Now when unemployment increase, self-employment also tends to increase and we can win there. So of course, we have not been in a recession that also had inflation going on. So we want to jump to conclusions there. Finally, I think that these belt tightening, cost-cutting initiatives, have just spoken about, certainly have helped us step up our ability to weather any economic uncertainty. But traditionally and directly to the question, small businesses, we've not seen a turn away from our services to the contrary, they've often turned to it.

Meredith Burns^ Wonderful. Thank you, Robert. I'm going to stick with you for the next question. Are you putting any incentives in place to ensure that you achieve your FY '24 targets? What about further out into FY '25 and FY '26?

Robert Keane^ Okay. The short answer is yes to both FY '24 targets and beyond that. It's too early to go into the details of this is the Compensation Committee and other members of the Board with me and Sean's team are working through this.

We do expect that the design for awards that are given out traditionally at the beginning of each fiscal year. So the summer for FY '24 will likely include a performance condition that links them the degree to which those come into existence, invest or become valid RSUs to be directly tied to the cash flow and/or the EBITDA expectations we're talking about today.

And when you talk about '25 and '26, and I would say '27, because we have a 4-year vesting RSUs, there's always a longer-term component of that. But we do think it's important to tie something specific to the RSu that is related to this FY '24 expectations. I'm hesitating on going in more detail because this is a live conversation, but suffice it to say, we think that's a good idea, and we expect to do something along those lines.

Meredith Burns^ Thank you, Robert. Sean, I've got a bunch of financial questions coming your way that have come in live. So I'll start out with working capital and cash flow questions.

So first up, you noted that Q3 working capital outflows were reduced from prior Q3 periods. This is going to be an important one to clarify. Is your expectation for Q3 FY '23 free cash flow to be a smaller outflow than historically? Or are you expecting to generate cash in Q3? Please clarify.

Sean Quinn^ Yes. So we won't generate cash in Q3. It will still be an outflow. The working capital outflow that we've seen in January and February is lower than it was last year. That's when the big seasonality that happens in the March quarter happens in January and February, just so it's clear for everyone that is less familiar with us.

In the December quarter, we typically have large working capital inflows. We run with negative working capital. And so in the December quarter, when typically volumes increase we're collecting cash upfront, but also for things like VAT or sales tax, we're also spending generally more marketing dollars.

That was a little bit less the case this year. And then those outflows related to those things happen after we cross over December 31, and so in January and February, were then paying a VAT or sales tax or paying vendors for the marketing that happens in the December quarter.

So that's the trend. Again, outflows in January and February were lower than they were last year. We still have March to complete, and so we didn't give specific guidance on what's going to happen for this quarter. But now sitting here, we have visibility to that being behind us. We can say that it was lower fewer than it was last year.

I think the other thing, just from a seasonality perspective that might be worth highlighting here is that in Q4, typically, working capital is positive. It's the changes are in inflow. And if you look at each of the last 3 years, for example, the working capital inflows have been quite supportive in Q4 such that in the last 3 years, our unlevered free cash flow.

So before the impact of interest has actually been higher than our EBITDA because of working capital inflows essentially being higher than the other cash outflow. So we do expect those inflows in Q4 here as well. We'll have restructuring payments that we outlined, but that's just something to look at for Q4 expectations as well.

Meredith Burns^ Great. Thank you, Sean. Next up for Robert. In the past, you discussed an outlook for exceeding historical high EBITDA levels in the coming years. Is that still the case?

Robert Keane^ Well, first of all, I'd say we just said that we expect to be able to do at least $400 million EBITDA. So that would certainly be the case in the near term in the FY '24 period at or above where we were historically.

We would not be making all the investments we have made, if it wasn't to be able to, over the long term, drive up our EBITDA and more specifically our cash flow per share. And so we certainly have always made investments with the expectation that we get back on to, if you step way back, it's been a multi-decade trend of more profitability. So again, I would certainly not want to get into forecasting what fiscal '25 or '26 EBITDA is but we would never be making these investments without expecting the long-term trend to be up and to the right.

Meredith Burns^ Great. Thank you so much, Robert. Okay. Sean or Florian, you pick. What is the projected advertising spend in Vista in FY '24 noting that we had $287 million of spend trailing 12 months to December '23 period?

Sean Quinn^ I love these questions to please keep sending them in. We've tried to be very specific today. We're not going to start to give guidance on specific line items of our P&L for specific businesses for next year. But let me try and answer that.

We've -- this year, in the first half of the year, we had -- which is in that TTM number, that was part of the question. We were doing the upper funnel and mid-funnel testing that Florian talked about in his remarks. So spend was a little bit elevated.

I think just in terms of percentage of revenue, I won't give an actual dollar amount, but in terms of percentage of revenue. I think looking forward, FY '24, but I think you'll probably over the next few years, 17%, 18% of revenue, I think, is a reasonable expectation.

That's down quite a bit from where we were in FY '18, which was more like 22%. So there's quite a bit of leverage there. But given some of the tests that we've done, that have really exciting results attached to them. We do want to spend where those winning tests. And so that 17% to 18%, I think, is a reasonable expectation for next year.

Meredith Burns^ Thanks, Sean. So next question, does the FY '24 3.5x leverage assume covenant EBITDA. So $400 million of adjusted plus 20% add-backs or $80 million. So you can clarify this one, Sean.

Sean Quinn^ Yes. Yes. This is a good question. Thank you. So it does not assume any of the add-backs, right? So if you do the math, everything that we provided today of at least $400 million of EBITDA, and the free cash flow generation, which we said would approximate 40%, and so that's $160 million and take that off of our net debt. Again, knowing that we said that we would expect to generate cash in Q4 as well. Play that math through, you're below 3.5x net. So that's all based on reported results that we expect to have for FY '24.

That said, we are putting these cost savings in place. Everything we talked about today is the impact on FY '24. That said, and as you would expect, as you're doing these things, in some areas, you're not at a full run rate in FY '24. And so there will likely be an opportunity to have some pro forma effect of those cost savings. That full 20% add-back would be available to us in FY '24, but we're not assuming that in the math for guidance expectations we've set today.

Meredith Burns^ Thanks, Sean. So we've got somebody thanking us for the detailed and expanded guidance, and they are curious to know if the company is seeing a slowdown in the last 2 weeks, given the banking issues that many expect will further slow economic growth domestically and potentially in Europe.

Sean Quinn^ Yes, happy to take this one, Meredith. The short answer is no, we are not. There is a question in here about Europe. One thing that might be interesting to note as well as -- we talked about the acceleration in growth in Vista this quarter and the expectations of 14% to 16% for the full quarter.

And we mentioned that the lapping the U.S. site migration is one of the things that supports higher growth. But in Vista, North America growth in North America is only slightly above where it is in Europe, quarter-to-date. And so there's not a huge disparity there.

And then if you were to add in our Upload and Print businesses, which are all in Europe, the growth rates between North America and Europe across Vista and our Upload and Print businesses for this quarter is roughly the same. And so just to give a sense of like that. We're not seeing any disproportionate impact in any region. And to be specific, no, we're not seeing any slowdown connected to the banking issues that have been present.

Meredith Burns^ Great. Quick one for you. You may not have seen this one yet. Can you give a current cash balance as of now?

Sean Quinn^ These are great. No, we're not going to do that. But the guidance that we gave of $135 million to $145 million is for March 31, right? And that's 1 week from now. So hopefully, that is sufficient. You could hopefully trust that we wouldn't be on this call a week away from that time, giving numbers that we didn't feel comfortable with. And so hopefully, that's sufficient for you.

Meredith Burns^ Excellent. All right. So we've got a question that came in on business card trends. So I'm going to ask for us to share a backup slide that we had on product mix. for folks just to have this up while Florian and if Sean or Robert want to jump in as well. So the question is, how has the trend in business cards been bold with return to office and trade shows and also more tech-enabled QR codes type business cards.

Florian Baumgartner^ Yes. I would happy to give sort of a first high level and then please jump in, Sean and Robert. I mean, as we pointed out, we do have a very favorable year-over-year comp overall. And as part of that, also business cards showing some really nice solid growth coupled, of course, with the return to office and trade shows, which in the last year has been weighing on the performance of that segment quite a bit.

But then also -- and this is a constant reminder. I want to give the audience we -- the business cards are far from that. There is new use cases that are developing. Many of you from your own private experiences would have seen folks sharing business cards with QR codes or business cards being used. It's just a QR code on them for various occasions. So there's definitely interesting change happening there.

I think the other key message since we're on product mix that I wanted to point out, based on the slide is the continued growth in our Promotional Products segment. It's a segment that's growing very, very fast, and it has very high average order values, slightly lower percent margins, but very high order values which allows us to generate very substantial increases in absolute VTP per customer. I don't know, Sean or Robert, if you want to jump in as well.

Sean Quinn^ Yes. I'll maybe jump in with a few things on the slide just so you all know, that slide is an updated version of something that we showed in the past, and that's looking at calendar '22 versus calendar '21 in Vista across product categories.

I would just add, not just in the Vista business, if I comment overall across our businesses. Over this quarter, and I would say over the last few quarters, but especially this quarter, business cards and marketing materials have performed well. And I think part of that, as Florian alluded to, is the kind of the start of a more normalized rate of some of these activities of in-person things. I know even investor conference is now back in person and so on. So that's been strong.

And that's -- we've also seen, to some extent, where in packaging, for example, and some of the things that where the growth was really driven by a lot of the shift to e-commerce during the pandemic and after the pandemic, and some of that's normalized a little bit. And so there are some of those shifts. It's good that we have that diversification of product mix. So we're on both sides of that. But business cards and marketing materials have performed well in recent months.

Meredith Burns^ Wonderful. Thank you. So we could probably take the slide down now. And I'm going to stick with Vista and Florian, I'm going to ask you a pre-submitted question that we had. In past years, you've talked about combining digital design and print into different bundled subscriptions. What progress have you made on this front?

Florian Baumgartner^ Yes. Thanks for the question. So we are making progress, but we're not at a stage yet where this is materially impacting our financial results. As I alluded to earlier, we have prioritized bringing capabilities from 99designs and VistaCreate into the Vistaprint customer experience, but that will take time. And likewise, our integration with Wix has been ongoing. But now we're able to market these digital offerings and also move legacy Vistaprint digital customers to the Wix platform.

Some examples maybe of how those crossovers are starting to happen, but again, not impacting our results materially at this point. So for example, in Vistaprint, the algorithmic local maker tool that I shared with some of you in the past, it continues to grow at a run rate right now of approximately 750,000 logos downloaded on an annualized basis.

That tool enables customers to create logos, immediately preview them on multiple Vistaprint products. That's not a bundle per se, but it's a free tool that we think will help drive new customer acquisition over time. And then in VistaCreate, we've added the ability to purchase printed products from designs, made VistaCreate.

And since December, have seen those orders triple, but again, on an extremely small basis. And then we've also launched design services for weeks websites via 99designs by Vista. These are a set of fixed price bundles or custom projects. and make it easier for customers to launch a beautiful design website with capabilities that are right for them.

So there is a lot happening, there is experimentation and there's incremental improvement for all that. But as I said earlier, don't expect one big bang, expect this to be a continued journey where we improve and iterate.

Meredith Burns^ Thank you, Florian. All right. So there have been multiple questions around capital allocation. So let's get into that. the questions are either coming at it from the perspective of buying into our bonds, repurchasing shares. One other question also asked a question within a question, and I'm going to ask that one just to make sure that we answer the question within a question.

So it seems like you guys are cutting growth spend as it becomes clear that the return on investment has not been adequate. Does this change your perspective on buying your bonds, which are first maturity and trading in the low 70s or 18% yield to maturity. And then again, other questions about buying bonds, buying shares. Sean?

Sean Quinn^ Yes. So well, to be clear, we are cutting growth spending. As we that we protected the most important growth spending, but we are cutting to spending. And I think that's a combination of that.

There's a combination of reasons for that. Yes, there are some areas where return on investment has not been adequate, but I would also say that our cost of capital has changed quite a bit. And when your cost of capital changes, you need to reassess time horizon of investment, extended investment. And I think everyone on the call understands that, and I think that's the primary driver here.

In terms of how that impacts, if at all, our perspective on buying our bonds, I don't think that there is necessarily a direct connection between reducing growth spending and whether or not we would buy our bonds. But I think if you put all the commentary together that we've provided today, we're at a point now where we expect our cash position and marketable securities to increase liquidity generally to increase. we having done a lot of the expected EBITDA expansion with cost reductions. It gives us a lot of visibility to how we achieve that at least $400 million.

And so I think as we progress through the next few months, we're going to have the restructuring payments that I talked about earlier.

And then as we get into FY '24, we'll have the opportunity to start to make some choices. Deleveraging is clearly a priority for us. buying our bonds is a little bit supportive of that, but it is a use of liquidity. And so we just have to -- we've been focused on making sure that we're building liquidity. And now, as I said, we'll have more visibility there.

I think if you and this might get into broader kind of capital allocation questions that are still to come here, but they take a step way back from the details of what we're providing today.

There's a few reasons why it's really important for us to make sure that we do achieve these expectations that were outlined and why we're so focused on them. And also why, as Robert said, we're going to put incentives in place to make sure that all the management team is equally focused on it.

One is that we have bonds that mature in May of 2026. And we need to be in a position well before that, to have good options to refinance those. And as part of that good base of financeable EBITDA as well to support that. So that's one. But the other one is to have more flexibility around capital allocation.

Given our liquidity and our leverage, that we have not been able to take advantage of these opportunities like buying our bonds. Those options will start to become more available to us as we get into FY '24. We would love to buy our bonds at current levels. We'll see where they're priced when we have the opportunity to do that from a liquidity perspective. And we'll continue to evaluate those rationally. Those are conversations we have with the Board on a regular basis.

Meredith Burns^ Thanks, Sean. All right. So I've got a question here that I'm going to state and I'm just going to answer to clarify. So if adjusted EBITDA is expected to be $300 million for FY '23, total debt remains $1.7 billion and net leverage, excluding the 20% add-back is less than 4.5x, and wouldn't FY '23 ending cash be north of $300 million, implying $200 million of free cash flow in Q4. Am I missing something?

Yes. The answer is yes. So just to clarify, when Sean was talking earlier about the 2024 leverage, not having the add back in it. It's because by that time, by the end of FY '24, it's not needed in order to make that math work. It is needed to make the math work for the leverage that we provided for the end of FY '23.

So we will be benefiting from that add back as allowed by the definitions for that net leverage calculation for FY '23 to be below the 4.5x. And we are definitely not guiding that there will be $200 million of free cash flow in the fourth quarter that just not -- won't work that way.

Sean Quinn^ Yes. And Meredith, just to add to that, I think you covered it there. One, adjusted EBITDA is expected not to be $300 million, but to be $300 million to $309 million. But then two, those add-backs, one, which are allowable and quite standard in our debt agreement and other debt agreements.

Our add-backs related to the cost reductions that we've talked about today, not being in our full run rate of reported results. And so just want to make sure it's clear that there's not some magic to that. That is the allowable pro forma impact of the actions that we've already taken that aren't yet in our full run rate as Meredith said, when we get to the end of FY '24, they will all be in our full run rate. And so that add back is not as relevant.

Meredith Burns^ Wonderful. Thank you. So we had a question here. Somebody curious when was the last time that the company caught up with our ratings agencies. This is on the debt side. And relatedly, how important is it for the company to improve its ratings. Sean?

Sean Quinn^ Yes. We talked to the rating agencies on a regular basis just as a matter of keeping them updated generally once a quarter. We do expect to reach out to them, and I'm sure that they're on today to take them through these materials in detail and make sure that any questions that they have are answered.

But that's a regular thing that we do. We try and be proactive about that always, but especially given the additional information that we've released today, we want to make sure that that's clear for everyone, but especially is clear also for the rating agencies.

It is important for us to improve our rating. And like I said before, some of the of why all of this is so important is looking out to May of 2026 and working backwards from there, we want to be in a good position to have great options to refinance our bonds at the right time. And of course, a supportive rating is helpful in that regard.

Meredith Burns^ Fantastic. Thank you very much. All right. So we've got just a few minutes left. So I am going to hand the call back over to Robert for some parting thoughts. I want to thank everybody for joining us today. And I just want to let you know that I'm here to answer any questions that you have. If you have follow-up questions, please don't hesitate to reach out. And so with that, I'll turn things over to Robert.

Robert Keane^ Thanks, Meredith. So stepping back, after a sustained period of heavy investment, we've made certainly in Vista and some very key foundations. Vista today has great tech infrastructure, very strong data capabilities, a brand that's moved far away from the discount intensive brand of 4 years ago. Growing capabilities in product development and a strong, greatly expanded and strong management team, certainly in Florian's direct reports, but also in the teams under them.

So we are now turning to leveraging those foundations and those investments and importantly, tightening our belt without stopping key investments for growth. And to a lesser extent, we're doing that in the central teams as well, really trying to focus our efforts and improve efficiencies.

So for some time now, we signaled that Q2 FY '23. In other words, the quarter ending last December would be a low point of our trailing 12-month financial results. And we're past that trough.

We look forward to turning to a new financial chapter at Cimpress in which we return to historical profitability levels and a strengthened customer value proposition that those investments have helped us make should help us grow revenues, profits and intrinsic value per share. well into the future. And to the question that came up earlier today, including our profitability for future years up and to the right. So thank you for the time you spent listening to this investor update, and have a great day.