Good day, ladies and gentlemen. Welcome to the Cimpress Third Quarter Fiscal Year 2023 Earnings Call. I will introduce Meredith Burns, Vice President of Investor Relations and Sustainability.

Thank you, Howard. And thank you everyone for joining us. With us today are Robert Keane, 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 appreciate the time that you've dedicated to understanding our results, our commentary and our outlook. This live Q&A session will last 45 minutes to an hour, and will answer both pre-submitted and live questions. You can submit questions via the question-and-answer box at the bottom left of your screen.

Before we start, I'll note that in this session, we will 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 have also published non-GAAP reconciliations for our financial results and our outlook on our IR website. We invite you to read them.

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

Thanks a lot, Meredith. And thanks everyone who's joined us today and who's listening later on the recording. Before we get into the questions, I'll highlight just a few key points from the financial results and outlook that we published yesterday.

As we outlined in our September Investor Day, this fiscal year's results were going to be characterized by margin compression in the first half of the year, as we lap the impact of cost inflation and a higher OpEx space, and then expansion in the second half of the year.

Before factoring in the material benefits from the cost reduction outlines that we outlined for you in our March 24 investor update we saw significant year-over-year expansion of adjusted EBITDA in the March quarter, from a combination of accelerated revenue growth, gross margin stabilization and leverage in advertising spend and operating expenses.

From a revenue perspective, we were at the high end of our guidance range, which -- with 16% consolidated organic constant currency revenue growth, in part from year-over-year pricing improvements, but also comping a weaker period in January and February last year.

We continue to see strong performance in our Upload and Print businesses and in Vista constant currency revenue growth accelerated to 16% as well.

Vista's performance was driven by growth across small business product categories with promotional products once again in the lead. But we also had double digit revenue growth for business cards from marketing materials, for signage and for packaging.
New customer count and new customer bookings and Vista both grew nicely. That was the second quarter in a row that both of those metrics grew. Helped by the mid and upper funnel advertising testing that we did in the first half of the year.

We did also passed the anniversary of the migration of our U.S. site onto the new technology platform, which was in February of last year. But growth was equally strong in North America and Europe.

Gross margins were stable year-over-year on a consolidated basis, but that also included in Vista and so our consolidated revenue growth that I just went through translated the strong growth in gross profit as well.

As we said during the investor call on March 24, we're seeing input cost stabilized with opportunities for a reduction as we look to the coming fiscal year.

From a profitability perspective, Q3 adjusted EBITDA more than doubled year-over-year and finished above the guidance range that we provided in March. That's translated to strong cash flow performance as well.

As expected we saw working capital favorability relative to typical seasonal patterns in Q3, offsetting the unfavorability we saw in the first half of the year between taking on extra safety stock as insurance against possible supply chain challenges, as well as some differences in spend levels during the last quarter's holiday peak. That all combined to drive a much lower outflow for adjusted free cash flow compared to recent years in Q3.

We ended the quarter with cash and marketable securities of about $190 million, which was well ahead of the guidance that we provided as a result of both strong operating finish to the quarter, but also more favorable working capital.

Net leverage was 4.83x on trailing 12 month EBITDA, that's as defined by our credit facility. And that was lower sequentially due to improved profitability, and also the pro forma of benefit of a portion of our cost reduction action.

Moving to our outlook, as an update to the guidance that we provided in our March investor update. On the back of the strong Q3 performance, we're raising our Q4 adjusted EBITDA guidance to $90 million to $94 million. We expect that to come with seasonally strong free cash flow conversion as well.

Inclusive of this guidance, and also the higher reported Q3 results, our expectation for fiscal 2023 adjusted EBITDA is now $316 million to $320 million.

We remain on track to reduce that leverage to below 4.5x trailing 12 month EBITDA as defined by our credit facility by the end of next year fiscal year 2024 -- sorry, by the end of this fiscal year, so next quarter -- June quarter.

Moving to our thoughts on fiscal ’24. We remain confident in our ability to achieve at least $400 million in adjusted EBITDA in fiscal ’24. Our Q3 results and the raised Q4 guidance further support them.

The cost reduction actions that we've taken will yield about $100 million in annualized savings as we outlined in detail last month. We expect to see about $15 million to $17 million of year-over-year savings in Q4, and then the remainder of that will take place in fiscal ’24.

Importantly, we continue to expect that fiscal 2024 adjusted EBITDA of at least $400 million next year will be coupled with strong conversion to adjusted free cash flow of approximately 40% bringing net leverage to be below 3.5x by the end of next fiscal year.

As discussed on our March 24 call, given the extent of cost reductions we've put in place, achieving at least $400 million in adjusted EBITDA requires relatively modest revenue growth next year and the associated contribution flow through.

We have not provided revenue guidance for FY ’24 yet. As a reminder, by the time we enter next year, we will have passed the anniversary of both the technology migration and Vista in all of our large markets, as well as most of our pricing increases that we've done over the last year.
We provided this detailed guidance in our March call and continuing here because we are in a moment in time where we expect our profitability and our cash flow to be meaningfully higher in the quarters ahead. And that’s starting to happen as a result of the progress that we’ve made across our businesses, including from recent investments, but also from our continued growth and the material cost reductions that we’ve recently implemented.

We don’t expect to provide this level of detailed guidance on a quarterly basis in the future. But we’ll continue to outline our expectations for the coming year, at the start of each year. And when warranted, with any changing circumstances we’ll of course, update that.

Meredith, why don’t we turn it over to Q&A?

QUESTIONS AND ANSWERS

Meredith Burns - Cimpress plc - VP of IR

Thanks Sean. (Operator Instructions) So the first question, I’m going to do a pre-submitted question and we got this a couple of times from different folks, which is, basically what changed from the March investor update, where Q3 EBITDA came in much better than the guidance of $60 million to $62 million. Sean, why don’t you take that one?

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yes, sure. There’s really 2 main things. One, that quarter finished strong, so that was the main driver. Also, we had about $1.7 million of savings from the March cost actions that we took, which was a little bit higher than what’s factored into the guidance just based on how those actions and when those actions were finalized.

I mean, in general, we have very good visibility to the top half of our P&L on a daily, on a weekly basis. The full EBITDA picture sometimes takes until the end of the month to get fully rolled up. And of course, we do have quite a few businesses across the group.

But our guidance for Q3 on March 24 was based on 2 months of actuals, 1 month of forecast. We ended up better than that forecast. And that stronger performance against forecast in March and as we closed out the quarter was one of the drivers to us increasing the range of adjusted EBITDA guidance for Q4, as you saw in the release last night.

Meredith Burns - Cimpress plc - VP of IR

Great, thanks. So we’re going to stick on that same topic and flip it to cash flow. Can you please provide a little more color on why cash and cash equivalents were so much higher than the $135 million to $145 million guidance given at Investor Day towards the end of the quarter? Was there any kind of working capital pull forward from Q4 of FY ’23?

And a related question, working capital was a positive instead of less of an outflow, what happened there? It’s a good thing, but just curious about timing issues.

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yes. We finished the quarter very strong from a cash flow perspective, which was great to see. Of course, we had the upside of the EBITDA flowing through. So that was a positive. We did have some timing benefits relative to our forecast for working capital as well. That gets tricky within a given week in terms of precision. And because of that, frankly, we had to take a little bit more of a conservative stance in that guidance. And that’s not guidance we would typically give. There was a lot of focus on that, and we wanted to be clear about at least where we expect it to land. And we, of course, came in well ahead of that, which is good news.
From a timing perspective, in terms of what impacted that, things like when we pay or receive indirect taxes, all kind of normal stuff is what drives that. Nothing out of the ordinary there to call out. In terms of the kind of pull-forward question, for Q4, we do expect to see seasonal strength in terms of the conversion of our EBITDA to cash flow. We'll have the cash restructuring charges that we've previously outlined. Most of that gets paid out in Q4.

But I'd say that the Q3 working capital being stronger than expected was more of an offset to some of the unfavorable trends we saw in the first half of the year, including from inventory than it was a pull forward of what we'd expect to see in Q4. And that's all built into the commentary that we provided in terms of strong cash flow conversion in Q4. And that strong cash flow conversion is inclusive of any of the restructuring costs that we need to pay next quarter.

**Meredith Burns - Cimpress plc - VP of IR**

Great. Thank you, Sean. I'm going to hand the next couple of questions over to Robert.

Robert, first, BuildASign growth has recently moderated. What is driving that moderation?

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

Before answering the specifics of the question, step back and provide a summary perspective. I don't have the exact numbers on hand. But broadly speaking, if you look at the revenues of BuildASign today relative to their revenues prior to the pandemic, this business has grown roughly in line with what you've seen Cimpress do over that multiyear period. But BuildASign has taken a different path.

And to get into that type of that path, specifically, you'll recall that during the pandemic, we performed very well at BuildASign. A lot of that was driven by home decor, and much of that was, we believe, a pull forward of demand and that segment has cooled off. It's still a strong segment. We still see it growing over time, but we accelerated some of that revenue.

On the other hand, signage and enterprise accounts have generally performed well after the pandemic. So we see some impact from other things like all of our businesses in cost inflation or labor costs or some shifts in marketing approach. But generally, the home decor products that spiked during the pandemic have normalized to lower levels, and that's pushing down our growth rate of BuildASign signage products and enterprise accounts are growing strongly.

And so it's been a little noisy in the last several quarters and years, but BuildASign remains a great business with a really strong leadership team, and we're very confident in their ability to grow both revenues and profits into the future.

**Meredith Burns - Cimpress plc - VP of IR**

Thank you, Robert. And a question on Vista for you.

In the midyear update, Florian mentioned that there would be a refocusing of Vista’s attention on vistaprint.com. What does this mean for the Vista portfolio, Vistaprint, VistaCreate, 99designs and also the concept of print versus digital?

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

Maybe I'll step back again and say, we retained Vista's strategic North Star to become the expert design and marketing partner to small business. And that certainly needs to include starting with the last portion of your question, digital, websites for small businesses, social media postings. It needs to include great design. And we will move towards that long-term vision as we've talked about already in the past.
The difference that Florian was alluding to is a decision to progressively integrate the VistaCreate experience and the 99designs experience and other future additional experiences directly into the Vistaprint user experience. In other words, on the Vistaprint site itself as opposed to -- on adjacent site. And that will bring these expanded design capabilities or digital [capabilities and customers.]

And the stand-alone experiences of VistaCreate and 99designs will continue to exist as a separate URLs. We're not taking those down. But the development is really being focused to bring the integration into Vista, which has always been a long-term objective.

We, over time, believe the broadening of Vistaprint user experience towards these areas of design and digital will help fulfill that North Star, where we speak of that North Star as Vista being that broader value proposition. So it's really a change in path of how to get there to leverage these large number of customers we already have, but it's not a change in the destination.

Meredith Burns - Cimpress plc - VP of IR

Thanks Robert. Sean, I think I'll hand this one over to you. This one is on margins at Vista. Is the margin recovery at Vista tracking in line, ahead or behind your expectations, please elaborate.

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

It really depends on when that expectation was set. If you go back to what we expected at the beginning of the year, I'd say broadly on track, maybe slightly ahead. And we talked a little bit about that at Investor Day in September about the shape of margins throughout the year that we were still going to be lapping some of these things in the first half of the year that was going to put pressure on margins and then we would start to see expansion in the second half of the year.

But it's accelerating now beyond our expectations in large part because of the cost reductions that we've taken action on. But I think relative to the recent most -- our most recent plans over the recent months, we're definitely on track and maybe a little bit ahead.

If you just step through the main sections of the P&L, gross margins in Q3 were flat year-over-year in Vista. And that becomes a really, really important piece of the margin picture that wasn't in place in the first half of the year or in the second half of last year. So gross margins being flat year-over-year in Q3, that acceleration in growth starts to set up for the ability to really pretty strongly expand margins.

And then over the last year, we also have a bit more intensity in advertising, and it wasn't expected that we'd maintain that same intensity as a percentage of revenue. We're starting to see margin leverage there as well. That was pretty sizable in Q3. That will be particularly evident again in Q4 as well.

And then from an OpEx perspective, we expect it to kind of flatten out, but now we're starting to bring that down given the cost reductions that we've put in place as well.

Maybe just the last thing to say is, I think from a -- Meredith, you have another question -- do you want to ask the next question and then I'll continue.

Meredith Burns - Cimpress plc - VP of IR

Yes, I was just going to pop a live question in here for you. So new customer count and bookings in Vista have now grown for 2 consecutive quarters. Can you speak to what's driving this? And how sustainable do you think this trend is?
Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yes. Yes, I was going to start to touch on that. Yes, this has been very positive to see as well. There's a lot of our efforts in terms of where we've been investing over recent years, be it in design, but also even a lot of the testing that we've done from an advertising perspective, which is geared towards reenergizing new customer acquisition and finding economic ways to do that and do that at scale. So I think this is very positive to see over the last 2 quarters.

And we had been seeing that new customer bookings were growing nicely in quarters before that, but now to have new customer count and bookings both growing strongly is very positive. I think that, that is -- in terms of what's driving that, like I said, it's been the focus of part of our investment over the last few years.

And we've been very focused also on protecting the key parts of investment there even as we've gone through these cost reduction actions. And then the advertising, including changing mix of our advertising and doing more and more experimentation there with positive results.

I do think that, that trend is sustainable. We have some benefit in Q3 of some of the softer comp, but I do think that trend is sustainable and it's a clear focus of ours as we go into next fiscal year.

Meredith Burns - Cimpress plc - VP of IR

Thanks Sean. We're going to stick with Visa marketing for a moment and go into guidance territory here. We've got several questions from folks asking us about the level of marketing spend as a percentage of revenue in Q3, 14.5% of revenue, whether that's a new run rate. What this is going to look like going forward? Could it decrease further? Is it going to increase again? Lots of questions on this topic, as you can imagine.

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yes. We made a few comments on this in the release. For Vista, ad spend as a percentage of revenue should not be expected to be a constant every quarter. There will be fluctuations, those fluctuations will be driven by the intensity of mid and upper funnel campaigns, especially as we continue to experiment with mix.

The question asked if we could decrease further from where we're at in Q3. In Q3, we're actually down from recent levels. And we could, of course, decrease further, but we don't think that will be the right decision based on the returns on the spend that we have in the portfolio today.

I think on an annual basis, we'll actually have advertising spend as a percentage of revenue. That's likely to be slightly higher than the 14.5% that we had in Q3. But we'll still have leverage there. I mentioned this in the question of margin expansion. We'll still have leverage there relative to the last year or so. And like I said, you'll see that in Q4 as well.

In Q4 last year, we were starting to do more experimentation from a mid and upper funnel spend perspective. We were spending against some of the new properties that we had acquired. And so like I said, we'll see some pretty sizable leverage there in Q4.

I think the commentary that we had provided back in our September Investor Day was that we'd likely be at approximately 17% of revenue on an annual basis with some fluctuations on a quarterly basis over the next few years. And that's significantly lower than we've been in some of our past history in fiscal '18 and before that, we were roughly 22% higher.

I think we're actually now -- we'll track below that 17% on an annual basis, especially after some of the cost reduction actions that we've taken, which deprioritize spend in some areas from an advertising perspective. So somewhere in that 15% to 17% range most likely.

There's been a lot of good work in this area recently. And so there's still a lot of opportunity to continue to experiment with mix and continue to push efficiency even in Q3, we saw some great wins there, and we'll continue to be focused there as we get into next fiscal year as well.
Meredith Burns - Cimpress plc - VP of IR

Thanks Sean. Quick question. Where is Printi on its profitability journey.

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Well, I'll take this one. Getting close from a profitability perspective. Growth has been strong there. And I think even more importantly than that, the gross margins there have improved quite meaningfully over the last 2 years to now where the P&L structure supports that path to profitability and with growth and profitability beyond that as that business scales.

Brazil is a huge market. Printi is the clear leader in that market. And we're basically -- we're taking what's winning elsewhere around Cimpress and understanding the relevance of that to the Brazilian market and then helping the team to roll those things out. We've made great progress here in the last few years and the pace of expanding product selection is increasing. So there's good momentum in that business.

Meredith Burns - Cimpress plc - VP of IR

Thanks. All right. I'm going to go to a topic area where we've had pre-submitted questions, but also a couple of live questions as well.

Really looking to understand the growth rate this quarter and what's coming from price, what's coming from volume, what's coming from the weaker comp. Several questions in that area.

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yes. I'll do my best to give an overview here, recognizing that we do have a portfolio of businesses, each of them experiencing some different things, product categories experiencing different things and also the timing of when we've done price increases has been different by kind of business-by-business.

So I won't go through the exact breakdown, but just to paint the picture. And just for this quarter of the 16% growth, roughly about 1/3 of that is price and about 2/3 of that is the combination of both volume and product mix shift in promotional products, for example, AOVs there are higher than our average. And so with the growth there, that helps also.

I would say -- and part of that -- from a volume perspective, we're helped a little bit in Q3 in Vista just as we lap the U.S. site launch last year and also some of the pandemic-related impacts.

In Upload and Print, again, different by business, different by category, but it's ranged roughly about half of the growth from price, about half from volume. And that amount from price will come down in the next couple of quarters as we lap the pricing changes that we put in place over the last year.

I think one of the other important things, and I think I mentioned this briefly earlier, new customer activity has been strong in Vista, we just talked about that, but also in our Upload and Print businesses in Q3 but also in the quarters prior to that. And so as those cohorts build, I think that also supports future growth as well. So that's been another important element to how growth has been driven over the recent quarters, including in Q3.

Meredith Burns - Cimpress plc - VP of IR

Great. All right. I'm going to throw this next question to Robert.
Robert, have the layoffs been finalized? Or are they still ongoing? And what are we doing to keep team morale high?

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

To your first question, the layoffs have been finalized. We completed them in March and April. And -- they are fully complete other than some processes, which are required by employment law in certain countries, but substantially complete.

On your question (technical difficulty) communication at all levels of the organization, but being sure to combine 2 very important messages and 2 very important sets of facts. First, we are treating departing employees with respect, with financial fairness and with heartfelt appreciation for the contributions they've provided to the business in the past. And reiterating these changes are not a reflection on their talent. And that's a very important human message, which I think has gone over well.

Secondly, we've stressed how these changes will make us a better company. Of course, financially stronger. But in addition to that, we've positioned ourselves to improve our velocity in terms of improving customer value and that we've done that by reducing management layers, by clarifying areas of accountability, by narrowing and improving our focus, by empowering our product development teams and by combining teams that were working on similar activities.

So it's a combination of that human-to-human respect and fairness combined with the business logic of this, I think, has helped a lot. And no restructuring is easy. But given that the team morale is relatively good. And I think we've certainly come through the most difficult part of that, because those 2 messages have landed quite well.

**Meredith Burns - Cimpress plc - VP of IR**

Thank you, Robert. All right. I'm going to go to a quick housekeeping issue from a balance sheet perspective on question. Is the increase in accrued expenses mostly tied to restructuring expenses that were incurred but have yet to be paid out. If so, are we correct that those will likely reverse in the next 3-ish months as indicated in the midyear update. Sean, do you want to answer that one?

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

Yes. There's a footnote in the Q every quarter that breaks us down, so that might be helpful. We'll follow that later today. But there's 2 main drivers: restructuring expense is the largest, and that was roughly $17 million that remained accrued at the end of the quarter. That will mostly be paid out in Q4.

And then the other driver is in terms of the increases, just accrued interest, which was about $10.5 million of increase because we pay the interest on our high-yield notes semiannually, that next payment will happen in June.

**Meredith Burns - Cimpress plc - VP of IR**

Let's shift gears and go into a bunch of questions on our outlook. All right. So first one, gross profit margin declined, although the rate declined significantly, is inflation more or less topped out at this point? Do you see a need for further price increases in the future to offset inflationary pressures?

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

Yes. On a consolidated basis, gross margins were -- they're basically flat year-over-year, they're down 30 basis points. It's always -- we can never definitively say that inflation is topped out, but things have certainly stabilized and in some areas, costs are coming down. We've seen improvements in things like inbound freight and energy, some of the underlying costs for materials like plastics, aluminum, inputs like paper started to improve
as well. So that’s all headed in the right [direction] based on everything that we see. It’s a big area of focus for us to make sure that our costs are coming down as underlying commodities are coming down hoping to be a big area of focus.

In terms of when that will impact the P&L, there’s a little bit of a lag there just because that’s caught up in our inventory. It will take a couple of months for that to come through. But as we get into FY ’24, we’ll see more material impact, we outlined in some of that in our March 24 call which was a range of $18 million to $19 million of cost reductions. That included some compensation savings, but most of that being from these reductions in input costs based on what we knew at that time based on the discussions or actual contracts with suppliers.

In terms of price changes, we’ll be anniversarying most of those by the end of this year. In Vista that extends a little bit into next year as well in the first quarter based on the timing of those. And then from here, I think we expect all of our businesses to continue to test price elasticity and do that on an ongoing basis and make optimizations up or down based on impact to customer behavior. So we’ll -- I think subject to any large shift in inflation that’s unforeseen right now, we would be kind of back into a normal operating mode as we get into FY ’24.

Meredith Burns - Cimpress plc - VP of IR
Thanks. So we had a live question come in around how April is looking, Sean, how are constant currency sales looking this month?

Sean Edward Quinn - Cimpress plc - Executive VP & CFO
Yes, we’re not going to give specific numbers for April, trying to get out of that pattern. But we increased our Q4 guidance, our EBITDA guidance from what was previously about $86 million to $90 million to $94 million. And so hopefully, that says something about what we’re seeing in April, but also the strong finish to March, which is indicative in the fact that we beat our Q3 guidance as well, having given that guidance pretty late into the quarter. So trends remain strong.

Meredith Burns - Cimpress plc - VP of IR
So the next question that we’re going to take is, could you please tell us your expectation for Q4 FY ’23 free cash flow and/or expected gross cash position at the end of the year?

Sean Edward Quinn - Cimpress plc - Executive VP & CFO
Yes. On this one, we’re not going to give specific guidance for free cash flow in Q4 or in any cash position. What we said in the release is that we do expect the higher year-over-year adjusted EBITDA in Q4 to have seasonally strong conversion to adjusted free cash flow.

And that’s even with our cash restructuring charges that will be paid out. If you look back at the last 2 or 3 years, for example, and just look at the patterns in Q4, working capital in Q4 has been a material inflow. And so we, again, expect to see strong cash flow conversion on EBITDA in Q4, but we’re not giving specific guidance on that nor our ending cash position.

Meredith Burns - Cimpress plc - VP of IR
Thank you. So shifting to FY ’24 from a free cash flow perspective. So this one is going to take a little bit of a math. You guided for $195 million in operating income for FY ’24. This quarter depreciation was $14 million higher than CapEx. Is it reasonable to assume that there will be no major change in depreciation and CapEx trajectory. And therefore, for FY ’24, assuming 20% tax rate, free cash flow to shareholders will be $195 million times 1 plus 20% plus $56 million, minus $128 million of interest expense equals about $92 million. Not looking for specifics, but I want to confirm if this is generally correct.
Sean Edward Quinn - Cimpress plc - Executive VP & CFO

That’s some math to process real time there. I think there’s a few -- I think one is not correct. There’s a few things that, that misses -- I’ll just highlight those conceptually, try and capture all of them and then just tell you what the guidance was. So you need to add back share-based compensation. You need to include gains from currency hedging that are below operating income, you need to factor in working capital.

And then that cash tax shorthand would put you on the kind of high side of what we expect for Q4. So going back to what we guided to, we said in FY ’24 at least $400 million of adjusted EBITDA and that would convert at approximately 40% to adjusted free cash flow. So $400 million and 40% is approximately $160 million. And so that’s the number that you should be thinking about.

Maybe just to also kind of be helpful in that bridge. Our cash taxes have been in the range of -- they’ve been in the low $30 million, to be maybe slightly higher than that this year, so $30 million to $35 million. So that’s a better proxy to use than the tax rate in the math in the question.

From a CapEx perspective, we’ve been tracking a little bit below 2% of revenue year-to-date also last year. And so we should expect similar next year as well. And then from a capitalized software perspective, that should be a little lower than the current run rate as well, and then there’s working capital, which should be more normalized in FY ’24. And so we expect that to be a cash inflow.

Meredith Burns - Cimpress plc - VP of IR

All right. Sean, I have a question for you. Is it reasonable to expect long-term adjusted EBITDA to revert back to historical levels of mid- to high teens as a percent of revenue?

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yes. We haven’t given specific guidance on that. But I think certainly, mid-teens from a long-term perspective is absolutely in the cards. So I think reasonable to expect, yes, we’re not going to give specific guidance on long-term EBITDA margins.

Meredith Burns - Cimpress plc - VP of IR

Thanks. Here’s the [third] one on inventory. So pre-pandemic, we operated with 17 to 20 days of inventory on hand. We understand and appreciate the reasons that we increased it to 30-plus days earlier this fiscal year, but is the goal to eventually return to the high teens? Or has our philosophy regarding how many days we should have changed permanently?

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

That’s a good question. We’re certainly heading back in that direction. I do expect we’ll end up a little bit higher than those pre-pandemic levels in terms of days of inventory. There’s a few places that we’ve made some different decisions in terms of just specific areas on inventory levels that will hold. And then the other thing is that just given the growth that we’re seeing in promotional products in Vista and related product expansion that requires additional (technical difficulty) on a go-forward basis.

Meredith Burns - Cimpress plc - VP of IR

Great. Another live question is the current run rate of stock-based compensation of about $40 million per year, a fair baseline assumption for SBC run rate in the future.
Sean Edward Quinn - Cimpress plc - Executive VP & CFO

It is. That’s what we’ve -- that’s provided in the bridge from operating income to adjusted EBITDA for FY ’24. So yes.

Meredith Burns - Cimpress plc - VP of IR

So you’ve stated on recent earnings releases and in recent earnings calls that Cimpress is coming to the end of a multiyear period of heavy investment to support the business’s digital transformation and growth initiatives. As growth investing slows, do you expect adjusted EBITDA and steady-state free cash flow to begin to converge? That is, should we expect to be in a steady-state environment sometime soon?

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Meredith, I’ll start here. But Robert, please jump in with any additional thoughts. I think given where we are in terms of market size in terms of shifts from -- in the market from traditional offline suppliers to online and a bunch of other reasons, we don’t expect to be in a steady-state environment soon.

Now I say that as defined by us and Robert’s annual letters, which is to say, bringing our cost structure down to a level that supports only generating free cash flow that overcomes the rate of U.S. inflation. So if that’s what you mean, I’d say, no, we don’t expect to be there soon.

Even with the significant cost reductions we outlined last month, which is approximately $100 million, we’re still investing in things that don’t pay back in year. And so by definition, we won’t be operating in a steady state, again, as we’ve defined it.

That said, I do think that we’ll see more convergence between our actual unlevered free cash flow and our estimates of steady-state free cash flow. And if you think about like just some of the things that have changed over recent years and now going back maybe over the last 5 or so years, we used to have material growth investments in emerging markets like China and Japan and India and Brazil.

We’ve exited our businesses in China and Japan. In India and Brazil, we’re nearing EBITDA breakeven. And so that’s one good example of a bridge between our actual unlevered free cash flow and our steady-state free cash flow going forward, that didn’t exist before. There was a lot of growth investment there.

In our businesses outside of Vista, we’re still investing, but the levels of investment there, they’re relatively modest and those businesses are still growing nicely. In Vista through the cost reductions that we just outlined in March, there’s been a rationalization and also a prioritization of investments there. And also in our mass customization platform there, too, we’ve done a lot of work in terms of prioritization of where we’re investing.

And so I think all of that leads to the start of more convergence through the growth in our businesses, especially in our Upload and Print businesses recently and also the part of our recent cost reductions that will lower our maintenance costs, those will also benefit our steady-state free cash flow as well. So I think at the start of convergence, yes, but we won’t be fully operating in a steady-state environment.

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

Sean, I fully agree with you. I really don’t have anything to add.

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Great. Thanks Robert.
Thank you. All right, couple of live questions in here that give us an opportunity. Maybe to clarify a couple of things. So first question, can you again speak about restructuring cash costs falling in Q4 FY ‘23?

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yes. So I have to go back to the specific amount that we outlined this specifically in our March call. It’s roughly $17 million. I think that falls in Q4. I’ll confirm that here while we’re on the call. And that is just to reiterate, that was assumed as part of the free cash flow commentary that we gave, which was that the EBITDA in Q4 would convert to free cash flow in a kind of seasonally strong way.

Meredith Burns - Cimpress plc - VP of IR

I think I misinterpreted the use of the word falling, because the cash costs are definitely not going to go down from where they were they were only $5 million in Q3, but I think it’s just where are they going to shake out was maybe what was implied there.

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yes. And we did give -- we did outline that specifically in March. And so there’s no change in those ranges in Q4.

Meredith Burns - Cimpress plc - VP of IR

Great. Okay. So this next one also involves a little bit of math that we need to do real time here. The crux of the question is that I think they’re looking at what we did in Q3 relative to where analyst consensus was for EBITDA. And then they’re asking why FY ‘23 guidance shouldn’t have been increased by $45 million from the midyear update guidance. What are we missing given that we beat that update but for Q4, we only added another $4 million to the range from the midyear update.

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yes. I'm not sure I completely follow the question. But just to walk through the full year FY ‘23 guidance. You now have 3 quarters of actuals and we've added to that the range of $90 million to $94 million for Q4. And so -- so that is the math.

Meredith Burns - Cimpress plc - VP of IR

Yes. I think where the issue is here, so we gave guidance for Q3 in March that EBITDA should come in between $60 million and $62 million, and we came in at $69 million. And then we raised in Q4 from the implied, I think, $85 million to $89 million to $90 million to $94 million. That is the math that goes into raising the range from where we were for the year, which was, if I recall correctly, $303 million to $309 million for FY ‘23 to the $316 million to $320 million that we have today.

I think if you’re looking at a “beat” relative to where there may have been expectations set from models externally. And you’re looking to add that, that’s maybe not a fair thing to look at because it’s possible that those were not updated after the guidance that we gave after the midyear update. So from our perspective, we raised the guidance by the amount we beat our own guidance in Q3 and the raise in Q4.

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yes, exactly.
Meredith Burns - Cimpress plc - VP of IR

All right. I'm going to shift gears to a fun tax question. So when can you begin using your deferred tax assets? And what is your best estimate for the tax rate at a group level?

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yes. So we don’t give guidance on our tax rate at a quarter level. Frankly, from a P&L perspective, there's a lot of volatility quarter-to-quarter in our effective tax rate. And I recognize that makes it hard for all of you from a P&L perspective to forecast.

But from a cash tax perspective (technical difficulty) in the last 2 years, we've had cash taxes of about $30 million. I think 2 years ago, we were a little bit below that. Last year, we were a little bit above that. And we expect to be a little bit above that $30 million this year. I think I would encourage you to model it on a cash tax basis, you’ll find that that’s easier.

In terms of our deferred tax assets on the balance sheet, we have about, I think, it’s a little over $10 million of deferred net deferred tax assets and that can be consumed over the coming years. We do have other tax attributes that aren’t on the balance sheet because they have a full valuation allowance for various reasons.

And even last quarter, we put up a valuation allowance for certain GAAP accounting reasons for some significant NOLs in Switzerland. And those tax attributes, including those NOLs that we put a valuation allowance up against last quarter are still available for use in future years.

And primarily, those are to offset future profitability in the Vista business. And given some of the recent changes we made, but also the expectation even before that of higher profitability in Vista future years, as that comes to fruition, based on our expectations, those tax attributes will economically still be able to be used and will provide great benefit.

Meredith Burns - Cimpress plc - VP of IR

Thank you. All right. We've had multiple, multiple questions about capital allocation choices. So we're going to shift into that now. So this question will be for Robert.

Your $400 million EBITDA guidance for FY '24 will bring your leverage ratio to levels where you will have a lot more flexibility in terms of capital allocation, do you generally have any preference on how you would like to allocate cash in terms of stock buyback bonds, term loans or building that cash on the balance sheet. In the big picture, how do you think about these alternatives?

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

All right. I will speak to the big picture, but we really need to think of that in different time zones, so time frames. So we've been prioritizing liquidity and reducing our net leverage. As liquidity builds, and we go through this deleveraging path, which is very clear based on what we've outlined for next year. our opportunity set does broaden. But we've been very clear, and I want to be very clear again that for FY '24, deleveraging remains critical. It is our financial priority. So after we do that, 15 months from now, we can talk about other options, but we can’t be clear than we have been, that’s our priority.

Over the long term, there's no change to our capital allocation philosophy. We outlined that every year in our annual letters. I'd encourage you to read them. That has not changed, but clearly, deleveraging is the focus for the next 15 months.
Meredith Burns - Cimpress plc - VP of IR

Thanks Robert. So we'll talk about delevering. Can you provide more clarity on the strategy around leverage, is 3.5x for FY '24 a level that you think is a goal to maintain going forward? So Sean, I'm going to throw that one over to you.

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yes. we haven't framed it as a goal going forward. I think -- so it's not a specific target. We said we'll be below 3.5x by the end of FY '24. Hopefully, that's clear based on all the information we've provided in terms of how we get there. I think after that, we certainly, I think, have a desire to live at lower levels of leverage, whether that's 3x or some other number, we'll find out over time and it will also be based on capital allocation opportunities and capital structure as it had been in the past.

In terms of capital allocation then in between now and then, as Robert just alluded to, delevering is a clear priority. And I think there's tremendous value to that delevering path because it opens up the opportunity set from a capital allocation perspective, from a capital structure perspective. And so that is why it remains the clear priority. And then we'll go back to being able to assess all capital allocation opportunities in ways that we have in the past, consistent with all the commentary that we've provided.

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

Sean, I will add one thing to what you said. I agree with what you said in terms of the near focus and reiterating what I just said. We do not want to say what we're going to do 24 or 36 months from now.

That being said, if we had not had to reposition Vista, if we had not gone through a pandemic, and if we had not -- after that, pandemic decided to invest heavily in the future, speaking personally, as a long-term shareholder, I would never have imagined us getting into the 5s in leverage. We never did in the past. We don't think that's really a healthy place for us to be as a public company. And so that's not saying it never could happen again, but it's certainly not what we've done for whatever 20 years since we've been public or 18 years since we've been public.

And so I think you'll see us, broadly speaking, over the long term, going back towards like a capital structure more similar to what you've seen well before that period of turbulence that we've been in the last 3 or 4 years.

Meredith Burns - Cimpress plc - VP of IR

Thank you, Robert. Okay. So just asking for some more detail on the capital allocation front. A couple of questions in here. Just the better-than-expected performance in Q3, your outlook for Q4 and confidence in FY '24 increase your comfort to buy back bonds at a substantial discount to par sooner?

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Nothing has changed here. We've gotten this question in the last few quarters, and I'll give you the same answer, which is something that we look at on a regular basis. Yields are attractive, but we've also -- we've prioritized building liquidity. And as liquidity builds, the opportunity set for that starts to open up.

We obviously, we had a strong Q3. We expect a strong Q4. We still have the restructuring payments and the like to pay out in Q4. But nothing's changed in the thought process here. We'll continue to look in.

Meredith Burns - Cimpress plc - VP of IR

Thanks Sean. All right. That is going to do it for our list of questions. I want to thank everybody for submitting them both live and pre-submitted.
Before we sign off. Robert, is there anything that you would like to share?

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

Thanks, Meredith. So in closing, let me speak to both the near-term performance and long-term performance. First of all, we do think that the plans we've laid out for you for FY '24 align very well with what should drive near-term value for both debt investors and equity investors. And they should, as we've spoken about today, expand our options for capital structure and capital allocation over the longer term.

Likewise, in terms of driving something that's so important to us, our per share intrinsic value over the long-term, the recent performance we've had and the plans we've communicated to you support our belief in Cimpress' strong underlying steady-state free cash flow, and we do believe we are positioned to grow that over the coming years.

We remain the clear market leader. And after multiple years of repositioning and turbulence, which I just spoke to, we are excited to enter a period of focused execution with clear customer value improvements coming out on a regular basis and clear improvements to our financial results. So thank you for joining the call.

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Thanks, everyone.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day.