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PRESENTATION

Meredith Burns - Cimpress plc - VP of IR

Hello, everyone, and welcome to the video webcast of Cimpress' midyear Strategy Update. I'm Meredith Burns, Vice President of Investor Relations and Sustainability at Cimpress. This event is being hosted by Robert Keane, Founder, Chairman and CEO of Cimpress and CEO of Vista; and Sean Quinn, Executive Vice President and CFO of Cimpress and CFO of Vista. This call will be in 2 parts, a presentation from Robert and Sean that will be about 45 minutes and then a live Q&A session where Robert and Sean will be joined by other members of Vista and Upload and Print leadership teams. We will answer both pre-submitted questions and live questions. You can submit questions via the questions and answers box at the bottom left of your screen at any point during this meeting. We plan to wrap up after about 90 minutes.

So before I start, I will note that in this session, we will 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. Our presentation will cover progress we've made since our August Investor Day against the plans we've laid out in our major businesses or groups. We'll do a deeper dive on Vista, where we will provide examples of our progress and reasons behind our confidence in the future. We will then put all that together and give examples of how our businesses benefit from being part of Cimpress, and we will provide an overview of capital allocation priorities and answer a couple of pre-submitted questions on that topic. And then we'll finally move on to the live Q&A session.

So with that, I would like to hand the call over to Robert to kick us off. Robert?

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

Well, thank you, Meredith, and thank you to all of you who have joined today. Before we get into the updates from around Cimpress, let me go at a little higher level and talk about how we are doing from a high-level perspective. And as you know, a bit more than 3 years ago, we made some significant changes to the management reporting, and the objectives across most of our businesses. And we described this in our annual -- in our -- excuse me, in our earnings release at the end of January 2019. Now we've made a lot of progress since then and we've successfully navigated through the pandemic, which began to hit the world just about 2 years ago.

Over the last 3 years, we have been doing a significant amount of foundational work, that will ultimately benefit our customers, but that work has largely been internally facing until now. For example, we've been rebuilding our technology platforms in Vista, National Pen and several of our Upload and Print businesses. But there are lots of other areas of foundation building as well. At Vista, you've heard how we've done an intensive customer research project to understand what should be our strategic North Star for that business. We made 2 key acquisitions to support that vision for Vista's future. And we've invested in talent expansion across Vista, in marketing, data and analytics, in user experience design and other areas.

Another example is in Upload and Print, where we removed a central management layer and moved those teams to the front lines to be organized into 2 reporting segments, which we have today in order to have more hands-on front-line executive presence. It's hard to emphasize enough, how much focus in resources this 3-year Cimpress-wide investment as well as of course, the attention we needed to divert to deal with the impact of the pandemic has consumed. But as I hope you will see today, this is a very solid foundation we have now, and we are leaving this period of our history with a vast majority of our focus and our resources being able to shift to more customer-facing impacts, which can drive growth.

And as we look across our various businesses, Upload and Print is on a good trajectory with revenue above pre-pandemic levels and healthy margins and clear competitive advantages. National Pen has steered for a period of volatility, but now revenue is close to pre-pandemic levels and profitability is at record levels. And this team has been focused on operational efficiency and a complete technology platform rebuild that should accelerate growth in e-commerce, which is already a growing part and importantly growing part of their business.

Vista is dramatically repositioning the way we deliver value to our customers by expanding [and] improving our capabilities in design and digital small business marketing products. And Vista has rebuilt strong foundations, as I mentioned in data, but also in financial rigor, customer focus, talent, recruitment, and technology. There are still pandemic-related negative pressures in multiple product categories across Cimpress, but we are confident in our ability to overcome this with new product introductions, something we're already seeing happening in our Upload and Print businesses and the eventual tapering off of the pandemic impacts.

And while inflationary pressures continue to be significant in most of our cost categories, we see that this is actually setting up a favorable competitive environment and magnifies Cimpress' advantages. And we've shown the ability to not only negotiate well with our supply chain in this environment, but also the ability to raise prices in many cases, given that our competitors are all facing the same issues of rising input costs. So you'll hear a lot more about these subjects in the coming 40 minutes or so. But before that, I would like to step back and address the situation in Ukraine.

With our acquisition of Depositphotos in October, we welcomed a team that is now over 450 members from Ukraine. We stand obviously, with our colleagues there during his time. And our #1 priority is to support them in any way we can in the face of Putin's War against the Ukrainian people and its democracy. We have been very proactively providing logistical and financial support to our team members and [preparing well since] late January, so weeks before the invasion to support our team members in a worst-case scenario, which has come to pass. And we're supporting their personal choices to defend their country and/or to temporarily relocate their families or themselves.

And in the last month, we helped evacuate many of our team members. All of our technology systems run either in servers, outside of Ukraine or in AWS outside of Ukraine. And we have the ability to keep VistaCreate and Depositphotos sites live even if there are continuity issues inside Ukraine. Cimpress, as I mentioned, and Vista team members are doing everything we can to support our team members there as they stay focused on defending their country and trying to protect their families.

Until the invasion we did, through these businesses have customers in Russia. They were a relatively small amount of revenues, but we are obviously complying with all sanctions as they evolve and the direct financial impact of all this, be it from the sanction, compliance or the impact to our business is not expected to be material. But of course, it's materially stressful time for our team members who are living through this war. It's impossible to know how this is going to end and what macroeconomic conditions and supply chains and expansion to other parts of the world will happen. But of course, we don't know yet the direct impact or indirect impact this will have on Cimpress, any more than anyone else does in the world.

So with that, I'd like to turn back to the regularly scheduled program and let Sean walk through the next part of the presentation.

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Great. Thanks a lot, Robert. And let me just say thank you, everyone, for joining us today. So I'm going to get into our business updates here, and I'm going to start with a brief status of our businesses that are outside of Vista. Robert shared some high-level commentary. I'll kind of double-click on that as we go through.

So let me start with our Upload and Print businesses first. The performance in these businesses has been strong in the last few quarters. You've seen that in the results that we've shared. And we're encouraged by the trajectory of these businesses as they capitalize on the structure that we put in place 3 years ago that Robert referred to earlier, which is driving innovation and driving efficiency gains and driving improved accountability as well. Despite the fact that the pandemic definitely still continues to dampen revenue for these businesses in some categories like trade show, signage, like flyers, like brochures. The group together is now generating revenue and profit results that are above pre-pandemic levels, which is great to see. And the strength of the margin structure of these businesses also remains a competitive advantage in today's inflationary environment as well. These businesses have -- just have more levers to pull to serve customers well when some of our competitors with lower margins are faced with economically irrational decisions to continue serving customers, and we see examples of that on the front lines every day and week.

We see the extreme pressure that the current environment is put on some of those traditional competitors, but we also see examples of smaller online competitors that aren't able to continue to operate, and there's a couple of questions on that, that we'll get to in the Q&A. But because of that, we see evidence that these businesses, these Upload and Print businesses as a group are growing faster than the market. And while in many cases, our businesses have taken decisions as Robert said to increase price in response to inflationary cost. Our margin structure here relative to competitors also provides optionality as it relates to that response to increased input costs, where in some places, we're maintaining prices to deliver even more value to customers as a means to acquire more new customers and therefore continue to take share. So that's Upload and Print.

If I turn next to National Pen, last quarter again as Robert alluded to, we reported that National Pen performed well with record segment EBITDA, as they had a strong focus on operating efficiency over recent years. And it was really the first time that we were able to see that operating efficiency improvement shine through their results because the last few years have been quite volatile. Similar to the Vista business, National Pen has been under a multi-year effort to upgrade its e-commerce technology platform and that new platform has already launched in Europe. It's already launched in our Asian markets, and its unlocking new opportunities. And most importantly, it's enabling us to use data to help improve decision-making [and clean] advertising, which is a very significant component of their P&L.

National Pen is on track to launch their new e-commerce platform in the North American markets by the end of upcoming September quarter, which is a really important milestone. And they're also continuing to identify and execute on continued cost structure efficiencies that we expect to continue to come through in their financial results. So good trajectory there as well. In our all other business segments, they also, as a group, continue to execute well, and this segment as a whole has higher revenue and higher profit compared to pre-pandemic periods.

BuildASign, which is the biggest component of this segment is executing well. The year-over-year comparisons in the last few quarters as you've seen are difficult, because last year BuildASign benefited from both favorable pandemic environment with respect to demand for home decor products, but also a favorable competitive environment as it relates to their transactional marketing channels. But the results of BuildASign are strong. The team there is working on new product introduction, working on data-driven customer experience improvements, efficiencies that are going to continue to benefit us. And BuildASign also we've disclosed this completed a tuck-in acquisition of a new product capability in Q4 of last year, so the June quarter. And that acquisition continues to gain traction with high rates of revenue growth, but also positive EBITDA contribution.

Printi, which is our business in Brazil is also gaining market share. That business continues to scale and as it scales, its profit and cash flow prospects have improved. And while the U.S. dollar impact of that business isn't as significant given the significant devaluation of the local currency there over the last years. [Printi is] operating at record revenue and gross margin levels while also continuing to leverage new product introduction and approaches that have been successful in other parts of Cimpress around the world, putting that business on a healthy trajectory.

So that's a quick update on our businesses. Other than Vista, these businesses altogether generated $1.3 billion of revenue and a little over $150 million of segment EBITDA over the trailing 12-month period, which, of course, includes still material pandemic impact over that last 12 months. But together, these businesses are now operating at revenue and EBITDA levels that are above pre-pandemic levels, while still making necessary growth investments. And we think that these businesses are also now operating at a run rate of steady-state free cash flow. That's ahead of where they were before we entered into the pandemic about 2 years ago, So good progress here.

Now, let's turn and between Robert and I [we're going] to review our Vista business in more detail. Here you're going to hear about tangible examples of our progress to position Vista for return to value-accretive growth, and also reasons behind our continued confidence in the future of the Vista business. And so let's start with the view that's similar to the ones that I showed already for the other segments, but here we added a view of H1, the first half of fiscal 2019, which dates back to the quarter or the half of the year just before we announced significant changes that Robert alluded to in his opening remarks in the Vista business and also when Robert, Maarten, I and other stepped back into the Vista business as well.

Vista's revenue is above that FY'19 level, the first half of FY'19 and also pre-pandemic levels on a reported basis, but on a constant currency organic basis because we had some acquisitions there, it's just below that FY '19 and pre-pandemic levels. When you look at the drivers of the EBITDA changes since that first half of fiscal year 2019, there is really 3 things that are happening. There's still some pandemic effects that weigh on our gross profit and our gross margin since our product mix is still different than it was pre-pandemic. But overall, gross profit dollars are stable to improving. Contribution profit is up because of the significant effort we put towards improving the return on our advertising dollars, which we've talked extensively about in other investor updates over the last few years and we'll spend more time on that throughout this presentation.

And then operating expenses are up significantly given the significant investments that we're making in the Vista business. And again, we'll talk more about those today. So that comes together to yield an EBITDA that's slightly below where it was just before we step back into the transformation of the business, but with significantly more growth investment. And I hope by the end of this presentation, you will agree that Vista's underlying economics of today's P&L and our prospects to return to value-accretive growth are much, much healthier than they were in the first half of fiscal 2019 before the pandemic.

So I'll double-click on that a little bit. Here you can see the drivers of our segment EBITDA. On the left, you'll see contribution profit, which is kind of the upper half of the P&L through advertising spend and through our payment processing. And you can see the improvements that we've made since 2019 pre-pandemic. And in the middle, you can see here our operating expenses, including advertising and payment processing because they are included in contribution profit on the left, but also excluding any restructuring or amortization of acquired intangibles. And you can see here that, OpEx is up significantly versus fiscal 2019, because we're investing significantly to build talent and capabilities in tech and data and user experience design and marketing and other areas. Again you'll hear a lot more about that in the remainder of the presentation.

And the combination of those dynamics in the 2 charts on the left yield the segment EBITDA trend on the right, where higher OpEx from investment, but also some of those lingering pandemic impacts are more than offsetting the positive effect that we've had on contribution profit. And we believe that over time, we'll build a trajectory of increasing that contribution profit, which will catch up and then far surpass the extra OpEx that we've added in for this growth investment. And today's presentation will show multiple examples of the progress that we're making because of that increased OpEx investment, even though we still remain early in capturing the financial benefits of those investments.

So over the past 3 years, and despite the major turbulence that's come from the pandemic and all the distractions related to that, Vista has made great progress at strengthening foundational basics such as technology, data, financial rigor, talent recruitment and engagement of our team members, and customer focus. And these are things that we've also talked about in the past with you all as well. These foundations are getting stronger every quarter and this slide here highlights just some of the areas where we've been expanding on and improving these capabilities, as we've talked about in past investor sessions as well.

So first, we needed to modernize our technology platform. And the old monolithic tech stack that 15 years ago was state-of-the-art and [was essential] to our ability to grow and become rigid and very, very constraining over time. 3 years ago, actually, on this update call that we had with investors, we said that we would invest in a total rebuild, and we're nearing the completion of that really, really enormous project, and it's tough to really truly state how big that project was. We migrated to the new platform in our largest market, the U.S. last week, which is a really big milestone. And now with the U.S. on the new platform, we have about 80% of Vista's revenue flowing over the new tech stack.

At present, we've really largely only replicated features that existed on the prior monolith site, and our teams need to continue to migrate the remaining countries that we have left. But that being said, we're going to be really be able to increasingly leverage the state-of-the-art technology infrastructure as an enabler for many growth vectors for Vista, again, that you'll hear about today like new product introduction, like in data and analytics, like in personalization and improvements to customer experience across our design, digital and our print offerings. And we already see tangible examples of this in the countries we migrated, although, of course, until we launched in Canada and then in the US, the total kind of revenue base that those examples were in was still fairly small, but of course, that's now changed with Canada and the U.S. on the new platform.

Next, we've built financial rigor into the way we work, which has driven accountability across all the functions of our business in Vista, team members at all levels participate in weekly and monthly and quarterly business and financial reviews with leadership, where we do a deep dive on performance. We're building P&Ls and return on investment views of cross-functional initiatives to complement the traditional reporting that we have, which has in the past been more functionally focused. And all of that together provides much more actionable data to ensure that the capital we're deploying into organic growth initiatives in Vista, which is significant, is generating and will generate financial returns that are in line with our expectations.

Vista has also become much more magnetic to talent by building a culture of growth, a culture of belonging and career opportunity. And as we described back in August in our Investor Day, we've been very intentional about our remote first approach that we've taken. We're investing behind that as a way of working, and that's really helped us to better recruit, better retain and engage top-quality talent. Remote first has allowed us to tap into new talent pools in locations where we couldn't hire before and also attract and retain talent in existing locations because our team members really value the benefits of the approach that we've taken and the investments we've made behind them. And finally, we're increasingly data driven. We've recruited very skilled team members from great data driven companies. We've improved our data infrastructure and tooling and we're instilling a renewed culture of experimentation.

So let me say a little bit more about our technology platform. And since our U.S. site launch was last week, and we've now migrated off the monolith there. That's really key to a lot of the things that we're going to talk about today in terms of unlocking the ability to have those be more customer impacting. So let me highlight where we are today on that. We've been launching new sites over the last 2.5 years. We've started, as we've talked about before, in smaller new markets, and we've been moving to larger ones as we've rebuilt the capabilities our capabilities on the new platform. We've tested, we've learned, we've optimized along the way as well. And while each launch came with an expected customer satisfaction and financial impact, initially, as we've talked about and outlined in our last earnings letter as well, we also were able to reduce the amount and the longevity of that impact with each successive launch.

And so for example, in September, when we launched in Canada, we saw a 50% reduction in those negative impacts, those initial negative impacts from a customer satisfaction perspective compared to some of the earlier launches, which is just a signal of the continuous improvement that we're able to make as we continue through that journey. It's only 1 week since we launched in the U.S. I can say that we are happy with the results so far. We did see the typical drop in conversion rate and bookings as customers get used to the new site in those first days, but that has continued to improve faster than in previous launches. And now the U.S. team is focused on rapid new product introduction in the coming weeks and the coming months and they look forward to driving much more personalization of the site experience as well. So a really, really big milestone for us there.

We still have several more markets in Europe that need to complete their migration in the next several months. And we're really, really excited about what the post-monolith future holds, so we can get our technology teams focused on building new customer-facing capabilities instead of replicating capabilities on a new architecture. And so that's a really pivotal moment. It's going to help us move faster along, so many of the vectors again, that we'll talk about through the remainder of today's presentation. Our financial -- [foundational basics] have had a clear benefit in improving our per customer economics as well. And specifically, the ratio of our lifetime cash flows to the cost of customer acquisition. And we talked a little bit about this in our August Investor Day, but let's look at some of that data in the next couple of slides as well.

Back in fiscal 2018, and in the first half of 2019 before some of the changes that I referred to before, Vistaprint was still pursuing revenues and new customer acquisition that couldn't be justified economically. And it was not focusing on our most profitable customers or those customers whose overall wallet size, including what they spent with competitors could make them into strongly profitable customers for us. We showed the same slide about 6 months ago in August, which shows that by improving how we serve higher-value customers, we've significantly increased the variable contribution profit per customer for our top 4 customer deciles between FY '18 and FY '21. You can see that clearly here.

And on the other end of the spectrum, our combination of deep discounting and heavy advertising that we had in the past, which also was heavily focused on discounted business cards meant that we actually lost significant amounts of money on our bottom 2 deciles and the lifetime cash flow per customer on those bottom deciles couldn't justify our cost of customer acquisition per customer. These positive trends you see on the slide, continued in the same direction in the first half of the year since we last shared it in August, and we believe that there is a lot more opportunity here ahead.

On this next slide, the left-hand chart shows that we've been able to improve our value proposition and move away from constant discounting and thus, since 2019, we've been able to steadily increase the gross profit that we generate per customer, you see that on the left. On the right-hand side of the chart, that shows that our improvement to the cumulative per customer contribution profit. In other words, taking the spot the chart on the left, but also deducting advertising expense has also been significant. The biggest gains there came from some of those early moves that we made when we first made changes and in the second half of 2019 and into the first half of FY'20 prior to the pandemic to eliminate that ROI negative advertising I referred to before. But despite the lingering impacts of the pandemic still, we've continued to improve this very important metric. And again, we think that there is a lot of opportunity to continue to improve them.

The next slide then puts our improving per customer economics into a little bit of a longer-term historical perspective. And almost all of Vista's history, including for the decade prior to FY2012, which is the starting point for this chart, we've consistently increased the value of our customers. But you can see that starting in 2016, the value per newly acquired customer stopped growing. And you can see that on the left, which is the variable gross profit per first-time order. And then you could also see that the rate of growth for repeat customers slowed, which you can see on the right showing our variable gross profit per repeat order. And you can clearly see that we've turned the tide on both of those metrics despite the tough situation of the pandemic for all of fiscal '21 and even so far in fiscal year '22 as some of those lingering impacts persist, which are represented on the right-hand side of each of those 2 charts.

So now I'm going to hand it over to Robert to continue through the next section.

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

Thank you, Sean. So let me just follow up on the last slide, which Sean just reviewed. Because as you said, Sean, growing the per customer cash flow has been one of the key economic engines, which drove Vistaprint to now Vista's growth for more than 2 decades, but it [did stall] from 2016 to 2019 fiscal years. And going forward, as we have in last few years, we're going to continue to focus on expanding the value we deliver to our customers, which in turn drives up this very important financial metric. And to do so, we've -- based on very significant large-scale quant research of customer needs and desires. We have a very clear vision of how we're going to expand that value. And this is the same slide we showed in our most recent Investor Day 6 months ago, that talks about our strategic North Star to become the expert design and marketing partner to small business. This vision is based on that extensive research I described. We did that in the calendar year 2019, and it's really helping us align on our priorities.

And I do want to be very clear that at Cimpress and at Vista, we know how to drive great cash flows and therefore great shareholder value via the mass customization of physical products like print, logo apparel, promotional products, signage and packaging. And that mass customization physical product leadership remains our economic engine, and it will be the predominant means by which Vista is going to drive cash flow in the future. But the vision you see on this slide, again, based on that customer research is based on the understanding that in order for us to continue to grow that cash flow engine of mass customization, we wanted to really encompass Vista into this expanded value of around design and digital marketing products because those are so critical to today's small businesses.

So let's look at some of the examples of progress against that vision. First of all, thanks to the freelance based design capabilities we acquired with 99designs. We're better able to see -- serve the needs of high-value small business customers who want premium design services, driving a stronger relationship and driving an opportunity to serve more of their marketing needs. And serving customers like these is going to be a key driver of the higher value, upper decile, small business customers, which Sean just referred to a few moments ago. Now this is a real customer, [Lacy Hambrick], who was thrilled with her new brand identity and she got via 99designs by Vista and then went on to purchase multiple Vistaprint products to bring those designs to life. Lacy owns a salon in Florida, that specializes in hand-tied hair extensions and dimensional color. And for her, image matters and there's an educational component to her relationship with their customers.

And 99designs by Vista designed not only a new logo, but the layout of the priceless documents and a multipage for sure that include service information for new customers, post-service care instructions plus a referral card for [word-of-marketing] of her business. And when complete, the design materials were printed by Vistaprint, and Lacy also ordered [logs from] us with her logo to giveaway to our clients as well. Now when we asked Lacy about what she liked about her experience of Vista, she said in this industry, her industry, it's so important to have a brand that sets you apart. And I found an amazing artist and it was everything I was looking for. The secret was 99designs.

Now we take a lot of pride informing customer relationships like this, and we're hyper-motivated to help our customers succeed in building and growing their dream business just like Lacy is doing. Beyond that passion for helping small businesses grow their business, and for your shareholders, economically speaking, these higher-value relationships which are still with very small businesses are a key driver of the per-customer cash flow and therefore, the continuation in the return to future growth. It's a very long way from the discount-driven business card focused approach of prior years.

Also in today's world, digital relevance is critical to small businesses for their design and marketing. We found through our customer research, but you also just see everything you see around you in today's world. And our investment in VistaCreate is driving Vista forward on that path. VistaCreate makes it very easy for anyone to design beautiful social media posts, including video and sound tracks. It's in the very early days since we gained this capability via the Depositphotos acquisition, but it was already a great product before and we are investing to improve this value proposition with new features that we want our customers to see. Up until a week ago, before the invasion, we were rapidly rolling out new features. I'll describe some of those. We will be back to that in the near future. For example, on the video, you see on this slide, it's demonstrating how a new feature of styles allows anyone to play with designer created color pallets very quickly and easily to find something looks great for their business.

We've also introduced very recently the ability to directly post from VistaCreate designs to the small business pages at Facebook, in Instagram. We've added new design content in tutorials to help users be engaged and to attract new users as well. And we've added more value to the free version of VistaCreate as a software, because, for example, we've made background removal and brand kits free to everyone. We're doing that because by packing this free version of software with great value, we can accelerate the already rapid new user growth that they were having prior to that acquisition and then monetize those customers with over time with our many other revenue streams, be that of the physical products or design services or websites with our partner, Wix, which I'll talk about in the next slide. Importantly, for the customers, it just is a great digital relevance to have social media like that.

A second part of digital relevance is, of course, a great website. And as you know we have offered websites for more than a decade at Vistaprint. However, last year we took the decision to step back, look at the reality of where the competitive markets [or the] customer needs and to make the decision to stop internal development and to instead partner with the world's best company for small business websites, which is Wix. And since then team members from both Vista and Wix have been working together to build an integrated experience for Vista's customers that will propel us forward in terms of our relevance for this critical part of a small business's digital presence and their design and marketing.

Now [Vista times Wix] is already live in the UK went so recently, and we've seen strong upticks in the number of sign-ups relative to what we had historically with our own internally developed website product. We plan to launch in multiple additional countries in the coming months. And we're on track to begin migrating existing Vista website customers that we already have to the Wix websites in the coming weeks. And this will give us a stronger digital marketing value proposition, complete with subscriptions upgrades and add-on paths and importantly, economically stronger cohort value of our customers. The Wix team and the Vista team had a great working relationship and strong mutual respect, and we're confident that the relationship is going to get -- is getting the resources it needs to succeed not only now but over time as well.

Another area that we're investing in is community activations, which we believe are helping us to enhance our reputation as a small business partner. For example, we're using our relationship with the Boston Celtics to support local black-owned small businesses through [financial guidance], our design makeovers and marketing support. There are many other examples of our efforts to truly support small business from activating brand ambassadors on social media to supporting LGBTQ plus businesses through our partnership with StartOut. Our efforts here across the board of activations are just getting started, and they're helping us move from a transaction-oriented reputation and reality to a relationship-oriented reputation and reality.

Now our new tech platform that Sean mentioned and which we've been working on for so long and our increasingly data-driven culture of experimentation are allowing us to get back to continued improvement in some very important areas of e-commerce basics. This slide shows some of the early wins we've achieved through testing on a new platform in the markets where it's been live that can increase advertising returns, it can drive engagement through free-marketing channels, and very importantly, it can improve the merchandising on our website through that type of experimentation. And importantly, when combined with being close to our customers with ongoing customer research, we're setting the stage to drive more relevant, more personalized customer experiences in the future that support the vision I spoke about before and will financially improve customer lifetime value and longevity.

Another advantage of our new platform is that in combination with the Cimpress MCP, the Mass Customization Platform, which we've also been investing in over the past years, and the new Vista platform and MCP are directly linked to each other. This opens up significant opportunity for us to expand the breadth and the depth of our product range, including tapping into the vast product ranges of other Cimpress businesses besides Vista. Revenue from newly introduced products now represent 6% to 10% of revenue in new platform markets other than Canada and the U.S., which only recently migrated. As Sean mentioned, in North America, we're ramping up new product introduction. And this is a major benefit of the new tech platform. If we can -- we can launch new products faster with fewer or sometimes no technology resources. And we know from Vista's prior history of new product introduction as well as what we see going on today with other Cimpress businesses. The new product introduction is an important part of enhancing the customer value proposition and of extending our relationship with those customers into new areas.

And over long periods of time, not only at Vista, but at Cimpress overall, we've brought the mass customization paradigm to entirely new product areas, which have opened up new ways for customers to professionalize how they show up for their growing their business, and that generates new revenue streams for us. As I mentioned, now the U.S. and Canadian sites are launched, NPI, New Product Introduction is going to start to accelerate in North America. We certainly expect to see results similar to what we've seen in Australia and in the parts of Europe where we've already been on the new tech stack for a while. Thus far, you'll see in North America, we've already started adding packaging products in Canada and the U.S., after a multi-year period of very little new product introduction there.

So Sean, I'm going to turn it back to you to take us through the next section on what we're doing in terms of our marketing returns.

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Great. Thanks, Robert. Yes. So, continuing on the -- just examples of progress throughout Vista and we've shared this to some extent over the last years as we've significantly improved the efficiency of our performance marketing channels. The chart on this slide here, it shows one of our larger channels which is nonbranded paid search. And so for example, keywords for the types of products that we sell via Google search and the offers and creative that we serve to different types of customers as a result of that.

The return on advertising spend is the measure that we used to look at efficiency here kind of at the time of spend. And that's the relationship between the amount we spend in a given channel and the variable transaction profit that is driven from that spend. Now importantly, it's the variable transaction profit from that spend, not revenue. A lot of companies for a variety of reasons do look at this in relation to revenue. So I just want to make sure that's clear in reference to the percentages here.

And then we factor in the future customer lifetime value to estimate the full returns on that spend and the time to payback. So the chart shows that we've grown our return on advertising spend, again, using this definition from 58% to 74% over the last [few] years. And that's despite some of the higher cost of that advertising inventory in these channels. So very meaningful improvement. And that's been helped by the investments that we've made in our Data and Analytics team, but also improved tooling and data infrastructure behind that. And we believe that we have more opportunities to either continue to improve the return on investment further and find -- but also to find more opportunities to allocate capital above our investment return thresholds in our performance channels. And of course, as we make progress in the other areas, some of which Robert has highlighted, and we've been discussing today, that gives us more opportunities to improve our customer economics and therefore gives us more opportunities to allocate capital to these channels with strong returns.

And as we become more efficient in our performance channels, we've also begun to evolve our marketing mix to include more mid-funnel and upper funnel spend. And we're also elevating our messaging in free advertising channels like an e-mail to continue to evolve the perception of Vista as the expert design and marketing partner to the world's small businesses. The video here that you can see on the iPhone that scrolling is a recent e-mail campaign, where we are demonstrating the importance of design and product coming together to create impactful marketing for, in this case, a jewelry designer, Jack Eller studio. And you can contrast that to the highly discount-driven and transactional messaging that would have been used in the past, just as an example.

We recently announced a new sponsorship with Liverpool Football Club in the U.K., but of course, with a global fan base where we can reach millions of potential customers by celebrating the small businesses that are in their network in partnership with one of the world's most iconic and well-loved sports teams. So let's have a look at that advertising spot that we created to celebrate the announcement of that partnership.

(presentation)

Great. I love that Liverpool spot. I think it's a really great representation of how our brand is evolving. And it also shows Vista is standing with small businesses and moving well beyond just transactions with those small businesses to a much more impactful relationship. So we've provided a lot of examples in this just a section about our progress. We talked about our foundational basics that have already yielded much improved per customer economics. They've given us also improvements in terms of people, processes, technology to deliver an expanded customer value proposition. And we're also building new or enhanced capabilities, the design, digital relevance, our reputation as a partner to small businesses that are driving us toward our North Star that Robert talked about to be the expert design and marketing partner to small businesses. And that will all help us to serve our small business customer better for longer, but also with a much stronger value delivery to those customers than we had in the past and importantly, differentiating us from printing companies, both online and offline.

We now have a healthy customer base from which to build upon, and we expect to continue to grow the value of our customers as we've demonstrated that we can do over a long period of time. And we believe we have more opportunities now to grow our active customer base as well, through design, through digitally relevant solutions like VistaCreate, through relationships built with many talented designers at Vista and 99designs, through new product introduction that we talked about earlier as well on physical products, which can now accelerate with the important move to the new platform and through digital partners like the one that we have with Wix. And all of that is also underpinned by the compounding value of the many optimizations that are being unlocked now across the majority of our customer base on the new technology platform, and we've only scratched the surface of those today.

So we want to be clear and Robert mentioned this earlier as well. In no way are we pulling back from the traditional strength in e-commerce for print or other physical products like signage, like apparel, packaging, promotional products. To the contrary, we see those areas as the primary way we can continue to grow the per customer cash flow from the expanded customer relationships that we're building. We've made significant progress, yet we think that this is only the beginning for the Vista business. By bringing these capabilities together in a seamless customer experience, will provide something that's truly unique in the market, and we have more levers to monetize our customer relationships than niche players in print and digital or design markets.

And so now Robert and I are going to take a step back to look at a little bit of sort of the big picture here, tie all this together. And so let me turn now to some of the benefits from an overall Cimpress perspective. And over the years, we've described the advantages that our businesses have from being part of Cimpress. The strong financial results that I outlined earlier for Upload and Print for National Pen, for our businesses and our -- all other businesses segment are due in part to the benefits of being part of something larger, and we expect those advantages to continue to grow over time.

This next slide here is a slide that Maarten showed in his August investor presentation, and it shows the categories of our MTP or mass customization platform technologies and the ways that they help improve revenue and cash flow for our businesses. I'm not going to go through this today in any deep way, but we've continued to make strong progress since our August Investor Day in terms of technology adoption and value delivery throughout our businesses. And very importantly, with the technology replatforming that we've talked about, we have much more seamless adoption of our mass customization platform technologies and services, and we're seeing, again, very significant examples of that throughout our businesses.

Another area that we see clear advantage from a Cimpress perspective is in the action and response that we've taken to challenges caused by recent supply chain disruptions and also cost inflation. And we shared some of examples of this in our earnings document for the past 2 quarters. But the supply chain environment has been challenging. But at the same time, we believe that this also creates an opportunity to really increase or magnify our competitive advantages in this area. We have a Cimpress procurement team that bundles together the needs of all of our businesses in company-wide contracts and makes us much more relevant to our suppliers in the markets that we operate. And that scale also allows us to have a different level of relationship with many of our suppliers than our smaller competitors do, which leads to ultimately lower cost, and we see clearly when we buy companies, we see those advantages very clearly, and they're material.

Our most relevant contracts that we have also have a duration of at least 1 year, which has shown us from some of the volatility in recent quarters. And together, this has ensured business continuity and also further improved our relative cost advantages compared to competitors that are experiencing price pressures and major shortages. So that's been very impactful. Now let's look at a couple of examples, which are evident on the slide, the [donut] here in the middle, just to orient you, breaks out our fixed and variable cost of goods sold components using fiscal -- our last full fiscal year, fiscal year '21. And you can see that, that sort of total donut of our cost of goods sold represents $1.3 billion of costs or about 50% of our revenue.

Market costs have increased in every one of these categories over the past year, so let me kind of walk through them. The increase in our cost has been lower than the market. And for example, paper prices based on external data have increased up to 25% in the market as a result of the combination of factors related to the pandemic, but also the current geopolitical environment. And meanwhile, our paper costs in total have been stable in 2021, fiscal '21, and we expect to close fiscal 2022 with an increase of only 6% on an average across all of our businesses, so well below what the market has experienced.

Shipping costs also play a key role in our cost structure, higher energy prices and higher demand have certainly had an impact on shippers and logistics companies to ask for significant rate increases in the market of up to 15% year-over-year. Our long-term contracts that we have and our relationships have allowed us to limit that impact to around 2% year-over-year. Our third-party fulfillers, which you can see is another chunk of our cost base here, have access, in many cases, to our pricing for materials for freight and for equipment. And so we've kept inflation of those costs lower than the market as well. And then our labor and energy costs and some third-party fulfillment costs have increased with the market, but the combined impact is much, much lower than competitors who see increases across all these categories.

We've also, as we've talked about in the last couple of quarters, we've implemented customer pricing increases, which to date has offset most of the impact of our cost increases on our gross margins compared to pre-pandemic costs. We've also seen, aside from just dealing with inflation, we've seen from a supply chain perspective that through our scale, supplier relationships, but also leveraging our mass customization platform to reroute orders that we've been able to maintain supply chain continuity. Paper shortages have been a real issue for a lot of folks in our industry, and our businesses have largely been unaffected by any shortages there. We've seen similar benefits in our logistics networks and through the use of again, our mass customization platform through the holiday peak, but also during a recent shutdown of the investor Bridge, which connects Windsor, Ontario to Detroit, Michigan. That's a key border crossing for our Vista business, and we're able to navigate that successfully for the same reasons. So all these things come together in ways that drive significant advantage relative to our competitors.

So that's a little kind of update on Cimpress level advantages. Let me touch on capital allocation, and then I'll turn it back to Robert. The summary here from a capital allocation perspective is that our priorities haven't changed. The clear priority for us right now is to continue with organic investment, especially in Vista. And our hope is that the examples that we shared in today's presentation, give you a sense of some of the tangible outcomes for customers that will drive financial impact from those investments. From an M&A perspective, we regularly evaluate opportunities for smaller scale M&A that could be integrated into our Cimpress businesses. We don't expect anything on the scale of our recent 99designs or Depositphotos, acquisitions or anything larger than that in the near term. So you can consider that to be small, if any. There's longer-term opportunities here to allocate capital, but in the near term, consider that to be small funding.

And so with the share price or our share price at a level that we believe is well below our intrinsic value per share, the main capital allocation question that we get and featured in some of the pre-submitted questions as well. But also it's something that we discuss internally, including with the Board is around share repurchases. And again, we've had some pre-submitted questions on those. I'm not going to read all those questions exactly, but I'll try and summarize, which is a couple of categories. One is, how are we thinking about the current share price relative to our intrinsic value? How we think about the trade-off between share repurchases and organic investment? And then how we're thinking about leverage and liquidity needs as well?

And so let me try and address those. And if there's any other questions, I'll take them live on the call here. But there are a few dimensions to our decision or to repurchase or not to repurchase our shares. So let me just kind of walk through those as we thought about this even in recent months and quarters. The first is that, as I said before, we prioritized organic investment, and we've been clear about that for some time. We think it's the thing that will have the biggest impact on our per share value and specifically getting Vista to sustainable growth with renewed customer economics. And again, we've shared a lot today on that. We've been on that journey since January of 2019, so 3 years now. And as of last week, as we mentioned, we have 80% of our revenue on the new

Platform. We've invested in so many of the building blocks to our strategy. And so we need to make sure that we keep going on that journey and that takes investment. Outside of Vista, where things are on a very good trajectory. [There is growth] investment there, but the vast majority of our organic investment is in Vista.

The next consideration is liquidity. And with the changes to our capital structure that we made last May, we have $1.1 billion of Term Loan B. We have $600 million of our 7% bonds that are still outstanding. We don't have any financial maintenance covenants and our liquidity is now in the form of the cash and the marketable securities that we hold on the balance sheet. We ended last quarter with a little over $400 million of cash and cash equivalents and marketable securities. And since then, we paid the second half of the purchase consideration for 99designs, a little over $40 million. And then we normally have working capital outflows in our third quarter as well. And we're comfortable with our liquidity. We're also cash generative and so that, that will increase over time depending on capital allocation choices that we make.

And then lastly, leverage plays a role. We've said that we expect to delever by the end of [FY 2023] relative to where we ended FY '21. That said, the maturity on our term loan B is May 2028. Our bonds is May 2026. And we don't have any maintenance covenants. So liquidity becomes the primary driver there, but we have made past commentary on leverage as well. And so we'll continue to consider share repurchases as a complement to our organic investment, and that's a continual consideration. We do enter our blackout period in a few weeks. We haven't repurchased anything to date this quarter. And just so you know, before we do any repurchases, we're required to file an 8-K to disclose a share repurchase authorization by the Board just so you're aware, and that's part of being an Irish company the way that, that works. So you'll know before we do any repurchases.

In any case, the current share price absolutely does increase the hurdle rate for any organic investment that we're doing and any use of capital. And that's not always an easy spreadsheet exercise to determine that, especially given the overall Vista transformation, but that's the way we're thinking about it for sure, and we'll continue to do so and continue to evaluate opportunities in that space.

So Robert, why don't I hand it back to you to close this off, and then we'll get to Q&A.

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

Okay. Thank you, Sean. So as we take a step back and reflect on the past 3 years, as we've said today, we see clear signs of progress, and we've proven our ability to navigate through the volatile macro environment that is included pandemics and supply chain challenges, inflation and now war. Yet, we've also stayed focused on building up our capabilities to deliver increased customer value and service of increased cash flow over the long term. Our teams are executing well, and this has started to show very clearly the financial results of the Upload and Print, the National Pen and the all other businesses segment.

In Vista, we're finally [breaking 3] of our old monolithic technology and as well as the discount business card focus that we had in our brand that was holding us back. And that transition to our new tech stack or foundational basics to our new vision for where we're going as a business and as a brand and has been taking a lot of focus. We're finally able to start introducing new capabilities that really drive benefit to our customers. And we have many different sources of confidence for our future. We're going to continue to execute our data-driven decisions. We're going to invest in key capabilities, and we're constant -- we're confident that we can achieve the type of steady-state free cash flows that we were achieving prior to the pandemic levels.

So with that, Meredith, I'd like to hand it back to you to kick off the Q&A session of this call.

QUESTIONS AND ANSWERS

Meredith Burns - Cimpress plc - VP of IR

Thank you, Robert. Great. So on this slide, you see the executives that are going to be joining Robert and Sean for the Q&A session. We've got Maarten from Cimpress and Vista. We've got Emily, Ricky and Basti from Vista and we've got Paolo from the Print Group and Pixartprinting. And so at this point, I'm going to ask our speakers to turn the cameras on, stay on mute. We'll take the slides down, so that you can see us as we're answering questions. And we will move into the Q&A session.

So I think for the first question, I'm going to take a precipitating question just to do a little bit of a deeper dive on advertising efficiency in the Vista business, it's going to be for Sean. The question is, can you help us better understand how a dollar spent on advertising before the changes that were implemented over the past 24 months or I would say, probably 36 months compares to $1 spent today. Can you estimate in percentage terms, how much more effective our marketing spend is today versus a couple of years ago? Any examples you can share on actual marketing initiatives would help make this easier to understand.

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yes. I'll start and Basti, please chime in if you want to add anything here. But I showed a little bit of this in the presentation. So where should the return on advertising spend, again, those percentages being our variable transaction profit relative to the spin. And that was for one of our larger channels, which is [page search nonbranded]. And over the time period that was in that slide there, you can see that the increase in the efficiency there was more than 27% from 2019 -- fiscal 2019 to fiscal '21, going from 58% to 74%. So that's very significant. That's not an LTV calculation. I mentioned that in my earlier remarks. And so to the extent that our customer LTV is increasing as well, then that would be a further lever of improvement in the returns and efficiency of that spend, which isn't fully reflected in that number.

So we have a lot of confidence there. Hopefully, that specific example gives you confidence as well. We've also added mid and upper funnel spend into the mix, which doesn't have the same kind of payback time line or horizon in our last fiscal year, just to put that into context, the combination of those 2, our mid- and upper funnel spend was a little over 1% of Vista's revenue. So relative to those other channels, not anywhere near as significant. But Basti, do you want to add anything?

Sebastian Klapdor - Cimpress plc - Chief Data Officer of Vista

Yes. Sure, Sean. So yes, I'm actually super excited by kind of building these scalable data products on our data mesh architecture that really allow us to put machine learning models into production. And this is, I think, very impactful use case. They are bringing almost that 20 percentage points uplift, which we already did in the first couple of months. Now the good thing is that there are new versions of that machine learning model in production or in development, which will allow us to scale it also to other channels, including, for example, display. And that will also allow us to make more use of the data that our advertising partners have as a platform. So because with the loss of the third-party cookies, [and even in my notes], the data situation for cross-channel advertising gets more complicated. Therefore, we are really tapping now into the full capabilities of our advertising partners like Google, for example, to view and customers across all of their properties, and again, tap into that this machine learning models to optimize a bit. So more cool things to come on the automated performance optimization.

Meredith Burns - Cimpress plc - VP of IR

Excellent. I'm going to bring Ricky into the conversation now for another pre-submitted question. The pandemic has drived on for longer than most of us would have predicted. Do you think there have been changes to how our customers do business, which may have permanently impacted demand for our products for better or worse?

Ricky Engelberg – Cimpress plc – Chief Marketing Officer of Vista

Thanks, Meredith. Great to be here today. And obviously, the pandemic has been multiple years at this point, and it has definitely impacted the way the world exists. I mean you think about how many companies have made digital migrations where they have thriving e-commerce businesses now remote session, Zoom sessions. I mean I think we experienced all in our daily life. But we've begun to see most of our print categories return back to pre-pandemic levels at this point. The reality is that the world is back open, that there are things like trade shows happening. There's large gatherings happening. There's regular retail hours again. But now things like takeout businesses are just a core part of existence for a lot of restaurants that maybe didn't -- wasn't there before in some places.

And so I think for us, it comes down to understanding the holistic needs of small businesses and making sure that we continue to have the right offerings. And that's where so many of the choices we've made from a digital standpoint, be it the partnership with Wix, the acquisitions of VistaCreate, but also to continue to push on NPI and the things that are more needed for these digital-first companies from a physical print standpoint, things like packaging, die-cut stickers are all things that help us be prepared for all the new opportunities that have emerged post-pandemic.

Meredith Burns - Cimpress plc - VP of IR

Excellent. Okay. I'm going to bring Paolo into the conversation now for a question on the competitive landscape, which we touched on a bit in the prepared remarks. But the question is, we know that in the early stages of the pandemic, we didn't have time to take stock of what was going on industry-wide and how our competitors were faring versus Cimpress businesses. 2 years later, can you please give us a sense of how the market has evolved and provide general commentary of how our offline and online competitors have fared?

Paolo Roatta - Cimpress plc - CEO of The Print Group & Pixartprinting

Sure. Yes, the competitive landscape clearly has shifted versus where we were 2 years ago before the pandemic. We see that the price-intensive competition that we were experiencing in some of the segments of our portfolio, especially in the small format marketing materials is not there any longer. And this is the consequence of the fact that those players were exposed solely to these products were badly hurt by the pandemic.

On the other hand, players like us who kept investing in our technology, innovating, with introduction of new products and developing new category of products, and I'm thinking of packaging labels and others. We've seen an increase in our market share. We see a great customer acquisition and as a consequence, the impact is very positive on our growth rates. So yes, the competitive landscape has changed.

Also, I will say that all these kind of shocks, including the increase in costs for raw materials or in energy costs. In a way, benefit those players that have -- that enjoy a market leadership position, where the margins are higher because that gives us the flexibility to not necessarily increase price every time that there is an increase in cost. And therefore, we're able to give more value to our customers, as Robert just mentioned in the presentation earlier. Therefore, I would say that we are in a more in an advantageous position versus some of the competition that we were looking at before the pandemic.

Meredith Burns - Cimpress plc - VP of IR

Great. I'm going to shift to a live question that is, it's not exactly the same, but it is a little bit related because we will get into competition and the answer, which is about our supply chain. Sean, did spend a decent amount of time talking about the current environment and how we're advantaged. This specific question that was submitted live is that supply chain issues cost you about 110 basis points of gross margin last quarter, is that trend improving or worsening? Sean, do you want to start and then maybe also have Paolo come in as well?

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yes, definitely. The 110 basis points that's referenced, I think, is the kind of the total sort of gross margin compression. There is -- there are a couple of things in there because you have all supply chain impacts but also mix shifts especially as we recover kind of out of the pandemic. But nonetheless, I'd say, cost pressures have only continued to intensify that impacts everyone in our space. We've also -- we've had more price increases as well. And that's really across the board in all of our businesses, very extensive, but in all of our businesses, we've had more price increases, which we've been very targeted about those, but that's offset most of that increased cost. And we'll also kind of speaking to kind of gross margins, we should also have mix improvement as we -- especially the expectation would be in March as we see less restriction and activity and so on that will start to have continued improvement in kind of that mix shift in some of those higher-margin categories that were most impacted by the pandemic.

And so I'd say in terms of the trend, maybe slightly worse, but not a huge shift because any -- a lot of the impact of any increased cost has been offset by price increases so far. We're 2 months into the quarter, right? And so things can change there. But I think the bigger picture here is that those increased costs are -- and Paolo just alluded to this, and maybe Paolo, you want to jump in here and speak about the impact on Upload and Print businesses. But on a relative basis, we continue to be advantaged here. And so I think in an inflationary environment, those advantages only get more and more magnified. Paolo, do you want to touch on that for your businesses?

Paolo Roatta - Cimpress plc – CEO of The Print Group & Pixartprinting

Absolutely. Yes, I confirm the trend. I would say that right now, we are at the peak of the pressure in terms of costs, increases in raw materials and energy. These numbers are volatile, but anybody can make an estimate about the future. But I agree that the trend has not been improving in the past months. But I will say that in relative terms, like you just said, this puts us in an advantage versus competition because we are able to grow our market share. And that means that when the cycle is finished, we find ourselves in a better position than before. Also, I would add that the fact of being part of Cimpress and the possibility to leverage our global procurement function gives us a benefit because I can see that in many cases, where the raw material can be running out of stock, we're able to secure the stock for us. And also, I can see that the terms and conditions that we get are in general, better than the average of the market.

Meredith Burns - Cimpress plc - VP of IR

Excellent. I'm going to stick with a live question now, and there's a couple of questions that came in from the same person, and I'm going to tap Ricky and Emily, I think, to answer these questions. So standby. The first question is 99designs and VistaCreate now fully integrated into the new Vista platform, they're saying that is the one that we just rolled out in the U.S. in fiscal Q3?

Ricky Engelberg – Cimpress plc – Chief Marketing Officer of Vista

Presently, 99designs and VistaCreate are not fully integrated into 1 seamless experience. You are able to use your Vista login at 99, and that VistaCreate, but it's something that on the post-migration time frame for us, it's one that the largest priorities is the seamless integration. We have done tests in Australia with 99 integration. But our full spectrum design team is working to figure out the best way to seamlessly integrate those properties together. But I would say from a company integration standpoint, the company has worked seamlessly at this point, and you'll see it in the examples that Robert shared earlier, where we're able to take customers on that journey in a more bespoke fashion. I think that the opportunity for us is how to scale that and make that accessible for every small business and post migration, it is a very, very large priority for us [to have that] integration to be seamless.

Meredith Burns - Cimpress plc - VP of IR

And then Emily, is this to create your only subscription-based business? Have you plans to move other items to subscription, which ones and why?

Emily Whittaker - Cimpress plc - President of North American Business- Vista

Yes, absolutely. No, VistaCreate is not our only subscription. In fact, for about 10 years or so, we've actually offered digital products, our own digital website products to customers through a subscription service, how we are improving that value proposition to the customer through our partnership with Wix as we saw that we fell behind and how quickly we were able to innovate our digital products. And so we're excited to move into that partnership with Wix and offer digital subscriptions, whether that be through websites or the products that Wix can offer through a subscription service.

Also, we've had a pro advantage subscription for a number of years as well, that's tailored to our resellers that offer special pricing as well as white glove -- or sorry, white label drop ship services. We've also had VistaPrint Corporate Solutions subscription, which serves our larger businesses through dedicated personalized shops. I think as we take stock in terms of all of the subscriptions that we do offer, we're really trying to take a value customer -- a customer value approach in terms of how we're assessing how we can deliver and create bundles that offer the best and most advantageous product and solution to our customers in service of being that partner to our customers.

And so I think that there's more to come in this space. We're extremely excited about what the value proposition that we're able to offer when we think about bundling digital social media content creation, the digital website and how we can even bundle that with print, is something that we're absolutely exploring.

Meredith Burns - Cimpress plc - VP of IR

Excellent. Another live question, I'm going to ask, Sean to start, and I think probably a lot of people might want to jump in. What has been the impact on bookings growth from the e-commerce platform launch in geographies where you did a year after you did it. We talked a little bit about this in the session, but probably worth reiterating?

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yes. It's a little bit of a hard question to answer, actually, even though it sounds easy because in the markets that we had launched over the last year or 2 years, there's been a lot of other impacts as well and specifically the impact of the pandemic, which has been kind of differential country by country. And so it's tough to answer specifically. But -- and I think Robert mentioned this earlier as well that revenue from newly introduced products now represents 6% to 10% of our revenue base in those markets. And so that gives you kind of some sense for it.

I think the important thing here is like the -- when we launch in a new country, it's not like the launch itself somehow changes the demand picture or immediately changes the velocity of the business in that market. It becomes the kind of the opportunity or the starting point to be able to start to introduce all the things that we talked about in the presentation today. And so you'll see more and more of that, especially in Canada and U.S. in the coming quarters here. But hopefully, that gives you a little bit of a sense. It's tough to answer that. Specifically, Australia has been a strong market, and that's where there's been the biggest impact from new product introduction.

Meredith Burns - Cimpress plc - VP of IR

Great. I'm going to move back to a pre-submitted question. Robert, you're going to be on top of this one. And this question, if I can find it [here it is]. Historically, we have characterized Cimpress as an owner operator of businesses that are engaged in mass customization. Is this characterization is relevant now? Is it as relevant now that we have started adding more design-focused digital assets to the platform?

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

It's definitely still relevant. And I'd say it's just as relevant. Clearly, we understand that the products we sell, if they don't have great designs, no matter how good the physical characteristics are from quality or price or delivery, is something which is just ugly is not going to be good for the customer. Now Upload and Print, especially has our customers who typically -- we've talked about this for many years in our investor presentations, who are professionally [trained regardless] and they make beautiful products out of those. So design is inherent in the value chain of Upload and Print, although we have not always been delivering ourselves.

You will see that places like Pixartprinting and others in Upload and Print are experimenting with doing design services. And so adding design-focused capabilities or digital assets like websites or social media like in VistaCreate, it doesn't change the core traditional characterization of Cimpress as a business which knows how to make it money and does make the cash flows from mass customization and physical products. Let me double-click a little bit on Vista, because I think that's where this change is most apparent.

First of all, I would think, as opposed to our other businesses from the very beginning, 1999 Vista used do-it-yourself template design software that ran in the browser to integrate design and print. This idea, you could see it on your screen and then print it, Vistaprint. And that's a key part of our business strength for last 2-plus decades. Now investment in 99designs, in VistaCreate in ramping up the design services we have using our customer service care teams are all to drive towards the type of example I gave today of these higher value customers, still small businesses because design is integral to that. But DIY template design and therefore design itself has been integral to Vista for decades.

I would say, the second thing is that, I'll just repeat what I said, Sean said, I think there is mentioning a third time that mass customization will remain for Vista the predominant cash flow generator, but being better design and more relevant in digital design and digital marketing will if you enrich from the perspective of our internal cash flow perspective to the perspective of our customers, these small business customers it envelops that core competency of Cimpress in a customer perspective that is truly compelling and valuable and differentiated as a value proposition.

I also think that if you think of mass customization, we talk about that -- we almost always are talking about physical product in mass customization. Mass customization happens in the digital world and the risk of getting a little too academic here, what mass customization allowed us to do is take in traditional printing there is very low fixed cost. You can open a signed shop or print shop with very low fixed cost, and is very high variable cost per order. So when Vistaprint came in, we ended up with a very high fixed cost relatively speaking that when amortized over millions of orders becomes a few dollars per order, so it's much smaller on a [per-order] basis, but you have to pay a lot to get into the business.

And the per-unit variable costs are very low. That led to this consolidation that we've been driving not just Vista, but in all Cimpress and with our best mass customization focused competitors of a traditional job shop industry of low fixed high variable cost to a consolidated industry with higher fixed and lower variable cost. That same economic dynamic is happening in design. So as we go to something where we have a 2-sided platforms of tens of thousands of creators around the world who have to trust in our platform and we need the customers to get those to those customers as we build software-driven algorithmic content as we build out design services using service operations around the globe. That is a higher fixed cost design infrastructure, but the per-unit variable costs are much lower and the aggregate costs are much lower. So again, that is an application of that concept of mass customization from a theoretical perspective, even a pragmatic economic perspective, which is very consistent with how we built Vistaprint in the rest of Cimpress.

And finally, I'd say that, when you actually combine those 2 things I just spoke about, [the fact], the third thing is, we have a service design aspect with the second one cash flow generation from physical products, we are going to build a model where you will need to be able to directly compete against Vista, you will need to be able to do both of those things. And that again raises the level of what it -- the complexity to play in this business and becomes a competitive advantage for us. And I think that way which is very analogous to what we've done historically in mass customization.

Meredith Burns - Cimpress plc - VP of IR

Wonderful. And Sean I am going to do some rapid-fire questions that were pre-submitted all around the topic of exposures, given the war that's going on in Ukraine right now. So obviously Robert already shared sort of the overview during the pre-submitted or during the prepared remarks. But just some quick questions for you, Sean. What exposure do you have to Russia either in terms of revenues, production or supplies?

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yeah. Completely immaterial from a revenue perspective, completely immaterial and almost nothing from a supplier perspective and we don't have any production in Russia either.

Meredith Burns - Cimpress plc - VP of IR

Okay, great. What is the EUR equivalent of cash balances currently held in Russia, if any?

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

In Russia, if it's not 0, it's very close to 0. And then in Ukraine just to be complete about it, we have funding for local payroll there. But again that balances we only fund that kind of on an as-needed basis and so that's immaterial as well.

Meredith Burns - Cimpress plc - VP of IR

Great. What exposure do you have to other Central and Eastern European countries?

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

We do have -- we have team members in the Czech Republic, and we've historically had a small office there, and we have -- we do have supplier relationships in Poland as well.

Meredith Burns - Cimpress plc - VP of IR

Great. Do you expect any direct impact on your business as a result of either of the recent sanctions imposed on Russian entities or the changes to the [SWIFT system]?

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

No, certainly nothing material.

Meredith Burns - Cimpress plc - VP of IR

Right. What percent of your total cost base is energy?

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

It's small. It's not even 1% of our total costs. But I think that's the direct cost. There are indirect exposures to energy by way of shipping because there is an embedded kind of fuel cost there. But also where that's an input to any raw materials. So there's likely to be some impact on those. But the direct cost is, yes, as I said, smaller than 1% of our total cost.

Meredith Burns - Cimpress plc - VP of IR

Great. And then to think about it more holistically with the indirect costs included. What would you expect the impact on your cost base to be for a plus or minus 10% movement in the price of oil and gas versus December '21?

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yes, this is pre-submitted. So I had the benefit of kind of thinking through this. So as I said the direct impact on cost would not be -- would be immaterial. But as we think about the total indirect impact of plus or minus 10% change in oil and gas. Our rough estimate would be that a sustained 10% move in energy cost would be something like $15 million of annual impact on direct and indirect spend. That's if we didn't take any action to offset that with either price increases or trying to move sources to get more efficient and so on. That's a ballpark. I reiterate something I said earlier which is that our margin structure gives us the ability to withstand cost inflation of any kind. I think with many of our competitors at some point are just no longer able to serve customers profitably and we see very real examples of that in the market.

Meredith Burns - Cimpress plc - VP of IR

All right. We had a live question submitted. And I think this is going to be our last question just based on time, but it might be -- we might go into a little bit of detail on the answer from multiple people. So the question is, you've historically used hurdle rates in assessing each of your capital allocation areas. Please help quantify how the large organic investment in Vista is expected to meet that threshold? It would seem as though the incremental contribution dollar growth would have to significantly increase based on the incremental OpEx spend, how do you specifically analyze and justify this? So we'll probably start with Robert and Sean on that one. And then maybe others can jump in around growth drivers in the Vista business.

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

[High level] kind of to you, Sean. The premise of your question, we [1000%] agree with. We have to look at these -- any use of capital, including the material, very material increase in OpEx we've done as looking at what cash flows are those going to generate as a result of that. At a very high level, that is the answer. And so you could take what is a very good return on those investments, which we recognize in most cases OpEx endures into the future and that has to be a healthy aggregate number.

I think another thing that we alluded to in the prepared remarks is we're doing a lot under the banner of financial rigor and how we organize to drive to initiative-based analysis of returns. Traditionally, that's been very difficult at Vista because we've had a predominantly integrated business and reporting structure that all rolled up to a single P&L, and we are working to break those P&Ls down in multiple perspective through countries from our product categories and use that to then hold teams below the vet level, below the Vista executive team level, accountable for the returns for those cross-functional initiatives, for various functional initiatives, for the impact they can have elsewhere.

And so again we have not traditionally, I think certainly in the last 3 to 10 years, had the type of rigor that we would want to have at that initiative level in what is a $1.5 billion business. So that's helping us, and I think we're a long way to go, but we've made major progress through the weekly and monthly and quarterly business reviews, in the systems, in the financial reporting and how we organize ourselves. So, Sean I'll pass it to you to add any other color.

Sean Edward Quinn - Cimpress plc - Executive VP & CFO

Yes, I'll add a couple of things and then maybe even turn it to Basti as well because his team is [tail involved here] as well. So I think -- and you just said a lot of what I would have said, Robert, I think there are -- there's kind of 2 levels at which you could look at this. One is kind of the overall Vista business and how does the investment in total payback. I'll come back to that in a second. There's components of the investments that we're making that are more discrete and are very measurable, and that's where Basti might want to chime in. And there, we can very specifically look at the investment we're making, what is the outcome of that investment. We have more and more experimentation and testing that is proving out those results. And there, we can make sure that those investments are justified, but that's only a portion of it.

I think overall, and even the shortcut that I kind of referred to internally is if you assume in the Vista business, excluding some of the recent acquisitions, roughly a little over 40% variable contribution margins. And then you take the amount of incremental OpEx and divide it by that variable contribution margin, that's the amount that you need just to get back to where we started from. And so that's kind of a helpful shortcut to say, what is the type of incremental contribution profit we might need to deliver to believe that this investment is worthwhile. And so that's kind of shortcut math that we do and is needed. I think the way that, that shows up might look a little bit different because we have portions of value delivery that might come through things like subscriptions like through the Wix partnership or the others mentioned in answer to that question. But that's sort of the order of magnitude change.

And then ultimately, if we bring that up to the highest level, we try and understand the steady-state free cash flow of our businesses to evaluate how that has changed over time and how these investments are impacting that both the increase or decrease in that and also the sustainability of it. Basti, I don't know if there's anything else you want to add there.

Sebastian Klapdor - Cimpress plc - Chief Data Officer of Vista

Yes, I can add -- so I agree with everything you said so far. Just one example, for example, in terms of these specific initiatives for these data products, we are building in the DNA team and we are putting on the production on the platform. It is very easy to, in most cases, actually measure the impact from that through [heavy testings], with time discontinuity testing. So there are many different ways of doing that. And there, for example, for that specific part of the DNA investments we have made through the last 24 plus months, we can very, very confidently say that these easily paid back multiple times.

And now what we also doing and investing in is building these measurement systems for other kind of investments. For example, our experimentation platform that will help everyone who changes our customer-facing experiences, the products to run again an experiment and see kind of what the uplift and the long-term value from these improvements in our experience are just as an example of how we -- how our mission is to enable Vista to measure the impact of all customer-facing changes we're doing.

Meredith Burns - Cimpress plc - VP of IR

Thank you, everyone. We are over time. I'm going to call it here. And I just ask Robert if there's anything that he would like to say to end the call up?

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

I'd just like to thank you as always for the time you're investing and getting to learn about Cimpress and involving various initiatives. I think it's been a long 3 years as we've gone through pandemics and changes that we've talked about, but we are really feeling good about what we've built as foundations, and we look forward to the next 6 and 12 and 24 months, updating you on our progress. So have a great day everyone.

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