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CMPR - Cimpress NV Mid-Year Strategy Update Call

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PRESENTATION

Operator

Ladies and gentlemen, welcome to Cimpress midyear fiscal 2019 strategic update conference call. My name is Howard, and I will be your operator for today. This call is being hosted by Robert Keane, Founder, Chairman and CEO of Cimpress as well as interim CEO of Vistaprint; and Sean Quinn, Executive Vice President and CFO.

We now turn to Meredith Burns, VP of IR.

Meredith Burns - *Cimpress N.V. - VP of IR*

Thank you, Howard. Before we get started, I will remind everyone that we will discuss our thoughts about the future on this call. We may be wrong about our projections, and actual results may differ materially. Please see the risks associated with investing in Cimpress on this slide and in more detail in our most recent 10-Q that we have filed with the SEC.

I'd also like to provide some context for why we're having this call. We seek shareholders and debt holders who value long-term capital allocation philosophy such as ours, and we hope to create a meaningful dialogue with our investors so that, one, they have enough information to assess the intrinsic value of our business and the returns we driving on the capital they entrust to us; and two, we are able to learn from the views and experience, which we value greatly and have directly and positively contributed to our evolution as a company.

This group of investors has given us a positive feedback on our August Investor Day event. This call serves as a midpoint update to address questions about the business and strategy that arise between those annual events. Though, we had conceived this call at the very beginning of this fiscal year, it is well timed given the Vistaprint changes we announced on our last earnings document. We expect the call to be 90 minutes, which is longer than our original intent. But we've had a lot of pre-submitted questions that cover our strategy, market dynamics, capital allocations, Vistaprint and more. We want to do the best we can to answer all of them because they are important topics. We'll take a few live questions as well toward the end of the call.

Now I will turn the call over to Robert.

Robert S. Keane - *Cimpress N.V. - Founder, Chairman, CEO & Interim CEO of Vistaprint*

Welcome, and thank you for joining this call. Obviously, Cimpress is flying through some turbulence on our journey towards our long-term objectives, and we want to be as transparent and candid with you on the issues we're facing. And I assure you that all of us, me personally, the executive team, the Board of Directors and the leaders of our various businesses, our central teams are unanimous in our agreement on the criticality of addressing the underlying issues we face.

Personally, in addition to my Cimpress role, I'm energized about the opportunity to support the Vistaprint team in my new role -- in my additional role as CEO of Vistaprint. I and others continue to see strong future potential for Vistaprint if and when we address the challenges, which we'll be discussing in detail today. Those include strengthening our use of data and improving the speed with which we execute through technology.

And while Cimpress' challenges are most significant at Vistaprint, our challenges are not limited to Vistaprint. That's why we've also made significant management changes as well in Upload and Print and why National Pen has sharpened its operational focus in multiple ways.

In summary, we have a clear and heightened focus on this situation, which is highly consistent with the questions that many of you have asked us in your pre-submitted questions. Many of those questions are pretty hard-hitting and direct, which again is consistent with the internal candor and the urgency with which we are asking the same type of questions and developing answers internal to the company.

QUESTIONS AND ANSWERS

Robert S. Keane - *Cimpress N.V. - Founder, Chairman, CEO & Interim CEO of Vistaprint*

So we want to dive right in and to use your pre-submitted questions as the basis for this discussion and speak about how we plan to lead Cimpress through this turbulence and return to a path of strong value creation for our customers, team members and investors.

The first question we got is whether or not we have the right strategy? We've asked that question ourselves. We've heard it from investors. And we firmly believe that, yes, we do have the right strategy. And in a few moments, we're going to go into details of the execution and tactics where, on the other hand, we believe, we can improve substantially.

But first let's review what that strategy is. The first aspect of our strategy is the business model we pursue, which is to apply the principles of mass customization to large markets.

Mass customization provides customers with a much better price, quality, speed and convenience than traditional products. We continue to believe that this is a strong and promising business model for Cimpress because a large opportunity remains to serve customers who need relatively small quantities of custom products via a mass customization model. The market continues to be fragmented and largely served by traditional players with less sufficient business models. We are in the midst of a multi-decade shift from those traditional sources to these mass customized methods.

Our strategy is to serve the customization market as we've talked here and which I show on this slide many times before. It's unchanged. We act to strategically focus investor in businesses. We understand, we bring value to and we pursue this opportunity by a decentralized and entrepreneurial businesses. We see very clear Cimpress-wide advantages, measured and quantifiable and significant increases to cash flows of the businesses we've invested in that come from select-few capabilities that we retain at the Cimpress center. And those are what we've talked about in the past, mass customization platform, the procurement of large categories of both commodity products and equipment on a global scale and our talent infrastructure in India.

On the other hand, we have learned from experience that there's a danger of trying to do too much in the corporate center. And many of our biggest challenges stem from a failure to be entrepreneurial and fast-moving. The bigger we have become as a whole, the bigger our component businesses have become themselves, the more we need to guard against the dangers of size, complacency and a loss of frontline operational rigor. And that's why, as a company with over 14,000 employees across 20 countries, we limit all other central activities only to those which must absolutely be performed centrally.

Now one of the questions we've gotten was whether or not decentralization was a failure? And what are we doing to ensure that we strike the right balance between entrepreneurial autonomy and accountability? To the contrary, we actually believe that decentralization has been a big success. And decentralization is not what has caused our issues. Since we decentralized a little over 2 years ago, we have seen our acquired businesses gain speed, focus and competitiveness with much higher and healthier levels of talent engagement. Importantly, we've also materially decreased the costs which we incurred when we were centralized. We have removed roughly $80 million of annual run rate costs from Cimpress as a result of decentralization or closely related actions over the last 2 years.

That being said, organizational changes of this magnitude that we have undergone are not easy and do take time. And we do see the impact of what has been almost 4 years of organizational change, as first, we centralize and then we reverse that course. This definitely took away from the effort that would have otherwise been focused on even much more so on our operations. But the effort directed at our recent decentralization was a necessary cause of change for what we were required to do to evolve the company away from an expensive, inefficient, centralized structure that we attempted wrongly to build 4 years ago.

The second question on the slide is worded either as a choice -- as an either/or choice and with the premise that entrepreneurial autonomy and accountability need to be balanced against each other. We actually believe that true entrepreneurship and autonomy and accountability are utterly consistent with one another as long as we hold ourselves and our leaders of our businesses accountable, as any investor or any market force would hold accountable an entrepreneurial start-up. Today, at Cimpress, the leaders of our business have that responsibility and accountability for the results more than ever before. What we do need to do at the corporate center and what we are now doing is to be more explicit on the criteria we are holding our autonomous businesses to and to be rigorous in our verification that our decentralized businesses are acting as such. For example, an expectation of customer-focused, urgency-based cultures; leadership decision-making systems and data, which are consistent with our financial objectives; and commitment to efficiency and customer experience.

Now this slide and this question speaks to market evolution and the increasing competition that we see today. We do recognize that the market has evolved to be much tougher in terms of competition. And that has been going on, frankly, for 20 years as we've led through major customer gains in terms of lower price, faster lead times and easier customer experience. Cimpress and its businesses have been a proactive driver and typically benefited from this overall sectoral shift towards this model.

The mass customization model first took off with small-format products like business cards, postcards, flyers and with consumer products like holiday cards. As that business model has become better understood and more prevalent and as online advertising approaches have become more common, competition has become more intense. And we are seeing these types of products grow now at single-digit rates overall. We continue -- that being said, those earlier products, which first transitioned to mass customization, continue to drive significant profits for us.

Conversely, there are other product areas, which have then only more recently begun to benefit from this approach, such as signage, promotional products, apparel, gifts, textiles and packaging. Here, we see growth in healthy double-digit rates but with a wider variety of profit outcomes as we continue to scale our offering in those areas.

There's also a geographic overlay to these trends. For example, in developing markets like India and Brazil, we see stronger growth across all of the product areas, whereas in markets -- in countries like Germany, we're already very mature and slow growing.

Additionally, our exposure to these various product types varies by business. For example, National Pen has little exposure to small-format products, whereas Vistaprint's exposure is much greater and Upload and Print businesses are in between.

In terms of how we respond to these tougher market conditions, our businesses really need to exploit every competitive advantage available to them in order to continue to earn their right to serve customers in an increasingly competitive market. That starts with an obsession with the customer experience, with modernizing and modularizing our technology, leveraging data to improve customer experience and our financial outcomes, relentlessly driving down the cost of production, driving efficiencies in operating expense and other actions to improve our competitive capabilities.

At the center, as we've talked about, these select few shared strategic capabilities do help our businesses win through the MCP technologies, through global procurement resources, through access to talent in low-cost and high-quality locations and by our allocation of capital across -- to the highest returning opportunities and saying no to other opportunities.

So in terms of management changes, I want to just dive in first to what we've made in -- the organizational changes in our Upload and Print portfolio to help us move faster and to increase the efficiency of our production costs and exploit the benefits of technology and data to improve customer and financial outcomes. We are also in the midst of aligning the financial incentives for the management team of these groups. We now have 2 subsidiary groups, each centered around one of our larger Upload and Print businesses. And these groups have strong supply-chain capabilities and we were selective in order to maximize the combined capabilities of each group.

Since we made these changes in December, we've already seen important changes in terms of how we act quickly on initiatives that will drive stronger financial returns and better customer experience because we can use these groups as portfolios of assets working together, not just independent businesses. Even though we like to do more, we continue to be pleased with the overall returns that we're generating from these businesses relative to the capital which we deployed here.

Via our 2 largest acquisitions, National Pen and BuildASign, we gained a very focused entrepreneurial set of teams that have remained autonomous and fast-moving. And we've been able to fortify their competitive advantage by bringing the central synergies from the shared strategic capabilities, which I spoke about. National Pen has seen more than $3 million of annualized procurement savings. We brought in e-commerce and other technology to enable site redesign and to improve their wholesale supply chain across different Cimpress businesses. We've done significant investments in technology, and graphic service increases through our teams in India. We've opened up customer support teams in Jamaica and Tunisia. And we've seen tax synergies.

In our most recent acquisition, BuildASign, we're still in the early days, but we've already achieved over $4 million in annualized procurement savings. The team is looking at technology and resource opportunities, and we've seen significant tax synergies.

Now National Pen did have a poor first half of FY '19, but the National Pen team has taken very specific actions that are already implemented to address the operational shortfalls, which led to those results. And we remain upbeat about the overall returns that we will drive from that acquisition, just as we currently do for BuildASign.

I'd like to switch over to Vistaprint and again take another pre-submitted question, and there's 3 questions on this slide. Do we think the competitive moat for serving micro businesses is the same, deeper or shallower than it was in the past 3 or 5 years ago? And why? What -- and what will we do about that and how that will align us in our activities going forward?

So frankly, I think the competitive moat was so strong in Vistaprint for so long that we lost some of the urgency and the rigor to constantly improve on the most fundamental basics that any company needs to succeed, which means that our moat definitely got shallower than it was 3 to 5 years in some parts of the business, although it got deeper in other parts. No market stands still and lots of competitors are investing to serve the online printing market, even if they're not all directly attacking the core micro business market that Vistaprint serves.

Additionally, e-commerce businesses outside of our markets set norms that influence customers, including ours, in terms of user experience, pricing, personalization, shipping speeds, marketing and other areas. While certainly reserving the right personally to think more about it, in terms of the question of the 3 most critical objectives, I would say if we want to widen this moat and deepen it further in the future, we need to accelerate the progress we've made in customer centricity to become not just customer centric but customer obsessed and do that in action and deed and not just in words.

Secondly, we need to reinstate a culture of urgency, speed and operational rigor.

Third, we need to return technology and analytics to the towering strength of Vistaprint, including the ability to have systems that drive rapid-fire, frontline test and learn.

And in terms of aligning and building the right team to hit those types of objectives, first, we have communicated and we are managing internally a clear list of objectives and key results that are around the nonnegotiable foundational basics that we've talked about. We're going to actually -- we're going to re-review those objectives in 4, 5 slides from now.

The next question that came in was whether or not we think that we have been distracted with the newer businesses in the portfolio and with that have avoided Vistaprint's challenges, if we've been solely focused on Vistaprint. We've reflected on this before we received this question. We believe there are both pros and cons. In a positive sense, the investment in Upload and Print, in National Pen and BuildASign have shown us firsthand how fast, focused and competitive Cimpress can be and should be in Vistaprint in terms of product breadth and depth, internal profitability, benchmark and a close feel for the market dynamics. In terms of cons, of course, we chose where to focus our management bandwidth. And by taking time from other areas and putting time in other areas, clearly, that contributed to some of the challenges that Vistaprint sees today. However, on balance, we think the pros outweigh the cons. We've learned more about the needs of our customers and its large market than we could have -- what we believe we could have if we had solely been working with Vistaprint.

The speed, frugality, ingenuity of smaller firms is a clear internal comparison against which we can hold ourselves at Vistaprint. The sharing of know-how for large product categories, for example, signage with Vistaprint, where we saw that opportunity in Pixartprinting several years ago, helped us launch in a way that was appropriate for Vistaprint and now it's a category with over $100 million in revenue and growing nicely for Vistaprint was a great example.

Pixartprinting itself brought additional manufacturing, innovation and cost competitiveness and flexibility. With WIRmachenDRUCK, we learned and much more appreciate now how important and feasible it is to leverage third-party suppliers to grow our business, that we don't need to do everything ourselves. In China, it's a very small business, but we are learning incredible things about a business, which is mobile-first in every sense of the word. And in Japan, the requirements of product quality are enormous compared to the Western markets we serve, and that's really helping us understand what we can achieve in terms of quality.

The next question we got was, can we explain how Vistaprint's growth slowed so dramatically in 2 quarters? And it was at high single-digit growth rates then it was 3% in Q2 and now we're guiding to flat to negative growth. So I would say the Q2 results and the lowered outlook are not fully linked. Growth was lower than expected in Q4 fiscal '18 and Q1 fiscal '19 at 7%. We adjusted our revenue guidance at the beginning of the year to say that we expected growth to be approximately at the pace that we've been experiencing over last 4 years, which on an annual basis was around 9%.

Vistaprint's Q2 results are heavily influenced by consumer product bookings, which declined roughly 2% last quarter. Q2 bookings for our business-oriented products grew in line with recent quarters but were still below expectations. Although a portion of our reduced revenues guidance is related to those recent trends, most of the guidance change going forward where we want -- we asked you to expect flat to negative growth relates to our focus on these foundational basics and the fact we are reducing growth investments, including lifetime value-based advertising, until we have both significantly progressed on fixing those foundational basics and until we are more confident with the marginal returns we are getting on our advertising investments.

The next question we are going to cover in the following slides, but the 2 questions for those of you who are on audio-only are about how our capabilities in analytics-driven marketing has always been strong, but now we're acknowledging that these are lacking. What got us to that point? And how much is required to upgrade these capabilities? And also what got Vistaprint to the point where it's made -- where we have poor mobile technology and a website with bugs and glitches? And what do we need to fix those issues?

Let me come back to those specific questions in a moment. They are important questions. But just review our strengths, which are on this slide, of a large and fragmented market opportunity that continues to shift online, our unique ability to serve micro business customers. We've significantly improved customer centricity versus where we were in the past, as measured by Net Promoter Scores, by repeat rates, by per customer financial value and by brand metrics.

We have increasing addressable market size as we've increased our product assortment and our selection and offer design services. We have some significant scale-based advantages that are driven by 15 million customers and vertical integration, strong technology despite our concerns about needing to make it better and strong processes.

We have high barriers to entry to serve micro business customers. Those barriers include capital intensity, design capabilities and the need for large scale. And there's the underlying growth of business products that we have and the strong cash flows we have despite the challenges that we're going to talk about on the next slide.

In terms of challenges, our evolution has driven complexity in our processes, and our support tool have not kept pace. Our product selection drives more varied financial outcomes in terms of a per product profitability. Splitting Vistaprint apart several years ago drove multiple data sources and analytics practices and I should say, also, moving to a new technology stack recently that are not yet rationalized post-reintegration and post that migration. We have a lack of an integrated view of the impact of changes on customer economics. And we continue to have legacy and monolithic technology in many parts of Vistaprint, which slow us down.

Our original commitment to and our investment in world-class technology as a core pillar of our business faltered. And frankly, we've acted in ways that did not prioritize world-class technology.

Next, we're seeing steady increases in mobile sessions, paired with an underinvestment in our mobile experience. We've seen increased competition for consumer products and for products overall. And we have an overreliance on paid search and broadcast, which are 2 advertising channels with increasing costs of customer acquisition.

So we have a lot of opportunity and we have significant challenges. And to -- in the very near term, what we are doing is really focusing on restoring foundational basics. One, that means making our customer experience simple and clean across all touch points. For example, addressing bugs and glitches in the customer experience and improving the mobile experience and conversion; two, correcting decision frameworks and decision-making frameworks and tools to ensure that we have valid return on investment criteria; three, meeting our financial commitments and delivering attractive returns on past investments; four, taking material steps to improve analytically driven marketing, merchandising and pricing; and five, increasing development speed and value produced by our engineers and our analysts.

Now this slide talks about approximately how we're going to be -- going through this in terms of time line. We, early on, are focusing on ensuring ROI-based decisions. We'll move quickly to moving and we're already now moving to reducing glitches in our customer experience, scaling and improving profits of new products, improving our mobile experience, improving day-to-day driven culture and making major improvements to customer experience. So the items on the right-hand side of the slide will take longer to complete. The ones on the left take less time to complete. We can assure you that all of these are actions that we are working on right now and our priorities for us as a business.

So 1 month following the change. Internally, the focus on foundational basics is very clear to the team, and we have active progress underway across multiple work streams. We have pulled back on advertising, new product introductions and other growth investments to free resources for the priorities that we've set. And we're convinced that the high-level Vistaprint strategy and the foundational basics tactics are right, but we have a lot of work ahead of us. We really very strongly believe that Vistaprint can and should be and will be a major driver of value creation in the future.

Sean Edward Quinn - *Cimpress N.V. - Executive VP & CFO*

So with that, I think I'll get Robert a little bit of a break. So the next question that was pre-submitted is -- relates to our all other businesses segment. And the question is basically that if you exclude BuildASign, these companies as a group have, of course, been highly loss making. Those losses had been moving in the right direction, i.e. decreasing and now have reversed course. What's happening? Is it worth continuing? And basically, a premise that there may be other opportunities to allocate that same capital.

So I'm going to go through this in a bit of detail. So we've allocated nearly $270 million of capital to the businesses that are in our all other business segment, excluding the recent addition of BuildASign and then also albumprinter, which we divested in 2017. That capital includes 2 things: both our equity investments that we made and then also 100% of the cash burn of each of those businesses since we entered them.

We believe we need to continue to invest in new growth areas. But as we've described in the past, we've had significant failures here, and we agree with the premise of the question that we need to look closely at these investments and also the opportunity cost that they present.

So if you look at the slide, for those of you who can see it, you can see that on the left-hand side the revenue from these investments and the trailing 12-month revenue at the end there is $79 million at the end of the last quarter. And then our investments is on the right, with the gray being our equity investments and the blue representing the cash burn. That far right bar there is the trailing 12-month cash burn. And you can see it's increased, which goes back to the question that was asked. So I'm going to just double-click on that a bit.

So I'm going to go through each of the businesses underneath this. The first one is Printi. So Printi has established itself as the leader in the Brazilian Upload and Print market, but frankly -- while some of this focus as it expanded and explored the U.S. market. Printi has since shut down its U.S. activity, recruited a very strong professional management team. And we do face competition in Brazil, but we believe that we can and we will outpace and outrun smaller competitors. To do that, Printi has increased investment in Brazil where we continue to grow very fast.

Just a few examples of that. We're investing in a major production facility and equipment upgrade based on the best-in-class European Upload and Print know-how and production equipment. We've also recruited strong new talent in many functions and move their SG&A functions to a new office. So despite top line growth, those investments, some of which I just outlined, meant that cash burn increased sharply for this fiscal year-to-date. And these Printi losses and the proactive investments that we're making there have been by far the largest driver of the increased investment levels that you see in this segment, excluding -- again, excluding BuildASign.

We think that we can be a clear leader with strong returns relative to our investment in Brazil, including reaching breakeven in the next 3 or so years.

Now there's also 3 Vistaprint-branded businesses that are in this segment. Vistaprint India, first one, is making good progress, approaching cash flow breakeven and growing quickly. We've spent more capital there than we've expected to get where we are, but we now have a business that's on the right trajectory in a large market with a strong team and, we believe, a long runway for strong growth that doesn't consume capital.

The next one is Vistaprint Corporate Solutions, which is also making good progress in addressing corporate customers, which is a very logical adjacency for us. We expect cash burn there will continue to decrease towards 0 by our fiscal 2021 with strong growth prospects both in the near- and long-term horizons.

Vistaprint Japan operates in a major web-to-print market with many strong competitors but has carved out a clear position for itself, serving small business owners who don't have graphic design capabilities. It's growing nicely and remains on our established trajectory to breakeven within the next several years.

And then finally, we have 2 investment areas where we're intentionally seeking to test in the relatively far field areas based on the vision of leveraging our mass customization know-how outside of the traditional printing and promotional product market segments. And those are our investments in China and then more recently VIDA. I'm not going to go through those in any detail, but I do want to say that VIDA's cash burn is in line with our initial expectations. I just want to be clear that the addition of VIDA isn't the primary reason for the changed trajectory of losses in this group so far this year.

So we continue to invest in all of these businesses, of course, because we hope that we can drive strong returns as a portfolio net of the losses. But it's a valid question asked, whether the capital could be invested better elsewhere. And I think looking backwards, likely the answer is yes, given the opportunity cost, for example, repurchasing our shares during parts of this time frame. So we don't anticipate accelerating our investment here anytime soon and, to the contrary, hope to reduce this cash burn even as these businesses mature.

From a longer-term perspective, we think there's value here. And we expect to continue to test, learn and pivot in these businesses. And it's a topic of frequent conversation both within our management team but also with our board, and it will continue to be.

The next few questions relate to capital allocation. So the first 2 are -- well, there's 2 parts of it. So one is, is there any thought at the management and board levels that we should pull back on acquisitions for a while so that we can pay down debt and also focus on our other businesses? And then secondarily, what about share repurchases and how are you thinking about that relative to your leverage?

So I'll explain that through the next slide here. And overall, of course, this is a topic that we've discussed as a team quite a bit and also with the board. And I should start out by saying that our well-documented capital allocation philosophy is unchanged. Now that said, given that we've introduced some uncertainty in our near-term financial results with the Vistaprint changes, we certainly factor that into our near-term capital allocation and our view of leverage, which impacts both M&A and share repurchase considerations. Now keep in mind, we intentionally increased our leverage to 3.2x our trailing 12-month EBITDA last quarter with our largest acquisition of BuildASign.

So let me touch on M&A specifically. We still certainly believe M&A is an attractive opportunity for us, but the hurdle rate has increased meaningfully in the near term. We've already walked away from multiple acquisition opportunities given our near-term needs to address the issues in our current portfolios. That definitely speaks to the premise of the question. And we may still do some small tuck-in operationally oriented M&A that's driven by the leaders in our given businesses. But for the near term, we expect to avoid material M&A.

Now as for paying down debt, we're going to get to a question in a moment, which was pre-submitted about leverage. But while we maintain the current stance on M&A that I just outlined, we, of course, won't expect to use debt in any material fashion for M&A. And that can certainly change as certainty around Vistaprint's EBITDA and cash flow increases and also that we're comfortable with the trajectory of our other businesses given the results for Q2 were poor and other places as well.

Now as for share repurchases, that's something that we don't typically make specific comment on publicly about what our intentions are. But to answer the question specifically, this quarter to date, we've repurchased 123,000 shares for about $10 million. But we have no plans for more repurchases through the remainder of the quarter at current price levels.

We agree with the premise that with the increased variability we've introduced to our results, we don't want to be aggressive in terms of leverage with share repurchases at this moment in time. And that's something that, of course, we'll continue to evaluate and can change as the inputs to that equation also evolve.

Our capital structure is intentionally designed for flexibility for periods of heavier investment and also for periods where we may deleverage. And just as a reminder, in our third quarter, which we're in right now, that's a quarter where we typically have large seasonal working capital outflows.

So the other question that was kind of in the capital allocation area was more specific to leverage, and asked in simple terms, basically why are you comfortable with leverage at 3x EBITDA or potentially much higher? So that's a frequent conversation that Robert and I have, that we have with the board. And we perform stress test analysis in order to aid that conversation to inform our decision-making.

Given the diversity of our cash flows and the amount of discretionary investments that we make, which we could pull back in a "very adverse scenario" that's referenced in the question, we're comfortable with the leverage that we have at the current levels. The higher the leverage we have, of course, the more we challenge ourselves to understand how much room we have to operate and then, even more importantly, what our deleverage path is.

So the question asked for a specific example. I'll give some specifics. Our total gross leverage at the end of last quarter was 3.21x our trailing 12-month EBITDA. So just for simplicity, let's just assume that in the following quarter we didn't generate any free cash flow that we could use to pay down our debt, net debt 3.21x total gross leverage, for us to reach or breach our maintenance covenant of 4.75x, which, of course, we would never want to get close to, in the following quarter, we would have to have our trailing 12-month EBITDA drop by about 27%. If you assume -- every dollar of EBITDA decrease also increases our debt balance. We feel that a drop of that magnitude in our trailing 12-month EBITDA in one quarter is more than enough room to work with given 9 of the 12 months of that calculation are already known. And that's because to have such a drop in our trailing 12-month EBITDA that would mean that the actual percentage drop for that quarter would, of course, be far higher.

Given the amount of discretionary investment that we have, coupled with the amount of time to respond, we believe this gives us many options to deal with the type of, again, "very adverse scenario" that the person who asked the question is asking about.

So as we evaluate our debt levels and adverse scenarios, we consider what cushion levels we need, like the ones that we've just described, and that we would be comfortable with. And the example I gave is in no way intended to indicate what cushion we require, which can change over time depending on the time of the year, the performance that we have, our deleverage path and certainly other factors.

And then just keep in mind that we have about 40% of our shares that are represented in these board discussions, and those are equity investors who take a very long-term perspective and have no incentive to take undue risk as it relates to leverage.

Meredith Burns - *Cimpress N.V. - VP of IR*

Excellent. So we still have a lot of pre-submitted questions to answer. But we also want to queue people up for a live question at this point as well. (Operator Instructions) While that happens, we're going to keep going with pre-submitted questions for now.

Robert S. Keane - *Cimpress N.V. - Founder, Chairman, CEO & Interim CEO of Vistaprint*

Thanks, Meredith. The question here is, can you help -- understand the changes we made to reduce the number of board members? And after the 2018 exits, the board is unusual with a heavy weight on financial investors and a seeming lack of operational expertise. And 3 sub-questions: Do I disagree? What's the company's philosophy on the role of the board -- relates to operating expertise? And who is providing the operational tough question accountability to the executive chair at the board level?

Let me state clearly, first of all, that we believe very strongly in strong, proactive corporate governance by the Board of Directors. And for recall, in terms of board composition, we have myself with almost 10% of shares held by myself and my family and the experience of being Founder and CEO. We have 2 long-term shareholders who account for over 25% more of our shares, and we have 2 now retired executives with strong career records in operational management roles.

I would also respectfully disagree with the characterization of Scott and Zach as financial investors in any traditional sense of that term. We see them as co-owners or their funds as co-owners with other long-term shareholders including myself. Their 2 funds have a very long-term investment horizon each. They also are major shareholders in a variety of other businesses where they, as they do at Cimpress, partner for the long-term with management and therefore bring real-world comparisons to the boardroom on how we should be evaluating and changing Vistaprint or Cimpress or any other business in the Cimpress family.

In terms of operating expertise, we do believe that this is valuable at the board level and would point to -- I really for that would point to the 2 nonexecutive directors, in addition Sophie and John, both of whom were C-suite executives in major corporations, specifically L'Oreal and Data General and who also bring very specific operational and corporate control expertise and experience.

Now could we have more operational experience? Perhaps. But we have intentionally chosen a smaller board because this leads to much more intensive debate and tough questions than committee-style board meetings that we had when our board was almost double its current size, which I think is very much in line with your question of having tough question accountability at the board level.

So in summary, we believe that a smaller board with healthy debate as a core cultural trait composed of a Founder, CEO with major equity, 2 long-term shareholders with another 25% of the equity and 2 highly accomplished operational executives is the right combination for Cimpress. I assure you that the board regularly raises very poignant, tough questions to me and to the rest of the Cimpress management team and to the management teams of our subsidiary businesses, whether based on their operational experience or the experience they have had investing in other companies for the very long term.

And as you can imagine, with their investments and my family's investments accounting for 40% of Cimpress shares, that ensures that there's a huge amount of "skin in the game" and a level of assertiveness in questioning, which I believe is far beyond what is typical in many public company boards.

The next question we got goes to Upload and Print. And after several years of building out the Upload and Print portfolio, how has our view evolved? And has it become what we envisioned 5 years ago? Or is it becoming? And what core competency does Cimpress bring in building this diverse group of companies into a consolidated, competitive advantaged hold that is superior to what any competitor could have done?

So yes, this group has evolved as we hoped. If you compare, and we do compare, the weighted average deal models at the time we acquired these companies. In terms of the cash flows, they're higher than those which we use to underwrite the investment. We also have a large, profitable, growing market-leading presence in the European market for online printing. Combined with Vistaprint, we have about EUR 1 billion investment, which is similar to our presence in the U.S. market.

Financially, although we would like to do better, this has been an attractive return on capital for the capital which we deployed. And we definitely lost a few years of progress when we tried to impose a heavy central approach to combine manufacturing, G&A functions, product management and service functions into a central role. But as we have successfully reversed that centralization with a much lighter touch with management teams that are in the frontline of the businesses, we're now starting to extract cross-business synergies in this group.

The core competencies, to the last question on this slide, which we bring, are very much in line with the well-stated Cimpress strategy. And these are, again, the select-few shared strategic capabilities of the mass customization platform, technology, our procurement capabilities and our offshore talent infrastructure. We also bring permanent capital in an ownership mentality that builds for the long term.

Sean Edward Quinn - *Cimpress N.V. - Executive VP & CFO*

And just one slight clarification. Robert, you mentioned having of EUR 1 billion of investment with Upload and Print. I just want to clarify that's revenue, which is similar to Vistaprint's U.S. market.

Robert S. Keane - *Cimpress N.V. - Founder, Chairman, CEO & Interim CEO of Vistaprint*

Thank you very much. Yes. So I was hoping to jump to the next question. I think we're now on Slide 34. The next question we got was can we talk about the ROI of -- and the total capital and the operational spend that's been allocated to MCP over the last 5 years? And did it pass the hurdle rate set at the outset? And please discuss how today's objectives for MCP have evolved from the original version envisioned and how the MCP spend is judged in light of that evolution?

So let me start with the last of the questions. 2 to 5 years ago, we had tried to drive value with a common platform that was responsible for, as I just mentioned a moment ago, product management, procurement, manufacturing, graphic design services and all the technology related to that back end. Although you use the same term mass customization platform, it was much broader in its scope. Two years ago, we radically narrowed the focus of the MCP to consist only of a collection of standards and multi-tenant software micro services. And functions that had previously been in the MCP organization were either moved to Vistaprint or they ceased to exist.

In terms of how much we've invested in total in the 2 versions of MCP over the past 5 years, from fiscal 2015 through fiscal 2018, we invested about $87 million in reduced cash flow to build the platform. And we expect to invest $25 million additionally this fiscal year and to continue into the future. So if you go through December 2018, roughly, we've put in $100 million to date. The investment spend we have made before the change 2 years ago was not achieving our hurdle rate, and that's why we stopped. I would note, however, we did some very important work back then. For example, breaking up of the previous back end of the Vistaprint software monolith, and that work remains a foundation of our ability to deliver value through the MCP today.

We are also confident that the MCP capabilities that we engineered and deployed in fiscal year 2018 and those which we have developed or expect to develop in this current fiscal year 2019 are yielding increases to our cash flow of an amount that exceeds 20% of the development of those services. And we expect that amount to grow in the future.

Finally, although it's not certain, we also believe that as the benefits of the MCP grow over time, in the future, we should be able to report the entire investment that we've made in MCP. In other words, including the roughly $100 million to date through December '18, which I just described, plus all future investments would have created value that comfortably exceeds the hurdle rate that we would have used for the original and we did use for the original investment thesis. So very roughly if you want to do that math, we would need to generate more than $20 million in annual, sustainable cash flow per year within a few years from now above and beyond what we could have achieved if we had not made the MCP investments and to have a path to growing that cash flow in the future in function of future investments in order to have that type of payback.

Sean Edward Quinn - *Cimpress N.V. - Executive VP & CFO*

I'll take the next question, which asks why the acquisition of BuildASign was a good move for Cimpress.

So BuildASign is a growing, profitable company whose business model relies on mass customization practices to provide large numbers of individually small custom orders. So that clearly fits our strategy to invest in and build customer-centric entrepreneurial mass customization businesses. But there are a few -- there are multiple reasons for our interest, but maybe just to name a few specifically. One, they have excellent customer satisfaction, customer loyalty and customer value proposition. Secondly, BuildASign has had strong growth, strong organic growth over the last years of over 20% with attractive cash flow and earnings. And then they also have a strong position in 2 markets that -- both of which we think are attractive, and that's signage and wall decor.

BuildASign also has a strong management team. And if you were to meet Bryan and the team there, I'm sure that you would agree. That team will continue to lead the growth of the business, and we're very happy with that.

And then lastly, there was clear applicability of Cimpress' shared strategic capabilities. In the earlier slide Robert had outlined some of the things that have already been done. And there's plenty more to do there as it relates to BuildASign using our shared strategic capabilities.

Robert S. Keane - *Cimpress N.V. - Founder, Chairman, CEO & Interim CEO of Vistaprint*

Great. The next question was, has the board identified the job titles and relevant experience levels required to fix the longstanding strategic missteps in an organization of this size and complexity? And do we expect to commence an external search for turnaround leadership in each of these areas that I, Robert, has spoken to in my most recent letter?

Regarding the CTO and the CEO search, we have begun to discuss this. But we have not yet kicked off the process. Externally, this is very intentional because I and Maarten in the CTO role are pouring our energy and focus into the Vistaprint operations and spending the time with the entire team focused on the foundational basics and the tactics which we've discussed. We think it's the most valuable allocation of time and the proper leadership for Vistaprint at this time given the value we can deliver. Of course, we'll keep you updated through our investor communications as we have more to report. So these are important topics, and we will hold the bar very high as we recruit talent. In the meantime, Maarten as CTO and I as CEO, expect to be in our roles at Vistaprint for a while.

The next question that was pre-submitted was the time line to address the Vistaprint issues. We said last quarter that Vistaprint results may get worse before they get better. And can we be a little more precise in understanding that commentary? For example worse in all of '19 or better in CY '20?

So to answer the question, we've just updated our revenue guidance for the foreseeable future's growth, and we don't have visibility at this time about how long the growth rate will remain at those levels. When I say that, I don't mean that there's significant revenue uncertainties that we don't understand. The biggest reason for our changed guidance is based on the advertising investment pullback, which we are proactively doing. And we are working on things that we believe will inform this answer in this question. And we believe growth will come as a function of being really good at those things.

From a cash flow perspective, assuming we execute well, the impact should be much more muted because we are pulling back on growth CapEx and advertising expense that we believe is not efficient.

Sean Edward Quinn - *Cimpress N.V. - Executive VP & CFO*

The next question speaks to our steady-state free cash flow and whether or not we've updated our estimates given the change in the outlook that we provided at the end of January. And if yes, could you provide more detail?

So the answer is we haven't adjusted our steady-state free cash flow estimates, and they're of course, backward looking. We calculated those on an annual basis internally, so that's not something that we update on a multi or quarterly basis or speak to the board about other than on an annual basis. There's a few things that we did adjust. So we adjusted, of course, our investment spend guidance for fiscal '19 as part of our earnings release after Q2. That included reductions in Vistaprint's growth CapEx. It included increased losses in our all other businesses, which I spoke to earlier, and then a few other minor changes. So the net reduction in our investment spend is generally in growth areas. And of course, those growth areas don't impact, at least not yet, our steady-state free cash flow.

So the other thing, just to remind you that we haven't yet provided a view into our net investment pullback of -- the net investment impact of reducing the Vistaprint advertising spend that Robert just spoke about. We're certainly in the process of executing on all of that, and we'll give updates as we have them there.

The next question, I think, is a quick one, which says basically as a result of some of the downward revision in our outlook for Vistaprint and Upload and Print, are there any write-off of past investments that are needed? And if yes, by how much? The quick answer is, no, there are not.

Meredith Burns - *Cimpress N.V. - VP of IR*

Excellent. So I think we're going to take a couple of live questions now. Yes, so the first one is -- are you pulling back on repurchases due to a change in underlying intrinsic value estimates or because of covenant limits or both?

Robert S. Keane - *Cimpress N.V. - Founder, Chairman, CEO & Interim CEO of Vistaprint*

I would say neither. And turn this to you a little bit, Sean. But Sean spoke to why we're doing it in a period of uncertainty.

Sean Edward Quinn - *Cimpress N.V. - Executive VP & CFO*

Yes. I think the main driver is the -- well, there's 2 parts to this. One is, of course, the leverage. I went through all that before, so I won't repeat that part of it. I think anytime you make an assessment of your intrinsic value and you have results that are less than expected, you also need to make sure that you understand the trajectory of those results, which are -- and a very important input to what your intrinsic value per share is. And so that's certainly part of it as well. That's not to say that we wouldn't do it, absent the leverage discussion at these levels. We don't comment on that specifically, but certainly both of them factor in.

Meredith Burns - *Cimpress N.V. - VP of IR*

Great, thank you. And now we're going to take a couple of questions live from folks that are dialed in. The first one is coming from Youssef Squali from SunTrust.

Youssef Houssaini Squali - *SunTrust Robinson Humphrey, Inc., Research Division - MD & Senior Analyst*

I guess, I'll just start with a couple of questions. One question we often get these days is just around kind of big picture, around the TAM that you guys are going after, the penetration. Growth has certainly decelerated to levels we didn't think you guys were going to get to. So just as you look at the Vistaprint business, in particular, just what still gives you the confidence that this is still a growth business, if at all? And you've mentioned a number of issues, some foundational, some outside of your control like competition, discount and et cetera. Maybe can you just help rank order these external factors and internal factors? The assumption is that internal factors is going to take you a while to respond to but you may be successful in doing so, external factors may be less so. So just help us understand how you guys think through those, but particularly, your TAM and where are you in penetrating that TAM for Vistaprint.

Robert S. Keane - *Cimpress N.V. - Founder, Chairman, CEO & Interim CEO of Vistaprint*

Okay, sure. Great. So what -- I agree that external factors are evolving. I take a view that they are always evolving in any industry and certainly over multiple decades. As we've been operating as a business, we should expect that. And we need to evolve the business to continue to thrive in that. That being -- just go to the TAM question. I think it's important to split that into -- I mean, stick to North America and Europe here as opposed to other markets. I think you need to look at that in 2 different approaches or aspects. From a consumer products perspective, the percentage of business which is moved over to our mass customization business. That could be online, but it also could be through large retailers, be it a Walgreens or Walmart or in Europe the equivalent. Very, very large percentages of consumer products have already shifted to that type of centralized mass customization model. So I think the TAM is similar, but it's in certain areas moving up certain products and others is coming down. But most importantly, the migration online is very significant already and online -- and/or the movement into consolidated large retail brands with consolidated back-end production operations, either internal or subcontracted. If you go to the small business opportunity and the business opportunity overall, that is a very different story. The market there is still very largely offline. We don't have precise numbers. But I'd say, it's much closer to 80% offline and 20% online. And so there's the strong potential to continue that secular shift online, which would drive -- it doesn't change the TAM, but it changes the opportunity upside of business models like ours.

So now in any market, I think -- we turn to the internal factors and say that we've never been in a market that has been easy to win in, in the traditional sense. And we do believe that we have a lot of opportunity to take our market share both from online competitors, but equally or perhaps more importantly from traditional competitors, especially in the business market. We're quite optimistic about that. And I would say at a high level, our TAM view has not changed in the last 10 years. It remains consistent, so we think of it as more of a -- something that's incumbent on us internally to address.

Youssef Houssaini Squali - *SunTrust Robinson Humphrey, Inc., Research Division - MD & Senior Analyst*

And then just as a follow-up, and maybe this is a question for Sean. Can you speak to the level of investments needed to fix those foundational basics that Robert discussed? In other words, as you look at '19 and '20, are those now considered investment years where margins are likely to compress because of all the expenses? Or will the pullback in sales and marketing and other areas could offset whatever increased investment? And one last one maybe for Robert. You have been buying a fair amount of stock back. I think you guys just had an authorization for a fair amount of stock, potential buying back, I think, up to 18%. Is there any interest at the board level with you, Scott, Zach, et cetera, to potentially take in the company private at some point?

Sean Edward Quinn - *Cimpress N.V. - Executive VP & CFO*

So I'll take the first of those questions, Youssef. And you know we don't provide any specifics around either margin guidance or -- and we certainly haven't guided to any investment spend for FY '20, and we haven't even had those discussions with our board or rolled up a budget for that yet. I think the best way to answer your question is -- you're basically saying, hey, is this -- is the nature of these changes that you're talking about require heavy investment or is it something else? And I would characterize it as something that's very different from what we did back in the kind of 2012, '13, '14 time frame, just the premise of it is different. Back then, there was a strategy shift that required very intentional increases and very significant increases in investment. The changes that Robert has talked about today and he outlined in his letter to our earnings release at the end of January are of a different nature. That's not to say that there aren't areas where we're going to invest, and we will, whether it's technology resources or capabilities or data science, but there's going to be puts and takes within that. There's going to be areas where we pull back investment, and we have, like advertising; and areas where we need to increase. But the net of all that, I wouldn't expect or I wouldn't characterize as some big investment cycle or at least that's not our expectations today. So that's how I would characterize it without giving any specifics. And of course, as we get to our year-end cycle and provide more information about FY '20, we'll be more specific about that.

Robert S. Keane - *Cimpress N.V. - Founder, Chairman, CEO & Interim CEO of Vistaprint*

And Youssef, on your second question, the answer is no. There's been no conversations about taking the company private at a board level or any other level. Obviously, you can't say what will happen forever into the future, but definitely not in the plans right now. We like being a public company with the type of shareholders we've been able to attract. We have a -- besides the board composition, we have the very good fortune of having shareholders who, for a large percentage of our business -- our shares, take a very long-term fundamental view. And they -- we like them as co-owners with us in this business.

Meredith Burns - *Cimpress N.V. - VP of IR*

The next question comes from Kevin Steinke at Barrington.

Kevin Mark Steinke - *Barrington Research Associates, Inc., Research Division - MD*

I wanted to talk a little bit more about the competitive dynamics. I believe there's always a notion that Vistaprint, because of its wide product portfolio, was able to spread its advertising costs across that broad portfolio, which was a competitive advantage relative to other players. So do you still think that applies and that is still an advantage over the long term when it comes to your ability to price and make money at levels where others maybe can't?

Robert S. Keane - *Cimpress N.V. - Founder, Chairman, CEO & Interim CEO of Vistaprint*

Sure. We do believe that the strength we have is our recently brought in product assortment. I would say -- I would not say that, that translates in the ability to beat others in pricing other than a broad general sense. The main advantage is that we can increase the lifetime value of a customer via those additional products. More recently, the costs of paid search have increase pretty significantly for all of our products, but in particular for consumer products. And we don't have visibility into newer competitors. But based on search cost -- I'm jumping into different question here, I realized. But we do believe that, that product line, which used to be an additional way to monetize customers, remains a good way to monetize customers. A lot of our consumer customers actually come from the business side, not all but many. And so that's one way we can spread some of that investment. But overall, I don't think this has been something that gives us a real pricing advantage specifically.

Kevin Mark Steinke - *Barrington Research Associates, Inc., Research Division - MD*

Okay. And then also on Vistaprint. What -- you're going through these initiatives to improve the foundational basics. What would give you the confidence to, again, ramp up the advertising spend and some of the growth CapEx for Vistaprint? What sort of indicators or metrics would you have to see before you started to do?

Robert S. Keane - *Cimpress N.V. - Founder, Chairman, CEO & Interim CEO of Vistaprint*

It would be that we have the confidence through testing that the returns on the margin are above our hurdle rate. And unfortunately, as Vistaprint become more complex and as we fail to keep up in technology and analytics, the measurement systems that used to be quite reliable measurements of advertising return on investment have become less relevant and have led us to make some bad decisions. We also think there's some other factors beyond strong, effective measurement can help us grow advertising effectiveness. An example is reducing the glitches or problems on our website, which would increase conversion rate and improve customer satisfaction or retention, which then leads back into the ROI of an acquisition.

Sean Edward Quinn - *Cimpress N.V. - Executive VP & CFO*

Yes. And maybe just to add to that, Kevin. Robert and the team -- underneath the foundational basics that Robert outlined for all of you on the call, of course, there's very specific results underneath that, that the team is tracking. So I think it really speaks to the progress that is made against those, which are the results and outcomes that are expected from focusing on those foundational basics. And the weight of that progress, I think, will be, in general, the thing that increases our confidence to, again, be back with increased investments in growth CapEx as we needed or advertising spend and the like. And certainly, that's a position that we very much want to be back into and as quickly as we can, but we need to see progress in these foundational basics first.

Meredith Burns - *Cimpress N.V. - VP of IR*

The next question comes from Alex Luciano from MFS.

Alejandro Luciano

And I was wondering if you could talk about somehow maybe in general terms in the current quarter how the pulling back on advertising, like what are you seeing. It doesn't have to be specific, just kind of general. And I guess, my second part of that question would be, should we expect that as you pull back on advertising that you can still grow EBITDA in a flat to down kind of negative environment in Vistaprint?

Sean Edward Quinn - *Cimpress N.V. - Executive VP & CFO*

Yes. So on the first question, what do we see with the pullback, we said in our earnings release in Q2, and we're kind of trying to stay away from specific quarterly results stuff, but that we had started to meaningfully pull back advertising. And of course, we're going to do that in a responsible way, and we're testing in certain markets. And we'll continue to iterate on that, and that will inform whatever we do over the coming months. In terms of the specific outputs of that, what we're seeing is not something that we would comment on now. There's a lot of work the team's doing. And of course, we'll provide an update on that in our next earnings release. And there's a tremendous amount of effort and work that's being done on that area now. So it'd be too early to comment.

In terms of can we grow EBITDA with these advertising cuts? I would not want to say anything that would inform kind of guidance on what our EBITDA expectations are for Vistaprint other than say there's a lot of levers, as you know, within Vistaprint. And I think these foundational basics that are being worked on, so much of that if done well can have an impact on our operating results. And we'll need to see how that plays out, so I'm not going to give any specific guidance there. But that's something again that I think as we learn more and we keep all of you updated, including in our next earnings release, there will be elements of that, that will provide more visibility.

Meredith Burns - *Cimpress N.V. - VP of IR*

Great. We have another one that came through the webcast online, which is for Robert. Could you please walk us through your personal path to realizing that the Vistaprint technology and marketing stacks were in need of change? At what point did you become -- did you come to understand that Vistaprint's advertising and marketing strategies needed to be fundamentally rethought?

Robert S. Keane - *Cimpress N.V. - Founder, Chairman, CEO & Interim CEO of Vistaprint*

So I'm going to start with the second question. I don't think our marketing and advertising strategies, and I'm underlining the word strategies, need to be fundamentally rethought. I think the tactics and execution need to be improved, but we actually very much believe in the business model and the advertising and marketing models and the great work our teams have done to move the brand of Vistaprint from a marketing perspective. And the basic economic premise of advertising lifetime value analysis makes sense to us. I think if I combine the 2, I think -- as I started sitting down and talking with the team in more detail probably last summer, especially with Trynka, and saying where do we see the business needing to be evolving and where do we start seeing stresses in the organization. They were in the areas, first, of technology, and we just increasingly recognized the need to kind of double down there. So that was the conversation that started last summer. And then as we dove into that, data is closely related to technology, that became the second conversation but it followed pretty closely. And I'd say, it was the data aspects of the advertising and marketing strategy -- or, again, I'd say tactics which started evolving in November, December.

Meredith Burns - *Cimpress N.V. - VP of IR*

Okay, great. One more from the webcast, which is, would you reconsider your practice of providing financial guidance? Also, would you consider a greater focus on more conventional GAAP financial metrics?

Robert S. Keane - *Cimpress N.V. - Founder, Chairman, CEO & Interim CEO of Vistaprint*

I'm just going to say -- Sean, I'm going to turn this. But of course, we'll always prevent -- I'm sorry, present GAAP financial metrics. Obviously, as a publicly traded company, we do that. We also will work, on the first question, very hard to give a transparent view to our shareholders how we think about running the business. And then our shareholders and our debt investors are all very intelligent people who decide whether or not we're the right investment for them. But we don't think we should go to a quarterly -- a traditional sense of the quarterly public work because we operate the business differently than many companies, and we try to be transparent about how we do that and do calls like this, which are also not typical. But we think they give a more substantive view into how we manage the business.

Sean Edward Quinn - *Cimpress N.V. - Executive VP & CFO*

The only thing I'll add to that is that we do not have any change -- planned changes to our investor communications and guidance and approach. The only thing I would add is that, of course, as the business continues to evolve, we'll continue to make sure that what we're presenting is both transparent and clear. And so if we can simplify things, we will. But other than that, there's no intent to changes.

Meredith Burns - *Cimpress N.V. - VP of IR*

We're going to -- we have some more pre-submitted questions that we want to get to. So we're going to shift back to that for now. Great. And that is on Slide 41.

Robert S. Keane - *Cimpress N.V. - Founder, Chairman, CEO & Interim CEO of Vistaprint*

Okay. So the question is could we share, as we have in earlier years, more information about the unit economics, like the COCA or the lifetime value of Vistaprint and what returns we can expect on our COCA investment and whether or not they still significantly exceed our hurdle rate?

We are not planning to share details of COCA other than to say, on average, our ad spend has exceeded our hurdle rates, but the focus we have now is really on the marginal returns, the last deciles or quartiles and how those can be improved with better decision-making tools and better data. And that's why we've pulled back on the spend. By definition, I think you can assume that means that those marginal approaches were -- those marginal investments were not meeting our hurdle rate. If we do this right, we'll eliminate inefficient spend and continue to invest in high-returning activities. It's not easy to do, but we certainly believe we -- in the past, we have been and largely we are capable even today of making good decisions here.

Sean Edward Quinn - *Cimpress N.V. - Executive VP & CFO*

The next question goes back to Vistaprint, specifically mobile and asked about what percent of the sessions come from mobile, what the trend has been over time and differences in conversion rate versus desktop.

So let me just provide some details here. One, so mobile sessions for Vistaprint are between roughly 35% and 40% of the total sessions. There's a 3x conversion rate differential roughly between the desktop and mobile experience. And there's also a difference in the average order value, with the desktop order value roughly 1.5x greater than the average order value for mobile orders. This is, of course, an explicit area of focus for us, and we think we can and that we must do better. And it's definitely included in the foundational basics that, again, Robert talked about earlier.

It's also worth pointing out -- the question was about Vistaprint, but this phenomenon shift towards mobile devices doesn't impact all of our businesses equally. And that's because of the nature of the customers. The Upload and Print businesses typically don't sell -- their customers typically are not interacting with those businesses on mobile devices since customers have to upload press-ready files that are not currently designed on mobile devices. And then likewise, National Pen, their current exposure to mobile is low, and BuildASign does see growth in their mobile orders.

The next question is back to capital allocation. And I'll just read, this says it's noted in the letter, Cimpress has deployed $2 billion of capital over the last 4 years while the equity value per share and market cap are nearly flat over that time frame. And they're using Q1 of '15 to Q1 of '19. I think that's calendar 2 -- quarters. And the latter is only 25% higher than the entire amount of capital deployed, to what do you attribute the market's judgment on the success or failure of these capital allocation decisions?

So I think it's a great question. Let me give a few thoughts. So first, the share price on any given day, we believe, is not indicative of our intrinsic value. And of course, within the last year, that math that's embedded in the question would look quite different depending on what day you pick.

For our long-term incentive plan, just as an example, that we use a 3-year moving average of our share price. And if you look at that during the same period, it's increased by about a little over 140% on absolute terms and a compounded growth rate of 25%.

Next, the $2 billion of capital that's referenced in the question includes 3 components: M&A, share repurchases and then our organic investments. So our M&A, roughly about $600 million of that $2 billion over the 4-year period, and it's fair to include that in this equation because our execution there will directly impact both our share price and also our market cap, which is the question.

And we've talked quite a bit about M&A in our shareholder letters and in Investor Day presentations and specifically the yield -- the cash yield that we get relative to our investment consideration for that M&A. And we're happy with the returns for most of that capital that we've allocated and certainly within the last 4 years, which forms the question.

There's another roughly $300 million in that time period, which is for share repurchases, which is okay to include if you're looking at the per share value growth. But in theory, this doesn't impact the market cap.

And then finally, of the $2 billion, that includes a little over $1 billion -- $1.1 billion of organic investments. And that's capital that we allocate organically to anything that takes longer than 12 months to pay back. That's our kind of definition of that. And just to double-click on that one more layer. That's a cutoff that we use as something that matches kind of our internal process for how we delegate responsibility for that capital. But it includes both growth cap -- growth investment as well as a lot of maintenance-oriented investment, which from a valuation perspective, we wouldn't expect you to assign value to them the same way. The amount of maintenance investment that takes longer than a year to pay back is, of course, an estimate. It's imprecise. But the range that we've reported each year in Robert's annual letter to investors is between $277 million and $467 million over the last 3 years. And in 2015, we didn't estimate that.

And then lastly, our debt position has increased by a little over $700 million in that 4-year period, which would also be factored into the enterprise value but not the share price or market cap.

So there's a variety of puts and takes in there. But taking a bigger step back, we do agree that we can certainly do better to drive even greater returns on the capital that we allocate. And the changes that we've announced recently are, of course, intended to do just that.

Over the last 4 years, M&A, as I said, has been a good use of capital. And given it was largely debt funded, we believe the increase to our equity value or our market cap can continue to grow over time. And the same goes for share repurchases, as we've -- as we're very focused on per share value.

The biggest question in terms of returns, going back to the question, are on topics that we've discussed today, frankly, which are very focused on Vistaprint and then our group of early-stage businesses in our all other businesses segment.

Robert S. Keane - *Cimpress N.V. - Founder, Chairman, CEO & Interim CEO of Vistaprint*

Okay. Thanks, Sean. I'm going to speed up in these answers. We have a good 10 more pre-submitted questions at least, and we only have about 10 minutes.

So let's just jump in. Can we provide color and give detail on the marketing channels that we're experimenting with?

These are broad set of channels from social media to other channels that we think might be valuable. I would say this represents under 5% of our total advertising investment, and it remains in test. The reality is, today, we have not found other highly scalable channels beyond broadcast or search. But we believe it's important to invest in testing, so eventually we can diversify away from that.

The next question is what -- why was the decision made to dedicate fewer resources to consumer in this last holiday period? And what's our approach to next holiday season?

The decision was an outcome of a decision to focus on serving small business owners. As to how we're going to approach next holiday season, that's a question we're now evaluating, and it's too early to say which way we're going to go. We believe there are options that we think, even in a competitive environment, could help us improve the customer experience and the financial outcomes relative to what we did in the last quarter.

I think the next quarter we already spoke -- the next slide, 46, we've spoken about. So I'm just going to jump to 47, and that's you Sean.

Sean Edward Quinn - *Cimpress N.V. - Executive VP & CFO*

Yes. So the question is about paid search and our reliance there. So many of our businesses, of course, advertise through paid search channel, but it does vary. And the costs that Robert references earlier have certainly increased for everyone. But again, that reliance level varies.

So for Vistaprint, it's one of the largest channels, along with broadcast, Robert has mentioned. There are -- there's still strong returns for many opportunities in that channel, but we're not comfortable that the marginal spend has sufficient returns, which is one reason and the main reason that we decided to reduce the advertising spend in the near term here for Vistaprint. And we would like to see Vistaprint scale in other channels as well, be it social display or elsewhere.

Upload and Print is less reliant on paid search for a variety of reasons given their business model. National Pen also less reliance, although increasing slightly the investment there as they more and more come to an e-commerce model or channel. And then BuildASign uses paid search effectively with good return.

Robert S. Keane - *Cimpress N.V. - Founder, Chairman, CEO & Interim CEO of Vistaprint*

Okay. So Slide 48, we have a number of questions related to Upload and Print and the price sensitivity of those and efforts to move away from price-sensitive customers.

So Upload and Print customers have always been price sensitive, and we expect them to remain so. That being said, price is only one of a bunch of different factors that Upload and Print customers care about. Certainly, quality, selection, reliability, delivery, speed and customer service all matter. The ability to provide customers both great prices and great performances on those other dimensions has led to the growth of these businesses that we've had over the past years and the industry overall has had over the past decade. So even though it can be painful, we think that this is simply the reality of a market that's helping customers choose to move away from traditional, expensive channels to our model. So we don't want to move away from price-sensitive customers rather we want to structure our Upload and Print businesses to be able to win in that market.

And the recent organizational changes that we have made should help us since we see great advantages from our scale already. And we believe we can make them stronger and we can continue to grow value of these businesses both for our customers, but importantly as well, for our shareholders.

Investments in nonprice aspects of customer value, like service, speed, new products and so on, are important, but they are definitively not an effort to move away to a different set of customers.

Next question was about National Pen and how would we like to or not like to reduce our reliance on direct mail advertising?

We actually like the direct mail capabilities of National Pen. They provide a scalable customer acquisition and retention at attractive financial returns. Even in the past 6 months, when we've talked publicly about how returns came in well below the aspirations of the National Pen team, we believe that the worst-performing decile of that poor performing mailing campaign set will still have paybacks of about 24 months and deliver ROI that is above our cost of capital. That doesn't mean that all the investments went to the higher returning opportunity, but it does demonstrate that the margin return on -- the margin return on what we made in the investment, although below our expectations, was still a good channel to acquire customers. That being said, we do think the e-commerce opportunities at National Pen are significant, which will add potentially an additional channel.

The other question regarding the National Pen is, can we apply some of the lessons that we learned about Vistaprint's technology shortcomings to the rollout of National Pen's e-commerce capabilities?

I think the answer to that is actually the inverse of the question. In other words, can we apply some of the lessons learned from the rollout of National Pen's technology to the upgrade of Vistaprint? And what I'm referring to is the e-commerce upgrade in National Pen, which is now live in a few countries, is being built on a modern technology stack comprising of the commerce capabilities of the Cimpress mass customization platform. And it's highly modular, configurable, micro service-based code. And the majority of that code is not new, but instead leverage the same front-end commerce -- e-commerce code that we first brought live in one of our Upload and Print properties and which will be rolled out to several more over the coming year.

So most of the National Pen code itself is modularly reasonable, but those -- even the new code is able to be used elsewhere, and it works seamlessly with other parts of MCP and stores massive amounts of data in a common repository that's easy to query and easy to analyze.

So although the current [invitation] to National Pen and Upload and Print are on a much smaller scale than Vistaprint will require, they have validated some of the key hypotheses about how our technology teams should be equal partners to other functions in all of our business. And we are definitely going to be applying those insights at Vistaprint going forward.

Meredith Burns - *Cimpress N.V. - VP of IR*

So Robert, I think with 5 minutes left, we are going to move to the last question that was pre-submitted that is a good conclusion question.

Robert S. Keane - *Cimpress N.V. - Founder, Chairman, CEO & Interim CEO of Vistaprint*

Sure. I couldn't speak any faster, so thank you, Meredith, for letting me make it through, and Sean have to go through the next. So those of you who pre-submitted questions or were waiting in the queue, sorry, we are not able to get to all of them, but we certainly look forward to other forums.

The last question, I think, we wanted to come back to last is a very good question. What is the biggest lessons we've learned over the last 3 years? And how does that inform the future?

As we thought about this, I think I'd say 4 things. One, decentralization has enormous advantages. Even though we are still learning the ropes and we've learned to keep only those things in the center, those areas where the center can add the most competitive advantage, and even then make our central teams earn the right every day to serve our decentralized businesses with those capabilities. And secondly, the decentralized execution-oriented businesses with clearly defined performance metrics and incentive systems tied to their performance is an important part of how we needed to in centralize. So one, decentralization has worked even as we can improve it.

Related to the improvement, I think one of the things I've learned, Sean has learned is the verifications from the center need to include what I'll call deep core sample drilling to ensure that we understand and are confident in the culture, the decision systems and technology in businesses that we are giving decentralized autonomy to.

Third, I think we've definitely learned the value of reducing overhead both in the center and in the businesses themselves. And by doing that, we certainly become more cost competitive, we take out costs. But equally or more importantly, we enable our teams to move faster and be more nimble in serving the customers.

And finally, I would take away something that technology and data analytics, which was once a towering strength of Vistaprint but we let it atrophied, needs to be invested in across Cimpress. And we will be back again to our former strength albeit with a -- looking to the technologies of today as opposed to our past.

So how are those learnings going to inform the future? I think, one, we're going to retain our overall structure albeit with increased vigilance in testing of culture and decision-makings and technology in the decentralized businesses. We're going to be looking for ways to constantly manage down overhead and noncritical expenses across all parts of Cimpress. And we are going to rebuild our technology and analytics capabilities at Vistaprint back to world class. And we're going to continue to help our other businesses grow to world class in those areas.

So we are going to have to wrap up the call now. We realized that in this forum, we've been giving you a lot of information at high speed. Thank you for all your questions. We really appreciate that and your presentation today. We will post a transcript and a PDF of these slides to our Investor Relations site at ir.cimpress.com once they're available. And we look forward to reporting our progress to you in the coming quarters. Thank you very much, and have a great day.

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.
