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Fly Me to the Moon

by Mark Wright, CFA

The term "irrational exuberance" was popularized by former Chairman of the US Federal Reserve, Alan Greenspan, when he referred to the ebullient behaviour of investors towards internet stocks in the mid-1990s. Such behaviour ultimately led to the 'Dot-Com Bubble" and subsequent stock market crash in the early 2000s.

He questioned whether central banks should address irrational exuberance by pre-emptively tightening monetary policy. Mr Greenspan presumably concluded that they shouldn't, because the Federal Reserve didn't begin raising interest rates until late 1999.

Investors rarely seem to learn from past booms and busts, and we frequently observe evidence of irrational exuberance across all asset classes. It was irrational exuberance that led investors to buy 30-year UK government bonds on yields of just 0.6% during the COVID-19 pandemic, and still as low as 0.8% as recently as December 2021. The 0.625% 2050 bond I am referring to now yields close to 5% and has fallen a staggering 64% from its issue price – so much for being a safe haven asset.

More reminiscent of the Dot-Com Bubble was the IPO of Moonpig, the online greeting card and gifting business, in February 2021. Ludicrously low yields on long dated government bonds helped fuel undue optimism towards digital businesses exhibiting rapid growth.

We were fond of Moonpig's business model from the outset but were less fond of the lofty valuation at which the company managed to raise money from investors at its IPO. The valuation ultimately reached 52x earnings just a few months after its stock market debut[1].

Moonpig dominates the online greeting card market in the UK with a 70% market share[2], whilst online penetration for greeting cards has been growing faster than many other product categories, such as cosmetics & toiletries, clothing & footwear, and homewares. The company is still gaining market share, as Moonpig leverages its powerful brand, scale and vast customer dataset that it has accumulated over the last 23 years from 266m cumulative customer transactions[3]. Its marketing budget is a multiple of all of its competitors' budgets combined which creates a significant economic moat and barrier to entry.

Moonpig's strategy is simple – grow the customer base, get those customers to order more frequently and get them to spend more on each order, for example by attaching a gift. Moonpig benefits from a loyal customer base that generates 89% of the company's revenue in any one year[4]. The company sends 84 million reminders of special dates, such as birthdays and wedding anniversaries every year to its customer base, helping to encourage them to delve into their wallet and purses to send a card and/or gift to someone for that special occasion.

The average person purchases 23 cards per annum but only 3.3 of those are purchased from Moonpig[5]. At the same time, 72% of those cards purchased are given with a gift[6], but a much smaller percentage of Moonpig customers currently attach a gift. That should improve, following the recent acquisition of Buyagift and Red Letter Days, the UK's largest and third largest gift experiences platforms, respectively. The company also has a presence in Australia and the United States but is yet to "press go" in promoting and expanding the business there.

The growth opportunity for Moonpig is clear. Having sat on the sidelines for the best part of two years, Moonpig shares can now be found in Momentum's direct UK equity portfolio. Earlier this year, the shares had fallen almost 80% from their peak to a much more sensible valuation. This was despite the business trading reasonably well since its IPO. The business model hasn't changed, and if anything, Moonpig is now a more compelling proposition to investors, with expansion in the United States a much closer reality now than it was at IPO. An old colleague of mine used to walk through the office singing "Fly me to the Moon". We are hoping Moonpig does just that.

Source: [1-6] Moonpig Group Plc. Unless stated all other data is sourced Bloomberg Finance L.P.

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