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Moonpig.com – Do MBA Business Plans Really Work? Part 3: Bringing Home the Bacon

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Abstract. The case study is the final part of the three part case study series of Moonpig.com one of today's most successful Internet-based greeting card businesses. Following a strong marketing campaign, high customer retention as well as product expansion, Moonpig's turnover increased to £31 million in 2011 before it was sold to Photobox for £120 million a few months later. Part 3 provides the end of the Moonpig story. It gives the opportunity to assess the exit strategy chosen and to discuss what happens after. A detailed Teaching Note with an analysis and suggestions for questions is also available to stimulate discussion in the classroom. (Moonpig.com Part 1 and 2 are also published in this edition of the International Review of Entrepreneurship).

Keywords: entrepreneurship, business plans, Dot.com companies, greeting cards/publishing, business angels, venture capital, company valuation, business growth strategy, exit/harvest.

1. Introduction

Moonpig's results in 2010 and 2011 were completely on budget (*Exhibit 1*). Consequently, within 2 years of his last Financial Times interview (Moonpig, Part 2), Nick in June 2011, sold the company to Photobox for £120 million! Photobox, an on-line business that printed personalised photo-albums and calendars, had been founded in 2000 by Graham Hobson and following a merger in 2006 with the French Photoways group, operated (unlike Moonpig) across Europe. Both firms were managed by professional MD's (Stan Laurent at Photobox and Iain Martin at Moonpig) and would continue as separate brands but would mutually benefit from cross-selling customer contacts and sharing IT expertise. Photobox in 2011 had 11 million customer members on a £72 million sales turnover, compared with Moonpig's 3 million customers and a £38 million sales turnover.

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1. The case has been prepared by Robert Brown, Visiting Fellow, and Dr Stephanie Hussels, Lecturer in Entrepreneurship, at the Bettany Centre for Entrepreneurial Performance & Economics with help from the MBA students Philip Irvine, Tom Keohane, Joel Leeson, David Stark, and Chris Wyper. The authors would like to thank Nick Jenkins for his generous support and kindly provided insights into Moonpig.com. The case is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of management situations.

Photobox greatly admired Moonpig's profit margins and cash producing ability, Moonpig was interested in expanding into Photobox product areas.

2. Events Leading to Sale

Nick, although owning only 34% of Moonpig's shares, nonetheless through friends and associated holdings still had effective control of at least 51% of the company. He remained adamant that he did not want to float the company, even on the AIM market, disliking the idea of having to deal with the formalities that the City would require from a quoted company and aware that in a small quoted company liquidity is rarely a reality for director with large shareholdings. Also, as previously indicated, he did not want to sell the business until he had explored the American market. Benefitting from earlier mistakes in entering the Australian market, initially without an Australian manager, throughout 2010 and early 2011, an American managed team was established in London to start an on-line campaign in the USA. After 12 months some 30,000 customers had been attracted to the Moonpig site. More importantly, the team predicted, given the competitive situation in the US, that to fully develop the company in America would probably need an investment of nearly £20 million. Nick, having lived through the first 5 years and £2½ million investment to establish Moonpig in the UK, did not relish the idea of diverting all Moonpig's earnings for the next 2 years to this end. Finally, the growth of new competition in the UK, including Funky Pigeon, owned from October 2010 by WH Smith, and retailing cards at £1.79, convinced him that Moonpig's sales growth in the UK was likely to be affected.

3. The Deal

As an owner, in early 2011, of one of the top 100 fastest growing companies in the UK, Nick had enjoyed being invited by the Prime Minister's office to 10 Downing Street to promote the growth of entrepreneurship in the UK, but confessed that he was not certain, given his other charitable interests, whether he had the enthusiasm to continue to direct Moonpig in these challenging markets. Nick appointed a corporate finance advisor, Ingenious Corporate Finance, to help prepare for a sale of all or part of the business. As part of this process contact was made with Photobox in Sep 2010; this company was seeking growth acquisition targets at this time and was advised by Lazards.

Having achieved pre-tax profits of £11.2 million in 2010 Nick had concluded that his "magic number" company sale valuation was £120 million, just over 10 times price/earnings ratio. This figure was eventually achieved, aided by Nick and one other major shareholder, agreeing to re-invest several million pounds each in Photobox preference shares, Nick taking his remaining 34% share value in cash, which had been his primary objective. The deal for Photobox was financed by 40% new venture capital company investment and 60% bank and new shareholder investment.

Nick gave up all his former roles in Moonpig, agreeing solely to act as an Advisor to the board. He would concentrate instead on his charity commitments, especially in Africa, having agreed also to become part-time, 3 days a week, Chief Executive of ARK (Absolute Return for Kids), a charity helping disadvantaged children in the UK, Africa, India and Eastern Europe. All former shareholders in Moonpig, having been paid nearly £8 million in dividends in 2010, were delighted with the safe outcome, most receiving 10 times their original investment, some 50 times! As one newspaper reported it, Moonpig had certainly "brought home the bacon"![2]

Exhibit 1
(1) Altergraphics Ltd / Moonpig.com: Profits Loss Account (2010-2011)

	2010 (£'000)	**2011 (£'000)**
Turnover	31,285	38,048
Cost of Sales	10,147	13,348
Gross Profit	21,138	24,700
Administration Expenses	10,134	14,096
Other Income	170	272
Profit (Loss) before interest	11,178	10,876
Interest receivable	11	6
Profit (Loss) before tax	11,189	10,882
Taxation	3,178	3,029
Profit (Loss) after tax	8,010	7,793
Cumulative Profits	12,953	20,746

2. Daily Mail, 28 July 2011

(2) Balance Sheet, Altergraphics Ltd / Moonpig.com (2010-2011)

Fixed Assets	**2010 (£'000)**	**2011 (£'000)**
Tangible Assets	5,531	4,898
Intangible Assets		
	5,331	4,898
Current Assets		
Stocks	340	358
Debtors	1,146	1,214
Investments	44	25
Cash at bank / in hand	1,164	4,722
	2,694	6,319
Creditors		
Amount falling due within 1 year	-7,015	-8,322
Net current liabilities	-4,322	-2,003
Total Assets Less Current Liabilities	1,208	2,894
Provisions for liabilities	-115	-120
Net Assets	1,094	2,774
Capital and Reserves		
Issued Capital	5	5
Share Premium	112	278
Profit & Loss Account	977	2,491
Shareholders' Funds	1,094	2,774