



APPENDIX 4C REPORT – Q1 FY2018

REDBUBBLE BUILDING GROWTH MOMENTUM AND REAFFIRMING EBITDA GUIDANCE

25 October 2017

Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Redbubble Limited Quarterly Financial Update, Appendix 4C Q1 FY18 conference call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session. At which time, if you wish to ask a question, you will need to press star one on your telephone. Please be advised that today's conference call is being recorded on Wednesday, 25 October 2017. I would now like to hand the conference over to your first speaker today, the Company Secretary of Redbubble, Mr Paul Gordon, thank you, please go ahead.

Paul Gordon: Thank you. Good afternoon, everyone, this is Paul Gordon, Company Secretary of Redbubble. Welcome to our teleconference following this morning's first quarter appendix 4C release. With me are Redbubble CEO, Martin Hosking; COO, Barry Newstead; and CFO Chris Nunn. Martin, Barry and Chris will present a business overview and summary of our financial performance before we open up the call to questions. Before we start, I would like to call your attention to our safe-harbor statements in the press release that accompanied our 4C release. It covers forward-looking information and other matters related to today's discussion.

Martin Hosking: Thank you, Paul. I'm Martin Hosking, Redbubble CEO. I'm delighted to be here and joined by Redbubble's CFO, Chris Nunn, who will be providing an update on our financial performance, and our COO, Barry Newstead, who'll be commenting on the strategic focus and operational performance of the Company. Before passing to them, I want to make some introductory remarks. While 10 years old, Redbubble is just at the start of a journey as we seize the global opportunity before us and extend our lead as the world's leading marketplace for independent artists. Today we released Redbubble's Appendix 4C for the first quarter of financial year 2018. We've enjoyed a pleasing start to FY2018. In this quarter we continued to build strong growth momentum and saw further evidence of the operating leverage from previous investments.

Redbubble remains a unique Australian company, the leading player in a global disruption, this being the rise of on-demand retail. This disruption is occurring on the back of three things; a change in consumer sentiment towards the personally relevant, the emergence of economic print-on-demand and now manufacturing-on-demand, and finally the scale made possible by the internet. Taken together, these trends enable a single product to be created for a single customer at the time of an order in an economic way; that is, on-demand retail. It is this trend that has driven 10 years of strong growth for Redbubble and continues to pick up speed. It is reflected in the healthy growth on all sides of the marketplace, with artists, customers and repeat customers all growing at almost 40% on a year-on-year basis. This is why we have continued to emphasise the scale of the opportunity for Redbubble is clear and we're highly confident with our capacity to seize it. To that end, we've had a positive start to FY2018. Top-line GTV



growth returned to a level of above 30%, at 30.5% on a constant-currency basis, compared to the first quarter in last financial year. Revenue, likewise, grew by 25.9% and gross profit by 22.7%. Chris will go into more details on these numbers.

Importantly, Redbubble's quarter-on-quarter GTV growth rate of 22.1% gives us even greater confidence that we are on track to achieve 30% growth in FY2018. We are riding positive growth momentum into the important holiday season. The strong gross profit margin - there's been improvement since our listing - has been maintained and we continue to spend judiciously in both the acquisition and operating expense lines. Taking all these trends together, we are increasingly confident that we will meet our previous guidance of moving into ongoing operating EBITDA profitability later in FY2018. I will now pass to Chris to provide more financial commentary on the quarter.

Chris Nunn: Thank you, Martin. I'm a bit mindful of my voice here, so hopefully I'm not going to have a Theresa May moment here, but forgive me if I do. As has been our practice, we've included with our 4C release for the September quarter a profit and loss for the quarter down to the EBITDA level, and some key metrics comparing this quarter with the corresponding period last year and with the June quarter of FY2017. Of course, these numbers have not been subject to audit. Highlighting Martin's opening comment, it is certainly pleasing to report our GTV number improving in line with guidance provided, and to be able to reaffirm our EBITDA earnings expectations for 2018 with an increasingly degree of confidence.

As Martin has said, for the quarter Redbubble generated gross transaction value of \$45.6 million, up 30.5% on a constant-currency basis versus the same quarter last year, and up 22.1% when compared with the last quarter reported. Typically, first quarter does show stronger growth due to it containing a back-to-school period in the northern hemisphere, but this first quarter improvement over the fourth quarter is particularly strong. It is also nice to report that our mobile app activity is starting to make up a measurable part of GTV, with sales through the app making up 2.6% of September GTV.

We have reported revenues of \$35.3 million, up 25.9% year-on-year on a constant-currency basis. The lower year-on-year growth of revenue, compared to GTV, is largely due to timing differences, with a particularly busy last few days of September increasing the value of unshipped orders at the end of the quarter relative to previous periods. There is also a slightly larger tax impost in there too, as the increasing contribution of European markets with higher sales tax rates has an effect. Gross profit of \$12.6 million grew at 22.7% year-on-year on a constant-currency basis. Gross profit growth was in turn lower year-on-year than revenue, entirely due to a particularly good GP margin in the first quarter last year. The gross profit margin for the 2017 year as a whole was 35.6% and we have maintained that this quarter. We anticipate maintaining our GP margin at around this level.

As I said in August, the excellent work done by our logistics and supply chain team to harvest the benefits from greater scale has enabled significant improvement in manufacturing margin, whilst we choose to reinvest that in ongoing growth through pricing and promotional strategies. We continue to expect benefit from scale in our product margin, as the volume increases experience following our pricing changes have enabled successful negotiations with fulfillers which will only take full effect from October onwards. I do want to spend a moment discussing the paid



acquisition costs and the impact on gross profit after paid acquisition, GPAPA. Barry will talk a little more about the paid marketing strategy we've been developing over the last few months.

As we have said consistently, the transition to mobile continues unabated, and that will mean that we are required to invest more for customers to convert on mobile than we do on desktop. But we continue to build efficiencies into all of our paid marketing processes that mean we have not invested significantly more to generate a GTV dollar in the paid channels. In the last few months, we consciously developed a capability through the paid social channel, which has a greater focus on new customer acquisition and on remarketing to existing visitors and customers. This has increased paid media investment, while remaining GPAPA positive in a form that gives longer-term returns than our typical expenditure to date. We are simultaneously working on growing scale and increasing efficiency as we find the right balance between new customer acquisition and transactional profitability in our paid media efforts.

Returning to the income statement summary, I'm particularly pleased with the continued active management of operating expenses. Before we introduced the GPAPA concept, we indicated to the market that our aim with respect to operating leverage was to grow GTV at a rate approximating twice the rate of growth of operating expenses. Back then we bracketed paid acquisition costs in with our other operating expenses. Whilst paid acquisition costs have been increasing, operating expenses growth has slowed markedly. Aggregating paid marketing costs and operating expenses, the respective comparable year-on-year growth rate is 18.5%, to GTV's 30.5%. And in the last quarter, the growth in aggregate expenses is only 2.8% on a constant-currency basis, compared to GTV's 22.1% growth.

Redbubble's EBITDA loss for the first quarter was \$1.4 million, almost halving the loss from the previous quarter. As we build confidence in our top-line growth rates and we demonstrate our ability to manage expenses, we're able to reaffirm our previously guided EBITDA expectation that we will move to ongoing operating or cash EBITDA profitability at the end of this year. Briefly to cash flow, we have managed to achieve a positive cash flow for the quarter, despite an operating EBITDA loss and the continued investment in capitalised development costs. This is due largely to timing benefits associated with the high level of unearned revenue, the unshipped orders, and delayed fulfiller and marketing invoices at the end of the quarter, which have been accrued of course but not received or paid. It is the first time we've delivered a positive cash outcome for the first quarter of a financial year, which we expect to be followed by a strong cash flow quarter to December.

Thank you, I'll now hand over to Barry.

Barry Newstead: Thank you, Chris. I would like to discuss the work we are doing to propel the growth and scaling of Redbubble. As you know, Redbubble is a marketplace business competing in on-demand retail, a sizeable, addressable market. Our sustained, strong growth over a number of years at well above market growth rates demonstrates that we are gaining share in this growing sector. As I introduced in the August investor call, Redbubble is investing in a marketplace flywheel that provides us with a competitive advantage. You can see a version on page 5 of the 4C investor update and I'm going to talk to that flywheel through this conversation. Our strategic focus is on powering this marketplace flywheel. The starting point is content. Redbubble has amassed a large artist community and a corresponding collection of content that is ever-growing and changing. Over the past



quarter, we launched new products, including premium t-shirts for men and women and the iPhone 8 and X. Thus far in October, we've added to our throw pillow range and added new Samsung cases.

In the quarter, we undertook a review of our artist community. We continue to see it as vibrant and generative of more designs than ever before. We continue to make progress as well in managing content moderation and tackling privacy. As we grow, we have started to develop sophisticated tools that allow us to better manage this important area and we see it as an emergent area of competitive advantage. The content that is available on Redbubble sets up the second phase of the marketplace flywheel; the discovery of content for customers, new and existing, who are looking for personally-relevant products. This quarter, the main highlights and discovery were the continued improvement of the search experience with the introduction of more targeted recommendations based on prior searches. We have started rolling out new data science work that is improving the efficiency of our search recommendations, and our bidding and Google Shopping, a channel that has been a strong source of profitable growth for Redbubble.

We have increased our activities in paid social, Facebook in particular, as Christ mentioned. Facebook, along with Instagram, will present strong, profitable growth potential for Redbubble over time. We are seeing good growth from these channels and positive profit contribution. Yet the process of optimising the profitability for both customer acquisition and retention is at least a one to two year process. We are among the leading-edge users of Facebook's platforms, and our readiness to partner with Facebook has given us access to pilots and cooperative partnerships that companies of our size are rarely invited to. We've developed a very strong inhouse team on this area and in September we added Jorie Waterman, an executive with deep Silicon Valley expertise, in a newly created Chief Marketing Officer role. We've also added engineers and data scientists based in San Francisco to work closely with the marketing team to build our scalable customer acquisition and retention platforms.

This leads to the third phase of our flywheel; economies of scale, and then phase four which is about leveraging that scale for customer value. Redbubble continues to leverage our volume to add fulfilment partners closer to customers. This strategy supports margins by reducing shipping costs. It also helps to diversify capacity which can be valuable during the holiday season. We have also been rolling out a strategic pricing initiative. We have lowered prices on a set of products after running experiments that show lower prices improved volumes to levels that ensured neutral or better gross profit outcomes. This is a positive development as we are providing customers with improved value for money. It comes with another benefit for our flywheel, as we have been able to negotiate improved terms from a number of third-part fulfillers which will accrue in future quarters. It is worth noting that we have not only cut prices. In fact, our focus is on optimal pricing, and in some instances this has involved price increases.

I travelled to five cities in Europe and the US in September to meet with a core group of our fulfilment partners. I was joined by our deeply experienced Senior Vice President for Operations, Arnaud Deshais, who's based in San Francisco. These relationships are strong. The partners showed us the new investments that they are making to deliver a high-quality service to Redbubble customers and artists, particular for the holiday season. We discussed innovations around cost effectiveness and quality that we will be jointly investing in over time. There is a shared commitment to the launch and potential of these partnerships and it underscores the value of the three-sided



Redbubble marketplace. The final area of delivery I'd like to highlight for the past quarter is our iOS app which is a key part of customer loyalty.

We have seen great user experience with the app and continue to deploy new features including a very cool augmented reality experience with throw pillows. Unique monthly the active users for the app grew by 312% quarter-on-quarter which is an excellent result.

As you can see we've been working hard to build on our leadership position, power up the marketplace flywheel and serve artisan customers well. As we look forward we are staying focused. Our team are making excellent progress heading into the holiday season.

Some forward-looking areas to highlight, our Find-Your-Thing team continues to optimise the discovery process with the important and valuable addition of more user data to better personalise the content we present. We have signed our first content partnership but we are not yet ready to publicise it and can announce the hiring of a seasoned global licensing executive, Eric Morse, who joins our San Francisco team from Spencer Gifts, a leading US license merchandise retailer.

Our deeper relationships team is also working on the member experience and the iOS app as I mentioned briefly, and on the web providing personalised recommendations and services that will increase loyalty.

Our global acquisition team is investing in sustained low-cost acquisition to a wider range of channels and the continued emergence of Facebook, Instagram and Pinterest alongside Google. We will continue to invest behind the strong growth in Germany and Western Europe.

Finally, our scalability team is working on a must faster core Redbubble user experience which is close to its first major deployment. It provides a platform that will enable us to offer customers and artists a more personalised experience.

Lots of people are working hard in Berlin, San Francisco, Melbourne and elsewhere to build a business that will scale and generate impact for artists, customers, staff, partners and shareholders for many years to come. We are excited about where we are headed. With that I'll now hand it back to Martin to sum up. Thank you.

Martin Hosking: Thank you Chris and Barry. As you have heard there's been a pleasing side to FY2018. We are very excited about our momentum as we head into the important holiday season. Redbubble will continue our progress in a number of investments across our teams to add further momentum to the marketplace flywheel. We are focused on sustained and strong growth through executing and delivering on key strategic initiatives.



Our confidence in Redbubble's ability to grow is based on our track record and is underpinned by the disruptive trend of increasing consumer demand for personally relevant content. As I said, we are just at the start of the journey. The marketplace looks forward to adding more artists, more content and more fulfilment capabilities across more products and locations to enhance the overall consumer experience.

Redbubble will become an ever more meaningful and distinctive shopping destination for a global set of consumers. Based on the momentum of this quarter we are reaffirming our previous EBITDA guidance. Whilst assuming profitability will be an important milestone for Redbubble it certainly is not our final objective. In tandem with the growing trends of customisation and on-demand we will continue to build out our strong position and advance our mission as the world's leading marketplace for independent artists.

Thank you. Now we are very pleased to take questions.

Operator: Thank you. Ladies and gentlemen we will now begin the question and answer session. If you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Once again it's star 1 to ask a question. Your first question comes from the line of Owen Humphries from Canaccord. Please ask your question.

Owen Humphries: (Canaccord, Analyst) Well done guys. Your nice top line growth looks like there's a reacceleration coming which is good to see. Maybe a question for Barry - I notice you just stated that you'll be jointly investing with the fulfillers on a number of initiatives. Can you maybe just highlight how you would be jointly investing with them?

Barry Newstead: Yeah, I probably used the word investing a little bit more broadly than financial investing. I think the areas that we are working with on fulfillers I think - the point I'd like to highlight is - well the two I'll highlight - one is obviously well-known and will continue is, as we grow we're bringing more products closer to customers. So part of that investment will be, certain fulfillers will take on new products. So for example some of our existing fulfillers in Europe have been adding products that were previously being fulfilled by other partners in the US for the European market. So I think that's one area of if you will joint investment.

The other area is in quality. One of the important areas of progress which I don't think we talk about very much is ensuring that the quality of the product that goes out the door is really high first and foremost for the experience for the customer. Secondly so that we continue to manage our costs associated with the reprints and redo's of which a component is quality related. So our quality team - Redbubble's quality team underneath Arnaud Deshais is working with those fulfillers to assess areas in which the quality can be improved and therefore generate the customer experience benefit as well as the cost benefit.



Chris Nunn: I might just add in there - just want to emphasise Barry's point about the investment. The investment in the financial sense is all with the fulfillers. An example of that is one of our very strong fulfillers in the UK opened up a factory in the Netherlands to help us service European markets. So it's not just a product thing. It's actually a physical location thing too.

Owen Humphries: (Canaccord, Analyst) Maybe touch on - watching the business for a couple of years now there's always been advancements in the back end and just highlighting it there. Are there any exciting products coming down the pipe that excite you guys and the fulfillers? What are we seeing on the technology front? Hats or shoes or bags or - just expansion of the product range that you guys - as the technology on the back end with the fulfillers gets more advanced - 7 years ago it was bedsheets. Now it's - or wall art - now it's almost anything.

Barry Newstead: I think across the categories we are in there are many opportunities for products that are available to us as we build the capacity to launch more products more quickly. So I think actually the kind of on the horizon - 2 things on the nearer horizon which I'm not going to put a time frame on it. We're working on our technology to enable those products to come to market a little bit faster so we can get more products out each year. So I think that's the nearer term thing.

I think the longer term thing is really the evolution of what we would call make on demand which really takes us into a much broader range of potential products that have even greater mass personalisation capability. I would say the technology in fulfilment to do that economically is probably a little bit more emergent than the technologies that support our existing and near term products.

Chris Nunn: If I might add something on that one also. It occurs to me then Owen that quite a lot of the development work that's being done on - Barry touched on the fact that we're deploying some stuff in the next few weeks to be ready for the Christmas season. That deployment is actually a combination of work that's been going on for several months if not every year which we haven't actually seen any benefit from in any of these numbers you've seen today. So it's the kind of thing that - I have said to you, maybe we haven't communicated that as well in the past as we should. But there is an underlying amount of work going on that will yield that. The speed of the site is one of those big things. The whole aspect of being able to launch product in a more hasty manner is around about the speed of the site. So it's one of those dependencies which we have been working on.

Owen Humphries: (Canaccord, Analyst) Good one. Just - maybe just on the OpEx - it looks like that was relatively flat. You're saying the operating leverage hence the increased confidence around the EBITDA break-even and then profitability from there, can you maybe just touch on - in that quarter is that a normal quarter for OpEx? Are we expecting - obviously a couple of per cent growth - are we expecting it to hold here? Obviously slightly increased a little bit but are we expecting this to grow at 10% this year? Or are you kind of comfortable with the current OpEx?

Chris Nunn: I think we have talked about the kind of two for one - the reason I wanted to get back in my speaking notes - well my speech was about just linking GTV to, not just operating expenses, but paid expense - paid up



marketing costs. I think we expected operating expenses to grow at around about half the rate of GTV. We have been able to restrain that. But I don't want to hold us back to restrain that any further. I'm comfortable that we made a saving in the first quarter but we still need to grow and add expertise to the organisation. So I think that answers the question to a degree.

Owen Humphries: (Canaccord, Analyst) I agree. Well done. Thanks guys.

Operator: Once again if you wish to ask a question it's star 1. Your next question comes from the line of Ivor Ries from Morgans Financial. Please ask your question.

Ivor Ries: (Morgans Financial, Analyst) Good afternoon gentlemen. My first question probably is best directed at Chris. Chris there was quite a steep drop in the GPAPA margin from 28.3% to 25.1%. Is that now the new normal - 25.1% - is that the new normal or was there something unusual about that quarter?

Chris Nunn: Well there's a couple of things about the quarter which I mentioned higher up the P&L which will naturally affect that number too Ivor. But I don't think 28.3% is normal. I would suggest that 26%, which is something we achieved in the fourth quarter is more the normal. But there are natural pressures pushing up our paid marketing costs which we've talked about consistently over the months. So yeah we need to work on the top line. The GP number is solid. The GP number - the GP margin is solid. So that to my mind if we can - pushing back on the natural inclination to have to pay more for more customers - pushing back on that and naturally through the transition to mobile is part of what we're very focused on.

Martin Hosking: Just to give it a little bit more flavour, we have been investing more in Facebook social marketing. So there's a higher line item there. Over time we expect that to come down. We also had - as also Barry mentioned - we were doing some price reductions during the quarter. We actually hadn't got the cost reductions as well. So there were some unusual factors during this quarter which are really setting us up for the rest of the year.

Ivor Ries: (Morgans Financial, Analyst) Just if you could give us a flavour for where the price drops were the greatest, what sort of products where you cut the prices the most?

Martin Hosking: I'm sorry I don't think we're really going to go through the pricing with you Ivor. Clearly that's a very commercially sensitive issue and I'm not sure we want to unpack that any more than we have done.

Ivor Ries: (Morgans Financial, Analyst) Well it's on your website.



Martin Hosking: Yes it is. But there's across - they've got multiple geographies, multiple jurisdictions. It would be a complex thing to really look though it to be honest with you in reality. Where the impact has come is actually - that's where it's commercially sensitive. So the raw numbers are obviously available. Where we've got the benefit is commercially sensitive Ivor, sorry.

Ivor Ries: (Morgans Financial, Analyst) Right. I think Barry might have mentioned in his discussion there that you're talking about some form of new - was it a distribution partnership? Could you explain how that would work?

Barry Newstead: Yeah, I think we briefly introduced this last quarter. One opportunity area is to work with people who own third party content right, so who might own brands or properties which Redbubble artists would be interested in partnering with those providers to create new content, new licensed content in areas. So that would be - the nature of those content partnerships would be company X who owns property Y are working with artists, any number of - probably hundreds of Redbubble artists, creating content that would then be available for sale on Redbubble in a partnership

between those two...

Ivor Ries: (Morgans Financial, Analyst) Okay. So you're not talking about loading your content or your service on to someone else's website.

Barry Newstead: No. I'm not referring to that.

Ivor Ries: (Morgans Financial, Analyst) In the discussion there in terms of new initiatives you've mentioned some - moving to part of your webpage uploading - I think for t-shirts initially - to some other platform to get a speed reduction. What kind of a speed reduction are you hoping to get?

Barry Newstead: Significant probably a couple of orders of magnitude actually. I think we're looking at two to three apps. We don't have the final numbers yet, but suffice it to say that the pages that we've - we're pretty close to playing our world class speed, and the pages are good, but they're not great.

Ivor Ries: (Morgans Financial, Analyst): I mean I think the last time I spoke to you guys about this, I think your page download speeds were something between 9 and 11 seconds. Amazon, at the moment, I think, is doing about three. Would you be hoping to get down to Amazon territory?

Barry Newstead: That would be our ambition, is to be in Amazon territory, yes.



Chris Nunn: Not just - a bit more than ambition in a sense. We have very strong hopes for that at least, it would be fair to say.

Barry Newstead: Yes.

Ivor Ries: (Morgans Financial, Analyst) So you could be migrating t-shirts across to that for the Christmas period.

Barry Newstead: Yes. That is our plan. We're getting close to those deployments. Until they're done they're not done, but that's what we're very much on track to deliver.

Ivor Ries: (Morgans Financial, Analyst) Right. Is it public knowledge who that party is who's going to be your new server?

Barry Newstead: Who the party is. I mean we - it's actually - it's not really that who the parties we've developed - we've developed these pages on platform that is Redbubble platform. We've used multiple industry standard best standard platforms from people like AWS and Google, but also others. Our team assembles the best technologies and then we build the technology for the specific purposes of the Redbubble platform.

Ivor Ries: (Morgans Financial, Analyst) Right.

Chris Nunn: It doesn't change the server base as such, does it?

Barry Newstead: No, it doesn't. Actually, it gives our infrastructure more scalability and self-healing capability because we're on a - this platform will be 2017, or pretty close to 2017, technology. Our prior platform is - was developed in 2006, 2007, 2008. It has served us very, very well, and it continues to serve us very well, but the things you can do with the new technologies are dramatically greater.

It really underpins the theme which Chris referred to, which is speed. Speed is a very important part of what we're doing across a number of things. This is speed of pages. It will eventually accrue to speed of things like product launching, but it actually - as we migrate more and more of our activities, it's going to create a fundamental ability of our developers to create more features at much, much greater speed, and that's going to help the entire Redbubble ecosystem.

Chris Nunn: Another practical example of that is speed of up - of enabling fulfilment, so new fulfillers that will be able to join our platforms so much easier as well. It's really a fundamental base that we're building and have - really haven't seen yield from as yet.



Ivor Ries: (Morgans Financial, Analyst) Yes. Would it - is it reasonable to expect that new platform will be up and running prior to the end of this quarter? Or is that too early?

Barry Newstead: As I said, we're not quite at the point, but our team is working to get it out the door as quickly as we can. Ideally, in this quarter.

Ivor Ries: (Morgans Financial, Analyst) Right.

Chris Nunn: I think being a risk management person myself, we will not do anything on deployment if we think that puts at risk any of our financial numbers this quarter.

Barry Newstead: Yes. I mean that's exactly what we're weighing, is we're weighing are we fully ready, and we're clearly not going to go backwards just yet.

Ivor Ries: (Morgans Financial, Analyst) Yes, okay.

Barry Newstead: You're seeing a pretty solid performance at the moment.

Ivor Ries: (Morgans Financial, Analyst) Yes. You mentioned in there that you lowered your price in the quarter, but you didn't have the benefit of the price reductions from your fulfillers. When do - when will the price reductions from the fulfillers cut in?

Barry Newstead: Actually, it's worth clarifying. In the quarter there were some fulfilment and shipping costs improvements. The ones that I was referring to were related to the volume benefit that we got from the price increases. We then took that back to the fulfillers and say hey guys, we've got this volume benefit, what can we then - how can we accrue that then in terms of fulfilment cost? Some of that will start to accrue this quarter. Others will - other parts of that will accrue probably starting in January. There's just some timing difference to - depending on the negotiations with each partner.

Chris Nunn: It's such a microcosm of what we do all the time, Ivor. We're always negotiating on the back of economies of scale. We've just got better ammunition to go back to them with now in some instances.

Ivor Ries: (Morgans Financial, Analyst) Yep. Okay.



Barry Newstead: I think they've got an increased appreciation for that - the relationship between price volume and cost, which I think we - that - which was part of the benefit of the trip that Arnaud Deshais and I took to meet some of those fulfillers in September.

Ivor Ries: (Morgans Financial, Analyst): Right. So it'll be a rolling benefit. You won't get it all at once.

Barry Newstead: Yes.

Chris Nunn: Yes, a rolling benefit, yes.

Ivor Ries: (Morgans Financial, Analyst) Great. Okay. This is one for Chris. Just, Chris, just in terms of mobile and desktop conversion rates for that quarter.

Chris Nunn: Ah, you always ask me that one. I should have been prepared.

Ivor Ries: (Morgans Financial, Analyst) You can send it to me by email later if you want.

Chris Nunn: Yes. I do have it. I might as well give it to you now. The conversion rate on desktop in the first quarter of FY18 was 2.64%.

Ivor Ries: (Morgans Financial, Analyst) Yes.

Chris Nunn: Compares with a very similar number this time last year. The conversion rate on mobile, on the other hand, was 1.25%, which is significantly up on the 1.13% in the previous corresponding period.

Ivor Ries: (Morgans Financial, Analyst) Right, fantastic. Now if I may be rude to ask one more question of you, Chris. \$28 million cash in the bank here. Is that it now? Should we expect you to end the year with something similar to that number at the end of FY18?

Chris Nunn: I'll just give you a little number, which is a fact and that is that last year we generated - when you say end of the year I'm talking about calendar year now but perhaps I'll just extend that to the end of June but last year we generated \$9 million in cash in the second quarter of the year.



Ivor Ries: (Morgans Financial, Analyst) Yes.

Chris Nunn: Those are the numbers we did last year. I'm going to leave you to do your calculations on the model to work out what the cash balance might be at the end of the year but we're going to have a positive - I'd be hesitant to guarantee it but we're going to have a pretty positive cash flow inflow for this quarter and I'm guaranteeing to the extent that we have an inflow this quarter there'll be quite a significant outflow in the first quarter as we paid our suppliers.

Ivor Ries: (Morgans Financial, Analyst) Yeah.

Chris Nunn: But I'll leave you to work that out but I do talk about EBITDA - when I talk about operating EBITDA profitability as a concept that is breaking even from a cash point of view, we have an outflow in relation to our capitalised development costs. Don't forget that.

Ivor Ries: (Morgans Financial, Analyst) Yeah of roughly \$8 million a year.

Chris Nunn: And then we have a corresponding inflow of the working capital advantage by us growing the way we do.

Ivor Ries: (Morgans Financial, Analyst) Yep, fantastic.

Chris Nunn: I just want to - sorry, when I say corresponding I mean in value service but there's a contra upwards inflow from working capital and an outwards flow from capitalised development.

Ivor Ries: (Morgans Financial, Analyst) Yep, great. Fantastic. Thank you very much.

Operator: Your next question comes from the line of John Lewis from Osmium Partners. Please ask your question.

John Lewis: (Osmium Partners, Analyst) Hey guys. My questions have largely been answered and I just want to I guess just take a moment to thank you guys and congratulate you. I think you guys have run an A class business and done a fantastic job working out the kinks and continuing to scale the model. I really don't have - like I said most of my questions have been answered here in the Q&A and I look forward to catching up with you guys so thank you.



Martin Hosking: John, I won't take that as a question but thank you very much.

Operator: Your next question comes from the line of Stella Wang. Please ask your question.

Stella Wang: (Analyst) Hi guys. Firstly, apologies if I repeat previously asked questions. I missed part of the conversation. My question is as you guys mentioned last financial year you had more aggressive competition from Amazon on the key line of T-shirts and this quarter you adapted your pricing to compete against them. Now what do you see as a response from Amazon and last year their aggressive pricing on T-shirts. Is there any possibility they would do a similar thing on homeware and other lines and just keep it going, which would create pretty big competitive pricing pressure on your line?

Martin Hosking: Thank you very much for that question. I'm going to take it as a general question about Amazon to be honest because I have no idea what they're responding to or not responding to within Amazon itself. Let me just take it as a general question about Amazon and where we are.

I think the critical thing to understand is what the concern about Amazon is Redbubble's growth and what we want to highlight is that we're growing our share and we're growing as a company. I don't know exactly what Amazon's doing. I'm not privy to Jeff Bezos and his thinking. All I do know is what's happening within Redbubble. I think you need to be very conscious of the reality that there are three big players in the e-commerce or channels on the internet. There's Google, there's Facebook and there's Amazon, all of which are channels for customers to receive products. Other than that there's all the independent brands. There's no way Google and Facebook are going to give up their right to be a channel. We're clearly taking advantage of those channels and we're clearly also building a brand independent of Amazon.

I think that we want to look - going forward we want to much more consider the fundamental nature of Redbubble's growth and how Redbubble's building loyalty with customers. Our pricing strategy is not being dictated by what Amazon does but the elasticities which we see within Redbubble itself. As Barry mentioned we reduce prices on some things, we increase prices on other things in response to the elasticity which exists within the Redbubble marketplace.

I think we need to be - as a company Redbubble has been competing successfully against Amazon for 10 years in a whole bunch of categories and I think we'll continue to compete against them just as we'll be competing against a lot of other players on a global basis. That's in general how we think about Amazon.



Stella Wang: (Analyst) Thanks for that. Should I think of the impact from Amazon last year as just part of life as a competitor against Amazon as happens from time to time through your history of competing against them? On the whole the churn is positive and you're gaining market share? Is that the way of thinking?

Martin Hosking: That's exactly the way of thinking about it. They will be player in there as will other players and there'll be other players over time. Yep, that is exactly the way of thinking about it.

Stella Wang: (Analyst) Great, second and last question. You talk about achieving operational EBITDA positive. What in your mind are the top three risks against you guys achieving that if there are top three risks?

Chris Nunn: I'm just going to cast my eye down the P&L. Really, I suppose that one of the most - the one that has the most leverage is the one closer to the bottom line because it's dealing with smaller numbers and I think we're managing the paid acquisition cost most accurately - most - the best we're doing is managing that paid acquisition cost. There are massive opportunities through the two channels, not just those two channels of Facebook and Google but many other such as Pinterest and Instagram.

If I go up the P&L, the GP, I think there's a track record of long term management of GP. I wouldn't say - we manage the GP, whole GP despite the so-called threat from Amazon. And then I go up to the GTV line, the revenue line and we are turning - we've turned that around. Yes, it was a weak half indeed last year but I think we've demonstrated we've passed that point.

I don't know whether I'm going to say greatest risk but we feel like we've got them all under management.

Stella Wang: (Analyst) Okay, that's a very good answer. Thanks a lot.

Operator: There are no further questions at this time. Actually, we have a follow up question from Ivor. Please ask your question.

Ivor Ries: (Morgans Financial, Analyst) Yes, sorry, I should have asked this earlier. Just in terms of the average order value, a big drop in the average order value in this quarter compared to the same time last year. Is this the new normal for average order value now or is it just a one-off quarter?

Chris Nunn: Good question, Ivor. First of all, I don't get terribly hung up about average order value to be honest. At the end of the day a dollar is a dollar but the question is a reasonable one. It certainly has been hit by FX and continues to be although as of today - I say this every now and then but as of today we've got a tailwind by the way, Ivor, so you'll be pleased to hear that. But it's certainly FX.



Also, in the first quarter, it's a back-to-school quarter. We typically have a higher level of the cheaper products such as stickers and things that go on walls in university and college rooms so it's not unusual for this quarter to be a little bit lower on AOV, I think I'm right in saying but I don't really mind if it's the new norm as long as the other number of transactions multiply or they continue to go up.

Ivor Ries: (Morgans Financial, Analyst) Yeah so of that 7.9% decrease roughly how much was currency?

Chris Nunn: I might have to get back to you on that one, Ivor. I think it's...

Ivor Ries: (Morgans Financial, Analyst) Yeah, if you wouldn't mind, Chris, because obviously that's a big driver of the way we model you on the AOV and if that's - if \$43.60 is the new norm then we should start using that number.

Chris Nunn: Yep, I'll make that public to the extent I can. Thank you.

Ivor Ries: (Morgans Financial, Analyst) Fantastic. Thanks very much.

Operator: There are no further questions at this time. I would now like to hand the conference back to today's presenters. Please continue.

Martin Hosking: Thank you. Happy - delighted to speak with you all and we'll close the call now. Thank you very much.

Operator: Thank you, ladies and gentlemen. That does conclude our conference for today. Thank you for participating. You may all disconnect.

End of Transcript