APPENDIX 4C REPORT AND FY2019 THIRD QUARTER UPDATE

TRANSCRIPT OF CONFERENCE CALL

STRONG MARKETPLACE FUNDAMENTALS BUT ORGANIC SEARCH HEADWINDS REMAIN

30 April 2019

Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Redbubble quarterly investor call, Q3 FY19. At this time all participants are in a listen only mode. There will be a presentation, followed by a question and answer session. At this time, if you have got a question, you will need to press star one on your telephone keypad. I must advise you that this conference is being recorded today, Tuesday 30 April 2019. I would now like to hand the conference over to your speakers today. Thank you, please go ahead.

Paul Gordon: Good morning everyone, this is Paul Gordon, Company Secretary for Redbubble. Welcome to this teleconference following release of our third quarter results for financial year 2019. With me I have Redbubble CEO, Barry Newstead and CFO, Chris Nunn. We released our third quarter FY19 Appendix 4C ASX release and supporting presentation to the market earlier this morning. Barry and Chris will present, before we open up the floor for questions. As mentioned, this presentation and Q&A session are being recorded.

Before we start, I would like to call your attention to the safe harbour statement regarding forward-looking information in the ASX release accompanying our results. That safe harbour statement also applies to this call and the Q&A. Over to you, Barry.

Barry Newstead: Thank you Paul. Good morning and welcome to Redbubble's investor conference call. Today we are providing an update to the market for the quarter ending March 2019. The key information is in the 4C filing ASX release and supporting presentation. Before I provide RB Group's strategic update, I want to make a comment on the financial performance during Q3. Chris will discuss the financials in detail in a few minutes. Q3 has been a challenging quarter as the organic search headwinds continue to impact topline growth.

The management team has taken a range of actions since October to address the organic search issue and continues to do so. While important operational metrics such as site speed have improved, the flow through to revenue has not yet been seen. The teams continue to work on areas where analysis and advice indicate opportunities for improvement. During this time, the management of both TeePublic and Redbubble have been disciplined down the P&L. There are notable strengths in paid marketing, gross profit margin and OpEx, which has softened the impact of the organic search slowdown. These are lasting benefits to the Group.

Pivoting to strategy, the Group is seeing strong results from areas where there have been sustained strategic investments. I really want to place emphasis on this. All businesses go through challenging times as environments change. What differentiates those that end up succeeding is what goes on below the surface. The metrics of the business that are fundamental to long-term success and the ones that either reflect (or not) the strategic actions of the Company. RB Group's strategic work is tracking well, even as the impact has not yet been seen in the overall results. Let's review this briefly.

The TeePublic acquisition was the biggest strategic move in the Company's history. It is proceeding exceptionally well and is accretive. The TeePublic management team has focused on scaling paid marketing and setting the platform up for European expansion and new product introductions in the coming quarters. The Redbubble Group has achieved meaningful benefits in terms of supply chain efficiencies already, with more to come. On Redbubble, Mobile users, Member Loyalty, Authentic Artists and Fan Art partnerships are all trending well and are key to our future growth. Redbubble has continued building the core member experience on mobile web and via Redbubble's iOS app.

The iOS app saw year-on-year growth in Marketplace Revenue of 130% in Q3 and has contributed 6.3% of Redbubble Marketplace Revenue in Q3, as compared to 4.4% in Q2. Marketplace Revenue from members grew by 114% year on year in Q3, representing 25% of the total RB Group Marketplace Revenue. Redbubble now has 2.1 million active members, growing 67% year on year. These results are a reflection of the focused investments the business has made in these customer-focused areas.

On the supply side, Authentic Artists are those that tend to upload high quality, original works, which resonate well with customers. Our data science work has helped spotlight this critical segment. Significant development investment has been focused on increasing the productivity of Authentic Artists and in the past quarter, Redbubble product revenue from Authentic Artists grew by 36% and it now represents 80% of product revenue. Content partnerships are also on a strong trajectory. We launched five new brands on Redbubble in Q3, including a number of properties from ITV and the Cartoon Network Turner partnership.

The business development pipeline is also strengthening and critical to the success of these partnerships is the addition of licensed content to the marketplace. The amount of licensed content available grew 106% in Q3 versus the end of Q2.

While not directly impacting Q3 results, I am pleased to advise that the major replatforming work on Redbubble is on track for completion in Q4, enabling efficient and faster new product launches. New products are coming in Q4 with a ramp up in number before the 2019 holiday season. This will improve both the artist and customer experiences and help drive new revenue growth.

The Group is focused intently on improving growth as FY2020 approaches. Development resources continue to shift from the major platform work that consumed a lot of capacity in 2018 and last quarter, towards direct growth work.

We are focused on ensuring the Group comes through this period stronger than ever in terms of the preparedness to realise the full potential of the retail commerce opportunity and the robustness of financial underpinnings of the Group.

I will now pass to Chris to speak more about the financial performance of RB Group and our guidance for the Group as we wrap up FY2019 over the next two months.

Chris Nunn: Thanks Barry. We have included with our 4C release for the March quarter an Income Statement for the quarter and year to date, down to EBITDA, comparing both with the corresponding period last financial year. TeePublic has been included for the quarter and for five months since November in the year to date figures. In the supporting pack we have continued to provide operating metrics that reflect a refreshed view of how Redbubble Group is managed. Each year the March quarter has some seasonal features which make reporting on it somewhat harder than the other three quarters. This year, those seasonal aspects are compounded by the added impact of ongoing growth headwinds in the organic search channel.

On a year to date basis, Marketplace Revenue was $197.1 million, up 39.6%, 32.5% on a constant currency basis. This includes third quarter Marketplace Revenue growth of 40.3%, up 32.6% on a constant currency basis. Overall Group revenue growth was supported by the strength and efficiency in paid channels on both platforms.

The Group's Marketplace Revenue from paid channels improved 53.9% in the third quarter, (41.5% on Redbubble, 354% on TeePublic from a low base), while retaining strong transactional profitability due to efficient spending on both platforms.

As I will expand on below, the cost of paid revenue continues to be efficient and very profitable. The Group's Marketplace Revenue from unpaid channels grew at only 0.7% in the third quarter. As Barry mentioned, we have taken and will continue to take steps to improve sales growth from organic sales channels.

FX continues to be a significant factor, with the US dollar in particular generally in the range of 6% to 10% stronger than the previous year to date. This assists our topline, but has the opposite, not necessarily equal effect, at the cost lines of cost of goods sold, paid marketing and operating expenses. For Redbubble year to date, the net impact of FX at Operating EBITDA level has been a favourable $570,000.

At the first half results call, I said that we had been actively managing those elements which we can control in a way that has mitigated and will continue to mitigate the effect of any ongoing organic search weakness. As Barry said, this continues to be evident as we look down the P&L in the third quarter results. Gross margins continued to strengthen across RB Group as the business demonstrates the strong emergence of scale benefits, both independent of and aided by the TeePublic acquisition. Redbubble Group has delivered year to date gross profit of $71.7 million, up 47.7%, (up 40.2% on a constant currency basis).

The year to date gross profit margin, based on Marketplace Revenue, is 36.4%, up two percentage points. In particular, we are pleased that the gross profit margin in third quarter, was 36.2%, improving 2.2 percentage points year on year. Both periods reflect important contributions from both improved Redbubble margins and TeePublic's higher margin generally. This is particularly notable in the third quarter because there has historically been something of an overhang from the strong Christmas sales, which has tended to constrain margins. Continued strength in gross profit margins provides both platforms with the means for the Group to balance margin improvements with driving topline growth.

As I mentioned earlier, paid channels have been a critical source of topline growth in the third quarter. Management has maintained a disciplined approach to sourcing sales from paid channels. Profitable growth across paid channels continues to be achieved by balancing paid spend dollars and paid spend efficiency. As a percentage of Marketplace Revenue, RB Group's paid marketing spend was 10.8% year to date, up 2.2 percentage points year on year. In the third quarter, paid spend was also 10.8% of Marketplace Revenue. Both measures are particularly commendable given the more subdued unpaid growth.

In this context, I just want to clarify a couple of metrics on slide 4 of the supporting deck. There we show paid and unpaid channel growth rates. Those rates are RB Group growth rates, but they do pick up TeePublic's FY18 equivalent, so the growth is a true reflection of each channel. The same approach was adopted in the half year results presentation.

Redbubble's paid spend efficiency, that is the relationship between the paid marketing spend and revenue from the paid channels, has declined only marginally year on year, i.e. less than 5%. TeePublic has continued to increase its allocation to paid marketing from a low base. Overall, RB Group has maintained its paid spend at a level that is lower than most of its online e-commerce peers.

Looking at gross profit after paid acquisition, the Group has delivered $50.4 million year to date, up 41.3%, (up 34.3% on a constant currency basis). GPAPA growth for both the third quarter and the year to date has maintained pace with Revenue growth, but most importantly, has outpaced operating expense growth, maintaining the operating leverage improvement. Cash operating expenses for the year to date were $47.2 million, up 30.6% with TeePublic's inclusion, up 25% on a constant currency basis. This has been, and continues to be, an important focus for the business in light of the weaker topline growth. During the third quarter, where growth and operating expenses was 25% with TeePublic's inclusion, GPAPA Growth was 38.7%.

Redbubble's operating expenses grew only 6.8% year on year in the third quarter, which was only 0.9% on a constant currency basis. This has been made possible due to early action to slow operating costs and thus demonstrate the Group's commitment to improving operating leverage. With the inclusion of TeePublic, the Group has delivered year to date Operating EBITDA of $3.2 million, compared to an EBITDA loss in Redbubble last year.

The Group has reported free cash outflow of $28.7 million for the third quarter, up 37.2% from the $20.9 million in the previous corresponding period, which was without TeePublic. Redbubble and TeePublic are seasonal businesses, with much of the fulfilment expenses, artist margins, taxes and paid marketing costs associated with holiday season sales not paid out until the March quarter. However, due to the slower topline growth, the cash flows did not benefit as greatly from the business's generally positive net working capital cycle.

RB Group's cash balance at 31 March 2019 was $29.1 million. Closing cash balance was enhanced by $8.4 million of cash held, representing the deferred component to the TeePublic consideration. The final instalment of US$6 million is due in May 2020. An equivalent amount of our cash balance is currently held in US dollars to counter any FX exposure.

Looking through to the end of this quarter, RB Group still expects to generate a positive Operating EBITDA for the year. Growth headwinds in the organic search channel persist, but management is utilising all of the levers that are available to offset the impact to topline growth. GP margins are strong and the outlook remains good for further improvement. We have stayed disciplined on paid marketing spend and efficiency and management will continue to prudently manage operating expenses.

The slower growth Redbubble has been experiencing not only impacts cash profitability, but if it persists through June, as we now forecast it may, the usual benefits of the Group's working capital cycle will be significantly diminished, which would result in free cash outflow for the financial year. The exact quantum of this will depend on the relative sales growth rate between June 2018 and June 2019, the periods influencing the working capital advantage over the financial year. So to conclude, the Group is working on a number of initiatives that are aimed at a return to strong growth while diversifying the Group's sources of growth and profitability. We will continue to have disciplined focus on lowering cost of goods sold (COGS), optimising paid marketing, managing operating expenses and thus prudently managing our cash.

Before I hand back to Barry, as this will be my last 4C investor call as retirement beckons, I just want to express my thanks to investors and analysts for their commitment to Redbubble, for the depth of their understanding and for openness and honesty of the feedback provided to the Company over the last three years. And especially to all my Redbubble colleagues, it has been an absolute pleasure working with such a diverse, talented and youthful group of people, thank you too. Whilst I am disappointed to be departing at a low point in the growth cycle of this great business, I am extremely confident we are on the right track to regain the initiative sooner rather than later. Thank you.

Barry Newstead: Thank you Chris. As Chris just said, this is his final investor call. Emma Clark, RB Group's new CFO who starts in June, will be here for the full year results. I'd like to thank Chris not only for his commitment to Redbubble, but also to you, Redbubble's investor community. Chris has been a tremendous partner to Martin and myself, the board and the management team. We will miss him and wish him well in retirement.

In closing, we are in a challenging period of growth right now. But there are strong fundamentals within the marketplaces that will underpin future growth and support the strategic direction of the RB Group. Across the Group, the various teams remain focused on the following priorities: sustaining the strong growth and synergy value of TeePublic, leveraging new product, geographic and Fan Art growth opportunities, as well as supply efficiencies. Second, sustainably launching and selling products that artists want to design for and customers will love. Third, growing the base of customer members through deeply personal and "creative adventure" inspired experiences. Fourth, building deeper relationships with Authentic Artists, by increasing their commercial success and launching partnerships with the world's leading Fan Art brands. Finally, maintaining the disciplined focus on acquiring new users, lowering COGS, optimising paid marketing and prudently managing operating expenses and cash.

The RB Group is working together to deliver a positive Operating EBITDA result in 2019, and to position the Group to compete effectively for the large retail commerce opportunity ahead. Our whole team remains deeply passionate about the potential of RB Group, and are committed to creating a business of large and enduring value for shareholders, artists, partners and employees. We will now open it up for your questions.

Operator: Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press star one 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. Your first question comes from the line of Ash Chandra of Goldman Sachs, please ask your question.

Ash Chandra: (Goldman Sachs, Analyst) Good morning gents, thanks for taking the question. I'm just wondering if you can give a little bit more detail around the underlying growth of the Redbubble platform, in the unpaid space. Because I guess this quarter includes a contribution of TeePublic and obviously you've launched the app and email focus. So could you talk a little bit about that underlying Redbubble marketplace organic growth rate? Apologies if I missed it in your introduction?

Chris Nunn: No, we haven't. We generally don't provide paid and unpaid this early, soon after the month, it's now pretty much close to a month from the end of the period, so we haven't got much excuse. In the unpaid space, Redbubble's growth rate was slightly negative, a small negative, single figures, and the TeePublic growth rate was mid-teens, positive.

Ash Chandra: (Goldman Sachs, Analyst) Okay, and with respect to the sort of paid acquisition, growth rates, with a cost per dollar of revenue that you're generating via paid, I mean that cost is rising reasonably rapidly. I know you indicated that it's still lower than what you think your peers are paying. But it does appear to be rising rapidly. Can you give any sort of context, as to how you expect that to continue to trend going forward? If this is something you need to rely on to a greater extent over the next 3 or 6 months until your organic trajectory gets back on track?

Chris Nunn: Well just a couple of factual things Ash, I don't think our cost of paid revenue is increasing significantly. I think I made that clear. It's basically only a 5% increase compared to the previous period.

Ash Chandra: (Goldman Sachs, Analyst) But on your slide 4, maybe I'm misreading it, but the paid cost divided by your dollars from Marketplace Revenue?

Chris Nunn: But that's total Marketplace Revenue, not paid Marketplace Revenue, so the paid channel itself is not much less efficient, a small percentage. But obviously with the unpaid channel being weaker, the overall cost of paid is potential total revenue, has increased a bit, and that's true.

Ash Chandra: (Goldman Sachs, Analyst) Okay but the unit cost per dollar you're saying is stable?

Chris Nunn: The unit cost per dollar of total revenue, the unit paid spend per dollar of total revenue, is pretty stable. But obviously has gone up a fair bit, because of the lower unpaid rate of contribution.

Barry Newstead: But the cost of getting the paid dollars has not changed in a significant manner. I would say that any adjustments are probably in general being reasonably consistent, over now a reasonably significant period of time. So, I don't think our cost of acquiring a transaction is not changing significantly, despite the growth Ash, to take your question. And indeed, in the recent past, in the short term, we're obviously more reliant on that source of profitable revenue. As in the short term, until the organic search issue starts to abate, that'll continue to be the case. But we still believe, we more than believe, we're still confident that we're acquiring that revenue at a consistent cost.

Ash Chandra: (Goldman Sachs, Analyst) Okay, and can I just ask one more question before I jump back in the queue? With respect to your cost control, which was definitely a strong element of this quarter's result - how sustainable is this, in the sense that ultimately you are still a growth story and need to invest for that growth? How should we be thinking about the sustainability of what, in this quarter has been a good outcome, but you know, try to work out whether that's something we can capitalise given?

Barry Newstead: Yes, I think there's certainly, first of all the savings we've put in place and we're going to be moving from a different trajectory, a different starting point, in terms of where we're at today versus where we were at six months ago. Clearly there are costs that will, particularly growth-related costs, that we've aimed very strongly to protect. So, we do still feel like the existing cost base, is allowing us to invest in the most high priority growth initiatives within the business. Clearly as we get through to this time next year, there will be some costs, again some inflation to cost. But we still view it as being at a position of significant operating leverage, or at least a minimum amount of operating leverage.

Chris Nunn: I would add also, that over the last 18 months if not longer, we spent a lot of time doing work that actually hasn't yet delivered revenue, for example the base foundational work to allow us to launch new products at a greater cadence, really hasn't come into effect. Barry confirmed that it's going to happen in the next quarter. But it hasn't come in to effect yet. So those resources will be redeployed.

Barry Newstead: Actually and are now being redeployed. Thanks Ash for your question.

Ash Chandra: (Goldman Sachs, Analyst) Thank you guys.

Operator: Your next question comes from the line of Tony Hansen, of EGP Capital, please ask your question.

Tony Hansen: (EGP Capital, Analyst) Hello Barry and Chris, thanks for taking the question. I just wanted to ask, I think I asked this at the last quarterly call. You've indicated that TeePublic has generated unpaid search growth, I think you said 15% and Redbubble's down single digits. Is there no way you can leverage? I appreciate that TeePublic's a smaller business, but is there no way you can leverage whatever they're doing that's allowing them to grow organically - the free search into Redbubble's operations?

Barry Newstead: We are leveraging any and all insights that are available to us, across the Group. So, we're very closely coordinated and looking in what's happening with TeePublic, as well as Redbubble, and what are the insights that we can generate across. We've looked very deeply at this area, as has the TeePublic leadership, and we've tried to establish places where we have differences and determine whether those differences are worth eliminating and tackling. So I think there's quite a bit of cross pollination there. We've taken good advice and we've really been pursuing the highest priority areas of change to address the organic search issue. I would say that we still expect that those will accrue benefits, and we expect that there's additional work that we have ongoing that will accrue benefits. It remains a top priority. And as you asked TeePublic's insights are of value.

Tony Hansen: (EGP Capital, Analyst) Okay, but you do think that you'll be able to solve the problem that's causing the negative growth in the organic search?

Barry Newstead: Yes, we will. I think first of all it's worth noting that this time last year we were on a pretty significant upsurge, so while month on month we may not be going backwards, year on year the numbers can be a bit more challenging. It's worth stating that, because through the 4th quarter of last year and the 1st quarter last year, there was quite a lot of growth. So there's some tough comps. But again, all the advice that we get and all the work that we have, we believe we're working on the right things. We have yet to find anything that would fundamentally alter our outlook, that the content that Redbubble hosts, the product that Redbubble hosts, that's very valuable content and should, as it has in the past, be ranked well and generate significant organic search traffic and revenue.

Tony Hansen: (EGP Capital, Analyst) Okay, thank you, that's all from me.

Barry Newstead: Thanks Tony.

Operator: Your next question comes from the line of Tim Piper, of Royal Bank of Canada, please ask your question.

Tim Piper: (Royal Bank of Canada, Analyst) Morning Barry and Chris, just first of all around your guidance for the free cashflow for the year, just looking that you're still guiding to positive Operating EBITDA. You've got the negative working capital cycle, but you're saying free cashflow is going to be negative. CapEx looks to be running slightly higher through this quarter, is that a factor there as well? I kind of would have thought free cashflow should still be positive?

Chris Nunn: No perhaps we need to explain that a bit. The cashflow in any particular period has three components. I've got to go back to basics Tim, not that you don't get it, but I'm going to start there so I can work in to the detail. The three elements are the cash Operating EBITDA in any particular period. The change in the working capital on the balance sheet between the end of the period we're measuring and the end of the previous period we're measuring, whether that be a month, a quarter or a year, and the capitalised development, the spend we make which we don't actually hit the P&L, it goes to the balance sheet.

So, you've highlighted capitalised development. EBITDA is going to be a little bit weaker, due to the nature of the topline, but we still maintain that's going to be positive across the year. Cashflow is affected by that, obviously, and also, it's affected by the extent to which the growth rate in the last few weeks of a period, and if it's a month, obviously it's the whole month period. But if it's a quarter or it's a year, it's really generally the sales in the last month, because those sales in the last month create the liability, the current liability on the balance sheet, which is a negative working capital if you like, which is larger at the end of the particular period.

If the sales in that June month, for example, at the end of June '19, are significantly different to what occurred at June '18, the working capital advantage will be significantly different. If it's stronger, as it typically has been over the journey of Redbubble, there's a working capital advantage. If it's a similar level of growth, then there'll be no working capital advantage. Even today, I don't know exactly what that working capital advantage will be because I don't know how June is going to pan out but we're forecasting a fairly flat period up until the end of the year, hence I'm not sure there's going to be a massive working capital advantage.

On the capitalised development side of things, no, there was a bit of an up-kick in the third quarter. That's not unusual because the second quarter obviously we don't do a whole lot because it's a busy period for the site, but generally the capitalised is pretty much in line with budget so I don't see much variation there.

Tim Piper: (Royal Bank of Canada, Analyst) Yes, sure. I understand. I guess what I was trying to get at is just given you had previously been guiding positive free cashflow I was just thinking about the recent trends in revenue growth over the past month or so.

Chris Nunn: Yes. Previous guidance was three months back and even today, as I said, we don't know what June is going to look like. In the end, it's what June looks like that dictates what the working capital advantage is for the year. It's literally what June looks like, and at the end of December it's what December looked like. That's why the December working capital number is so high because we have all the sales in December and therefore all the current liabilities.

Tim Piper: (Royal Bank of Canada, Analyst) Okay, sure. Just following on for another question on the unpaid channel, I think previously the organic search as a proportion of that total unpaid channel was around 70%. Just given the strong growth numbers you're calling out in things like repeat revenue growth, mobile revenue, member revenue, would that 70% have declined as a proportion of the total unpaid channel?

Barry Newstead: If you mean organic search as the percentage of unpaid?

Tim Piper: (Royal Bank of Canada, Analyst) Yes.

Barry Newstead: I don't think we have that number handy.

Chris Nunn: We don't have that number but one would expect it to be a little bit lower, yes.

Tim Piper: (Royal Bank of Canada, Analyst) Yes. Okay, sure. Then just finally on that authentic sellers number that you called out, being 80% of sales, I assume that must be about 12% of sellers. Is that because of the top 12% that generate about 80% of sales; is that about right?

Barry Newstead: We don't have the percentage of this group available - we can provide that post.

Chris Nunn: There's a bit of a logic difference. The simple mechanical calculation of the top 12% of sellers giving us 80% of the revenue, that is just a simple mechanic; it doesn’t necessarily say that those 12% are all authentic sellers, although you would expect them to be a significant contributor to that, just to be clear.

Tim Piper: (Royal Bank of Canada, Analyst) Yes. Okay, sure. All right, great. Thanks for that.

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

John Lewis: (Osmium Partners, Analyst) Hey guys, good morning.

Barry Newstead: Hi, John. Good afternoon.

John Lewis: (Osmium Partners, Analyst) Yes, I guess I really fit Redbubble in two boxes, which is - first - I think you guys have a really nice business in terms of creating high barriers to entry and scale but you don't have clearly your best foot forward in terms of where you are in the business cycle relative to Redbubble.

I think in the second bucket, which compounds the factor, is that really it's a very difficult market to get any traction in and when I look at Etsy, it trades almost $100 million a day in dollar volume. I look at Wayfair, it's several hundred million dollars in dollar volume. I look at Kornit, a hardware manufacturer, it's trading at seven times revenue and trades millions of dollars a day in dollar volume. When I look at Redbubble and it struggles to trade $100,000 to $200,000 to $300,000 in dollar volume a day, and you guys are the industry leaders, and since your IPO you've almost - in three years you guys will have nearly doubled revenue and the share price has plummeted 40%.

When I look at private market values and I look at public market values, Redbubble is an extreme outlier. Again, you guys are going through some challenges, but in many ways, Redbubble looks like a distressed staffing company and in no way, shape and form does it look like a high-growth platform that can really create a lot of shareholder value.

I guess the question is, with that backdrop, after three years of struggling mightily as a public company, I would really love to hear something that isn't talked about, is why are we playing for scale, why does scale matter, why aren't we going after fulfilment business where there's a lot of margin and investing is the old adage of laying out money today for more in the future. So I guess the question is - why are we making intelligent investments that will drive shareholder value and why aren't we - why don't we get an ADR or try to get in some more market share?

Barry Newstead: Thanks, John. I'll try to cover a couple of areas. I think I'm going to leave that capital markets one more as a suggestion and comment and as the Board looks at those decisions we'll provide updates where appropriate. I think your question as it relates to strategy and the investments that are being made in the business, I think I'll take a brief crack at that. I think we fundamentally believe that the - well, more than fundamentally believe, actually…. Let's start with we what have - as you said - we have built over more than 12 years now a marketplace business that has three key dimensions and those three key dimensions have all reached at least a first level of scale, which is a really important achievement. Not that we're in any way resting on our laurels, but what we have functioning is a fulfilment capability which is in comparison to pretty much anybody who we get compared to is a unique fulfilment capability, we're able to, through our partnerships with third-party companies, fulfil on very tight timelines over 65 products on three continents and that capability (1) has the potential to continue to grow in terms of the number of products, and (2) continue to grow in terms of the geographic scope, and (3) really importantly, it has continued to show - continued to demonstrate that we can not only set that up but we can actually extract value, the Redbubble Group, from that fulfilment network in terms of our increasing margin in that regard.

We've also put zero capital into machines in the history of both TeePublic and Redbubble, so that's the first thing. The second thing is an artist community that is highly generative and to go back to the data from the authentic artists, continues to be highly engaged and productive. Now, that's also a critical asset and actually an asset that's getting stronger through this quarter despite the overall position, because what's happening is the top quality artists, the most authentic artists are the ones that are using the platform for what it's intended, are thriving. Actually, the people that aren't thriving are the ones that use the platform for copycat activities and also that's luckily significantly reducing the level of piracy - which is an unfortunate reality of using generated content platforms.

So that's the second critical element that is there and that it has its own momentum and we have the opportunity to generate additional value for those partners through the addition of additional products and through the addition of Fan Art content partnerships to the supply side of the market. Then finally, we've actually acquired customers to that whole platform. We've, through most of our history, as we've talked about before, done that through a strategy focused on Google SEO. We've then augmented that with Google paid and we are headed - the investments we're making - are headed towards an environment where we aren't completely reliant on a third-party platform for our customer acquisition, but we acquire our own. Those are the investments that we are making in the business and we're putting in place to scale.

What does that get us as we go forward? Well, we expect that gets us is:

(1) a fulfilment capability that can supply competitively but can also do so in a manner that allows us to extract good margins for the Redbubble Group.

(2) Art, which allows us to continue to meet the needs of a wider and wider group of customers. Remember that yes, we have 2.1 million members, but we are competing in markets that have a billion people and we have the opportunity to grow to broaden that.

(3) We move our customer acquisition from less of a game of relying on what we talked about earlier, which is the ebbs and flows of Google organic search or the transactional acquisitions via paid marketing and we move towards a place where people are coming to Redbubble for what they see as the value. That's what we're investing against - and that's what the core strategic work focuses on.

While in the short term we make sure that the business stays disciplined on the things that we need to do to deliver, so that's the core. Yes, we can look at diversification into fulfilment; we can obviously look at other possible diversifications into other kinds of artist communities and whatnot, but we think we really remain focused on the fact that we've got a marketplace that at the fundamental level is performing and is in transition and I think we're wary - I'm wary of diversification and going on other ventures and the cost, the opportunity cost that that results in. We've talked about this before - I think great businesses can see their way through this. The great businesses stay focused through good times and bad and I think the real thing that we're trying to actively avoid is to go off and try to find some sort of silver bullet in a challenging time, but remaining open and focused on what the data is telling us and what we need to do differently.

John Lewis: (Osmium Partners, Analyst) Thank you, Barry. I guess my only pushback is look, I think very highly of you, I think very highly of the Redbubble team. You guys have extraordinarily competent people and I'm deeply appreciative of that. I guess my biggest issue is that you guys will have come close to doubling revenues since the IPO, stock price is down 40%. I don't feel like there's been a good case for scale. You guys have proven scale and there's problems - I hear you loud and clear but I guess at the end of the day, like the oldest adage in investing is investing is laying out money today for more in the future and I think every investor is saying, why will this strategy lay out a lot more money and profits and growth in the future. That's the open-ended question. We've been at it for three and a half years. The market ascribes a very, very extraordinarily low valuation to your company. So that's it. That's the case, open and shut.

Barry Newstead: You don't debate the facts on that one for sure. You don't.   Your references are valid - they're valid peers.

John Lewis: (Osmium Partners, Analyst) Thank you very much. I'm done. Thank you.

Barry Newstead: Thanks John.

Operator: Your next question comes from the line of Ivor Ries of Morgans Financial. Please ask your question.

Ivor Ries: (Morgans Financial, Analyst) Good morning Barry and Chris. Just wondering if you can share with us what your average order values were and conversion rates were during that period?

Chris Nunn: Yes, I was ready for your question Ivor this time. Thank you. I'll do that across both groups. So for the third quarter - Redbubble conversion rate between 1.72% so the same as it was in FY18. So no change in conversion rate in the Redbubble business.   For TeePublic 1.79% - pretty much the same 1.76% to 1.79% - so pretty much the same between the two periods. We have got TeePublic's information back then. So we know how their conversion rate was.

The average order value for the third quarter for Redbubble, up $3 from $43.50 to $46.70 and for TeePublic up $7 from $50.90 to $58.

Ivar Ries: (Morgans Financial, Analyst) Right.   I know I can probably work it out backwards with a calculator from your disclosures there somewhere but just at the Group level, not splitting the two sides out, your absolute split between paid and unpaid traffic.

Chris Nunn: Traffic or revenue?

Ivor Ries: (Morgans Financial, Analyst) Traffic.

Chris Nunn: We don't provide that information.

Ivor Ries: (Morgans Financial, Analyst) Well, revenue I think you've given that on slide 4, haven't you, some 46% is paid?

Chris Nunn: Yes.

Ivor Ries: (Morgans Financial, Analyst) How much - I'm afraid I don't have that in front of me - but how would that compare to same time last year?

Chris Nunn: I don't have that number in front of me. But it's in our reports Ivor. So nothing will have changed about the historical numbers.

Ivor Ries: (Morgans Financial, Analyst) Right, okay. Was there any meaningful shift in the mix between mobile and desktop in that period?

Barry Newstead: Yeah, mobile is up to 46% of revenue.

Chris Nunn: We don't have the visits number Ivor. It will have increased a bit. I don't have the numbers off the top of my head.

Ivor Ries: (Morgans Financial, Analyst) Right.

Chris Nunn: Mobile traffic is unerringly increasing. Actually it is in the release.

Ivor Ries: (Morgans Financial, Analyst) Is it? Okay, Sorry.

Chris Nunn: Yeah, it's at the top of the third page.

Ivor Ries: (Morgans Financial, Analyst) Right, sorry about that. That's okay. Just in terms of the cost to acquire the customer, until you work out how to get the unpaid or the organic traffic back to its former level - can you keep growing the topline of the business with this level of paid costs and still extract some form of EBITDA margin expansion?

Barry Newstead: The answer is yes we can. We still look at our gross profit margin, our paid costs per revenue and our gross profit margin is 36%. Paid costs is $0.10, $0.11 - just under $0.11. So there's scope there. There's plenty of scope there.

Ivor Ries: (Morgans Financial, Analyst) Yeah, but in the near term at least, the paid proportion of your mix will increase. So that eats into your total GPAPA margin.

Barry Newstead: Yeah, the key question is whether it is accretive to GPAPA - gross profit after paid acquisition in absolute terms. We've been aiming to continue to improve our gross profit after paid acquisition by continuing to grow the paid channels in a disciplined manner and as profitably as possible. So that is a lever that we still have available to us. Actually when we look at where, particularly we obviously continue to do work on that front within Redbubble. And when we look at TeePublic, TeePublic is really at an earlier stage in its development in paid search, as they grow into Europe and as actually as they localise currencies into Canada and Australia they will be able to access paid channels in those countries which they do not currently access at all.

So we have scope in the paid side, on a transactional basis. We're also doing significant internal work to understand the extent to which non-search channels can be scaled up as well on a customer lifetime basis in a very conservative manner. So we do have growth potential through the paid channels.

Ivor Ries: (Morgans Financial, Analyst) Do you have growth potential and at the same time able to increase the EBITDA margin?

Barry Newstead: The EBITDA margin would move in that regard so long as we continue to move that rate at a faster rate in OpEx. So yes.

Ivor Ries: (Morgans Financial, Analyst) In the sense that you've been able to scale back OpEx, are you having to chop off any kind of serious growth investment to do that?

Barry Newstead: Most of what we've done is not added to the cost base. As Chris alluded to first within our growth investing area, by finishing a good amount of the platform work - or almost finishing - we've got a small amount left to do this quarter - we've been releasing engineers from that platform work to more direct growth work. So the net effect of that over the last quarter for example is probably an increase in the amount of people available to be working directly on growth. I think the areas of cost savings have been really in every area that does not have direct growth - where we're just not adding people. We're also taking a sharp pencil to all non-people costs in the business.

Ivor Ries: (Morgans Financial, Analyst) Right. Just your competitive environment, if we look at the competitive environment, obviously initially everyone was belted by the change in the Google algorithm. That was evident. Has anyone recovered faster than you in terms of organic traffic volumes? or are you all still in the same boat?

Barry Newstead: It's not clear that there are any winners out of last October. We don't have data that says so and so, and so and so, are doing extremely well. Not many people have talked very publicly about it, but I will note that two companies have talked about slow-downs in organic - in SEO - at the end of the 2019, not directly competitors but notable companies. ASOS has referenced that in their recent releases and Pinterest referenced it in their thing.

So I think that - I don't think Redbubble is in this situation on our own by any stretch of the imagination. I just think either a lot of the companies are private and therefore don't have to talk about that to the market or may be a little bit less reliant on it, day-in / day-out. But I think it certainly continues to be a more broad-based phenomenon. We don't think that we're actively seeing a strong change in our relative competitive position.

Ivor Ries: (Morgans Financial, Analyst) Right. If I might ask one more question before I get off the line. Obviously TeePublic grew their business - I think Chris referenced mid-teens positive in that period - I think when you bought the business your expectation was sort of circa 40% growth. So obviously TeePublic has slowed quite dramatically.

Chris Nunn: No, Ivor that's not right. My mid-teens reference which wasn't 15% but I think Tony interpreted it to be 15% but let's say it was 15% - that was the unpaid channel, not the total TeePublic growth. The total TeePublic growth is on slide 3 of the deck, around about 40%, just under 40%.

Ivor Ries: (Morgans Financial, Analyst) So it's in line with your expectations at time of acquisition?

Chris Nunn: Absolutely.

Ivor Ries: (Morgans Financial, Analyst) Right, okay. That's all my questions. Thanks very much. And Chris, thank you for all your help over the last few years. All the best.

Chris Nunn: Thank you Ivor.

Operator: Your next question comes from the line of Owen Humphries of Canaccord. Please ask your question.

Owen Humphries: (Canaccord, Analyst) Good day guys. I'm back of the queue here so I'm guessing most of my questions have been answered. But okay John thought that there's no doubt versus Etsy at 20+ times EBIT to gross profit after marketing and you guys are under three, so you're undervalued. But I guess - we're all looking for a reversal of that organic growth or organic search growth. So we can all sit back and say this is not a structural issue, this is a cyclical issue. You look at the PCP and the third quarter last year was 33% in organic growth and fourth quarter last year as 43%. So it doesn't seem from those numbers that you are going to be cycling a tougher period in the next quarter. So you're not going to get that perceived reversal in the coming couple of months.

But given the quantum of work you have done in the last seven or eight months - I know we've talked about the initiatives you've been rolling out. We touched on site speed and back links, but can you just - one of the things I struggle to explain to investors, and I'm sure other analysts are the same, exactly what has changed? What has changed apart from obviously suffering a strong PCP which hurts this period's growth? What exactly has changed? I've got a couple of questions as well on the product launches because that has added GTV growth in the past. But maybe just start with the first one.

Barry Newstead: I'm not quite sure I understand the question. What do you mean, what has changed aside from the Google algorithm change?

Owen Humphries: (Canaccord, Analyst) Your initiatives around - obviously you've sped up your website. You've changed the way that your website links into Google - just the three or four key initiatives that you have changed within your business that will reverse this back from a more of a cyclical issue, rather than a perceived structural issue?

Barry Newstead: Yeah, before Christmas last year - as we talked about prior things - we did a lot of work on the technical aspects of search engine optimisation. We had guidance from technical SEO specialists and our own internal team. We deployed a range of technical changes. So that was the first thing that we did.

The second thing which I referred to earlier is that we've done major work on the speed of Redbubble, in particular the search result pages which are the most important in terms of people landing on the site. We've also re-platformed the home page so that that's a lot faster. We've been re-platforming all the product pages. So 80% to 90% of what a customer sees when they land on Redbubble is a step change faster, maybe more than that from September, really from December actually. So that's the second major initiative.

The third area which we talked about earlier is consolidating the Redbubble content. That is on two dimensions. One is simplifying the products. So rather than allowing Google to index say a baseball T-shirt and a premium T-shirt, we're just allowing Google to index the T-shirt which was a piece of work that we did to simplify that. Then along the lines also to remove content that really gets no active traffic or sales so that we just simplify and shrink the content that Google has available to it. That allows Google to engage and call our site much more quickly and also to separate good quality from bad, which is in effect what we're doing. That increases the average.

Those are the major three areas where we've finished the work that we aimed to do. Then the ongoing work is in the fourth area, is really in the buying experience or what we call contextualisation work where we provide better buying experiences. This is obviously something we've worked on over a significant period of time but are intensifying at the moment to ensure the customers land effectively and engage more deeply in the site. That's obviously an important metric for Google organic search. Those are the major areas that we've focused on. Most of them as I said have been deployed over the last six months.

Owen Humphries: (Canaccord, Analyst) Great, okay, thanks for that. Just lastly on - I remember back to the IPO, the incremental GTV benefits as you roll out new products to your customer base was always very accretive to GTV. Last year there was obviously anemic growth in products. Can you maybe just touch on the quantum that you expect to launch as you complete the re-platforming just over the next six months?

Barry Newstead: Yeah, I mean I think we - I'm trying to remember what we said last time, but I think the goal up to Christmas is probably in the five to 10 products range, ideally on the top end of that range and potentially above that. I think it's worth noting that the platform work what was in the way is now almost completely out of the way. So our ability to launch products on a much more regular and accelerated basis is - the coast is clear. I think I referenced that. We know as you mentioned - new products are gross profit contributors from pretty much day one. Within three to four months they're really significantly adding value to the marketplace. So that is one of the major priorities right now and as we go through into Q1.

Owen Humphries: (Canaccord, Analyst) Good one, okay. Echoing Ivor's comments before congratulations Chris on your successful career at Redbubble and all the help since the IPO. Good luck.

Chris Nunn: Thank you Owen. Much appreciated. Catch up for a beer soon.

Operator: Your last question comes from the line of Weimin Xie of MX Capital. Please ask your question.

Weimin Xie: (MX Capital, Analyst) Hi gentlemen. Just some housekeeping questions, very simple. You used to record the customers and customers' metric. What was the number for the last quarter?

Barry Newstead: One more time because you're a bit - you're very muffled.

Weimin Xie: (MX Capital, Analyst) Let me try again. You used to report the customers and repeat customers metric. What was the number for last quarter?

Chris Nunn: For the group for the last quarter the repeat customers were 487,000. That's up 26% from last - from the year before. What was the other question?

Weimin Xie: (MX Capital, Analyst) The total customers.

Chris Nunn: Total customers - total unique customers 1.3 million.

Weimin Xie: (MX Capital, Analyst) 1.3 million. Just the last question is I look at the number of selling artists you report here. The decline from the second quarter to the third quarter seems to be quite dramatic compared to the trend.

Chris Nunn: That's just simply seasonal - Weimin - that's just simply seasonal. If you compare it year on year it's 41% up. That's in the release, third page - top of the third page of the release.

Weimin Xie: (MX Capital, Analyst) But that's including acquisition of the TeePublic right? So was there a consolidation of the different artists or - I'm trying to work out whether there's a decline in the number of selling artists.

Chris Nunn: No, no decline. The year on year comparison is not including TeePublic. We pick up both sides of the equation, denominator and numerator.

Weimin Xie: (MX Capital, Analyst) Oh, okay so the total sales is just for the Redbubble is it?

Chris Nunn: No, not just for Redbubble. This is RB group. Slide 4 of the deck and it's also referenced on page 3 - top of page 3 of the release.

Weimin Xie: (MX Capital, Analyst) Oh okay, no worries. Thank you very much.

Chris Nunn: Thank you.

Barry Newstead: Thank you. I think we're at time, a little bit over. Thanks everybody for attending and for your questions. We will update you again at the investor call in July. Thank you.

Chris Nunn: Thank you.

Operator: Ladies and gentlemen that does conclude our conference for today. Thank you for participating. You may all disconnect.

End of Transcript