

Redbubble

US listing approved

HOLD (no change)

Current price:	A\$1.78
Target price:	A\$1.99
Previous target:	A\$1.51
Up/downside:	12.3%
Reuters:	RBL.AX
Bloomberg:	RBL AU
Market cap:	US\$313.6m
	A\$457.3m
Average daily turnover:	US\$0.56m
	A\$0.89m
Current shares o/s	256.2m
Free float:	70.0%

Key changes in this note

FY20F EPS up by 449%.

FY21F EPS up by 30%.

FY22F EPS up by 18%.



Price performance	1M	3M	12M
Absolute (%)	17.2	94	6
Relative (%)	18.7	95.1	-7.8

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Analyst(s) own shares in the following stock(s) mentioned in this report:

– N/A

- Redbubble's plan to narrow its valuation gap relative to US peers is under way, with approval gained for a listing of American Depositary Receipts on the Nasdaq market.
- US investors now account for ~20% of the company's shares. We expect this to continue to grow following the ADR listing.
- RBL exceeded all our expectations for key performance metrics in the September quarter. We have upgraded our forecasts to reflect the sterling operational performance.
- Our valuation and price target lift to A\$1.99, up from A\$1.51 per share. We maintain a HOLD recommendation.

Nasdaq listing following strong first quarter

Online art goods marketplace Redbubble has announced plans to list American Depositary Receipts on the US Nasdaq market following the release of strong operating results for the September quarter. The ADR listing has been approved and the ~20% of existing shares held by US investors will be available for immediate conversion to ADRs. In the quarter top line revenue growth, gross margin and gross margin after paid acquisition were all stronger than expected. Recently-acquired TeePublic continues to shine.

Upgrade to forecasts and valuation

We have revised our forecasts to reflect the trends apparent in the September quarter. Specifically, we have upgraded our growth rate for Gross Transaction Value (GTV) and Gross Profit and GPAPA margins. Our DCF valuation, which sets our price target, has increased to A\$1.99 from A\$1.51.

Risks and catalysts

Risks to RBL include: 1) slowing revenue growth rates; 2) slower roll-out of performance improvement initiatives; 3) deterioration of foreign exchange rates; 4) rising customer acquisition costs; 5) further disruption from Google algorithm changes; and 6) irrational competitor behaviour. Potential near-term catalysts include: 1) better GTV and gross margin growth rates; 2) a strong consumer response to the current growth initiatives; 3) no further adverse changes to Google algorithms; and 3) competitors falling behind in terms of product range and user experience.

Investment view

RBL operates a fast-growing global marketplace in art-inspired consumer goods. In our view the global market potential for its merchandise is highly attractive. The company has reached cash-flow break even and therefore risks are diminishing. As our target price implies a total shareholder return of less than 10% we retain a HOLD recommendation.

Financial Summary	Jun-18A	Jun-19A	Jun-20F	Jun-21F	Jun-22F
Revenue (A\$m)	182.8	257.0	318.6	391.1	480.1
Operating EBITDA (A\$m)	-7.29	3.79	11.70	21.06	31.94
Net Profit (A\$m)	-13.79	-21.19	2.30	10.91	20.99
Normalised EPS (A\$)	(0.059)	(0.016)	0.008	0.037	0.072
Normalised EPS Growth	(4%)	(73%)		375%	92%
FD Normalised P/E (x)	NA	NA	198.6	41.9	21.8
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	122.7	41.7	22.3	13.8
P/FCFE (x)	NA	NA	NA	38.29	20.51
Net Gearing	(79.4%)	(30.9%)	(32.1%)	(44.7%)	(57.9%)
P/BV (x)	14.13	4.88	5.00	4.23	3.41
ROE	(45.7%)	(7.5%)	2.5%	10.9%	17.3%
% Change In Normalised EPS Estimates			449%	30%	18%
Normalised EPS/consensus EPS (x)			-3.94	1.70	1.24

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Business snapshot

Redbubble Ltd		RBL AU / RBL.AX		Retailing
Market cap (A\$m):	466.2	Rating:		HOLD
Shares outstanding (m):	256.2	Price (A\$):		1.82
Free float (%):	70%	Target price (A\$):		1.99
Company website:	www.redbubble.com	Upside/downside to target price (%):		9.6%

Company description
 Redbubble operates a global marketplace in art-inspired consumer goods, ranging from tee-shirts and coffee mugs to wall-hangings and home furnishings. The company operates under the Redbubble.com and TeePublic.com brands and sells to customers in most parts of the world. While headquartered in Australia, the company sells more than 85% of its merchandise internationally. The company operates through a broad network of fulfillers who produce and distribute the final product to consumers, usually within three days of the order.

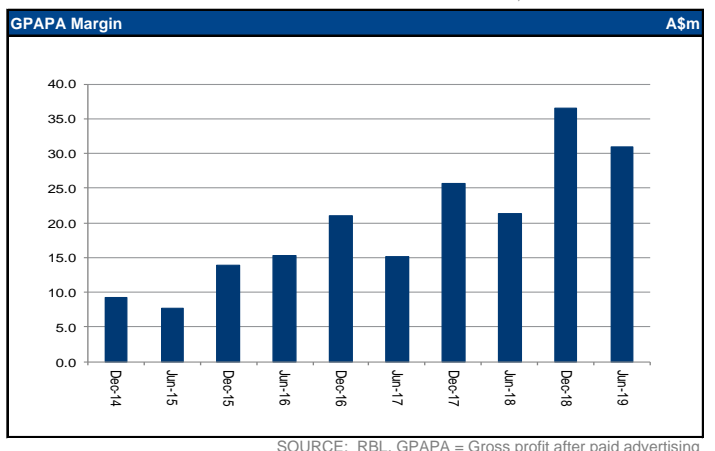
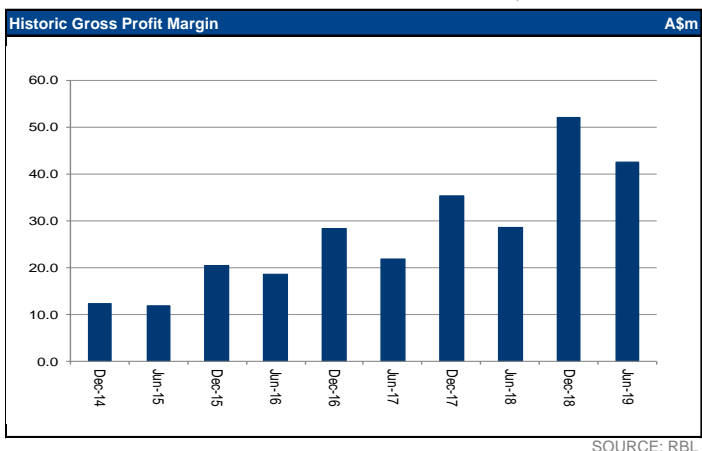
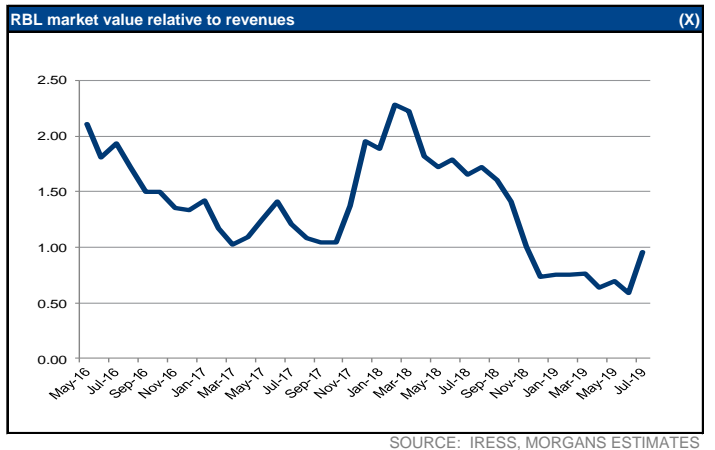
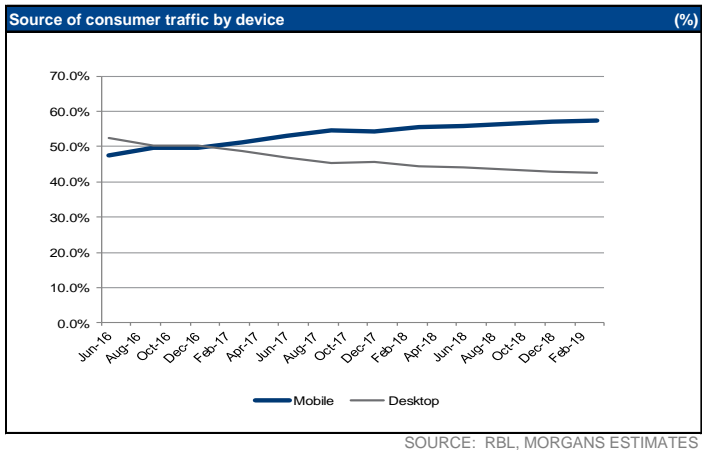
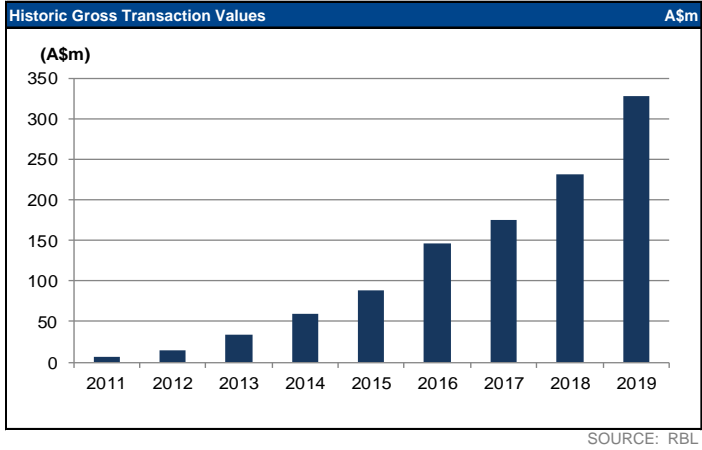


Figure 2: Financial summary

ASX Code	RBL	Share Price	A\$	1.82
Issued shares (m)	256	Recommendation:		HOLD
Market Capital (A\$m)	466	Valuation		1.99
		Price Target:		1.99
		TSR:		9.6%

Key Financials		2018	2019	2020F	2021F	2022F
Reported NPAT	A\$m	-14	-21	2	11	21
Normalised NPAT	A\$m	-14	-4.5	2.3	10.9	21.0
EPS - reported	¢	-6.5	-8.3	0.9	4.2	8.1
EPS - normalised	¢	-6.5	-1.8	0.9	4.2	8.1
EPS Growth	(%)	-24%	-4%	73%	375%	92%
EPS - diluted		-6.5	-1.9	0.9	4.2	8.1
Dividend per share		-	-	-	-	-
Payout Ratio		-	-	-	-	-
Franking		-	-	-	-	-

Pricing Multiples	2018	2019	2020	2021	2022
Normalised PER	-25	-19	185	39	20
Diluted PER	-25	-19	185	39	20
Market PER (*)	17	16	15	14	13
PER Relative					
EV/Ebitda	-44	100	34	18	11
EV/EBIT					
Price/CF	-56	176	28	15	10
Yield					

Key Ratios	2018	2019	2020	2021	2022
Growth					
Revenue Growth	30%	41%	24%	23%	23%
Ebitda Growth	-10%	-	209%	80%	52%
EBIT Growth	-3%	-	#N/A	432%	95%
Margins					
Ebitda/Sales	-4%	1%	4%	5%	7%
EBIT/Sales	-8%	-2%	1%	3%	4%
Pre-Tax/Sales	-8%	-2%	1%	3%	4%
Efficiency					
ROE					
ROA					
ROIC					
Leverage					
Net Debt/debt+equity	-79%	-31%	-32%	-45%	-59%
Ebitda/interest cover					
Net Debt/Ebitda					

NB: Redbubble is debt free - negative net debt/equity implies net cash position.

DCF Valuation		
Risk Free Rate	%	6.0%
Equity Risk Premium	%	6.0%
Beta		1.04
Cost of Equity	%	12.5%
Gearing Ratio	%	0%
Cost of Debt	%	5.5%
WACC	%	12.5%
Terminal Growth Rate (Y5)	%	8.0%
DCF Valuation	\$m	581
Value Per Share	\$/shr	1.99

Normalised P&L	2018	2019	2020f	2021f	2022f
Group GTV	231	328	419	514	631
Artists/tax	-49	-71	-100	-123	-151
Revenue to RB	183	257	319	391	480
Fulfiller Costs	-119	-162	-198	-242	-297
Gross Margin to RB	64	95	121	149	183
Operating Costs	-71	-91	-109	-128	-151
Normalised					
Group EBITDA	-7.3	3.8	11.7	21.1	31.9
D&A	-6.8	-8.5	-9.7	-10.6	-11.5
EBIT from operations	-14.1	-4.7	2.0	10.5	20.4
Finance/Other Income - net	0.3	0.3	0.3	0.5	0.6
Finance Costs - net	0.0	0.0	0.0	0.0	0.0
Minorities	-	-	-	-	-
Associates	-	-	-	-	-
PBT	-21.2	2.3	10.9	21.0	33.3
Tax	0.0	0.0	0.0	0.0	0.0
NPAT - adj	-13.8	-4.5	2.3	10.9	21.0
Sig Items		-16.7			
NPAT - statutory	-13.8	-21.2	2.3	10.9	21.0

Balance Sheet	2018	2019	2020	2021	2022
Cash	21	29	29	48	78
Other ST Assets	3	6	7	8	9
PPE	4	2	2	2	2
Intangibles	11	13	15	17	20
Other LT Assets	15	15	15	15	15
Total Assets	54	123	126	149	181
Borrowings	0	0	0	0	0
Other Liabilities	27	30	35	40	47
Total Liabilities	27	30	35	40	47
Net Assets	27	93	92	108	134
Minorities	0	0	0	0	0

Cash Flows	2018	2019	2020	2021	2022
EBITDA	-7.3	3.8	11.7	21.1	31.9
Interest paid**	0.0	0.0	0.0	0.0	0.0
Interest received	0.0	0.0	0.0	0.0	0.0
Tax Paid	-0.2	0.0	0.0	0.0	0.0
WC change/Other	9.5	2.5	8.5	10.4	11.2
Net Operating Cash Flow	2.3	6.3	20.2	31.4	43.1
Capex	-9.3	-9.2	-11.2	-12.5	-13.8
Other investing cash flow	0.0	-50.0	-8.4	0.0	0.0
Investing Cash Flow	-9.3	-59.2	-19.6	-12.5	-13.8
Financing Cash Flow	1.1	59.2	0.0	0.0	0.0
Total Cash Flows	-5.8	6.2	0.6	18.9	29.3

** Includes some one-off finance costs

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SOURCE: MORGANS RESEARCH, COMPANY

US listing approved

Nasdaq move follows strong first quarter

Online art goods marketplace Redbubble has announced plans to list American Depository Receipts on the US Nasdaq market following the release of strong operating results for the September quarter. The ADR listing has been approved and the ~20% of existing shares held by US investors will be available for immediate conversion to ADRs. Key observations on the quarterly update:

- RBL's operating result for the quarter was stronger than we had expected. The growth run rate for revenues and the expansion of Gross Profit After Paid Acquisition Costs (GPAPA) were well ahead of our H1 forecast run rate.
- Marketplace revenue growth was 43%, 20 percentage points higher than the 23% growth rate we had assumed for H1. Currency movements gave the result a 6% boost: underlying constant currency revenue growth was 37%.
- Recently acquired TeePublic brand drove most of the growth, due to growth in paid traffic acquisition. TeePublic did not use paid customer acquisition prior to being owned by RBL.
- Growth at the core RBL business was slower, at 6% on a constant currency basis. Management had forewarned of a slow first quarter growth rate due to the strength of trading in the prior corresponding period, prior to changes in the Google algorithm. The company expects subsequent quarter growth rates for the Redbubble brand to improve as the year progresses.
- Free cash generation was stronger than we had expected, with \$7.8m in free cash generated during the quarter. The company ended Q1 with a cash balance of \$37.9m.
- Gross margin improved to 37.9%, an improvement of 1.3 percentage points. The company continues to reap the benefits of scale and renegotiated supply contracts with fulfillers.
- The quarter GPAPA margin was 28.6%, 1.4 percentage points better than our H1 forecast.
- The competitive environment remains largely unchanged with RBL continuing to take market share from weaker rivals. The Shopify marketplace platform began trying to lure more independent artists to post on its platform but, as it charges a monthly fee to participants, is expected to only appeal to a small minority of artists.
- Roughly 20% of RBL's shares are owned by US investors. The ADR listing will enable the company to market to a much broader range of US investors, as many funds are limited to only investing in stocks that are listed on a US exchange.

Changes to forecasts

We have revised our forecasts to reflect the trends apparent in the September quarter. Specifically, we have upgraded our growth rate for Gross Transaction Value (GTV) and Gross Profit and GPAPA margins. The changes are summarised in the following table:

Figure 3: Forecast revisions

		FY19	FY20	FY21	FY22	FY23	FY24
Revenues							
Former	A\$m	257.0	312.0	383.0	470.2	577.2	697.1
Revised	A\$m	257.0	318.6	391.1	480.1	589.4	723.5
Gross Margin							
Former	A\$m	94.5	117.3	144.4	177.7	218.7	264.9
Revised	A\$m	94.5	120.7	148.6	182.9	225.1	277.1
EBITDA							
Former	A\$m	3.8	9.8	18.1	27.9	40.0	53.8
Revised	A\$m	3.8	11.7	21.1	31.9	45.4	62.1
NPAT - adj							
Former	A\$m	-4.5	0.4	8.0	16.9	27.9	32.4
Revised	A\$m	-4.5	2.3	10.9	21.0	33.3	39.0
NPAT - reported							
Former	A\$m	-21.2	0.4	8.0	16.9	27.9	32.4
Revised	A\$m	-21.2	2.3	10.9	21.0	33.3	39.0
EPS - adj							
Former	¢	-1.6	0.1	2.9	6.1	10.0	11.6
Revised	¢	-	1.6	0.8	3.7	7.2	11.4

SOURCES: MORGANS, COMPANY REPORTS

US listing rationale

RBL directors are attempting to narrow the valuation gap between RBL and its US-listed online marketplace peers by creating a secondary listing on the NASDAQ. Currently RBL trades at a 43% discount to the unweighted average EV/sales multiple of its online marketplace peers. The following table shows RBL's EV/sales multiples relative to four companies that are considered broadly comparable.

Figure 4: Online Marketplace Revenue Comps

	FY19	FY20
	(x)	(x)
Fiver	5.3	4.2
RealReal	2.7	2.1
Revolve	2.3	1.9
Farfetch	1.9	1.4
Redbubble	1.7	1.4
RBL Discount	-45%	-43%

SOURCES: MORGANS, IRESS

Changes to valuation

Our price target is driven by our discounted cash flow valuation. Our DCF valuation has increased to A\$1.99 per share due to the forecast changes outlined above and a reduction in our weighted average cost of capital (WACC) from 13.2% to 12.5%. The WACC reduction reflects our view that RBL is becoming less risky now that it is generating free cash flows. The assumptions underlying our valuation are shown in the following table.

Figure 5: Discounted cash flow valuation

Year ended 30 June	2020	2021	2022	2023	2024	Modelling Assumptions	
A\$m						Risk Free Rate	6.0%
EBIT	2	10	20	33	48	Equity Risk Premium	6.0%
D&A	10	11	12	13	14	Company Beta	1.04
Ebitda	12	21	32	45	62	Cost of Equity	12.5%
Capex	-11	-12	-14	-15	-16	Debt %	0%
WC Change	2	1	1	1	1	Cost of Debt	5.5%
Interest	0	0	1	1	1	Tax Rate	30%
Tax	0	0	0	0	-10	WACC	12.5%
Free Cash Flow	3	10	20	32	38	Long Term growth rate	8.0%
Other adjustments	-	-	-	-	-	Implied TV Multiple	22
Free Cash Flow	3	10	20	32	38	Discounted Terminal Value	478
						NPV \$	556
Discount Factor	1.00	0.87	0.75	0.65	0.57		
NPV of Free Cash Flow	2.9	8.7	14.8	20.9	21.4		
NPV of Terminal Value					478		
NPV					556		
Cash/other					25		
Total Present Value					581		
FD Shares Out (FD)					292		
NPV/Share					1.99		

SOURCES: MORGANS, COMPANY REPORTS

Risks and catalysts

Risks to RBL include: 1) slowing revenue growth rates; 2) slower roll out of performance improvement initiatives; 3) deterioration of foreign exchange rates; 4) rising customer acquisition costs; 5) further disruption from Google algorithm changes; and 6) irrational competitor behaviour. Potential near-term catalysts include: 1) better GTV and gross margin growth rates; 2) a strong consumer response to the current growth initiatives; 3) no further adverse changes to Google algorithms; and 3) competitors falling behind in terms of product range and user experience.

Investment view

RBL operates a fast-growing global marketplace in art-inspired consumer goods. In our view the global market potential for its merchandise is highly attractive. The company has reached cash-flow break even and therefore risks are diminishing. As our target price implies a total shareholder return of less than 10% we retain a HOLD recommendation.

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For a full explanation of the recommendation structure, refer to our website at morgans.com.au/research_disclaimer

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