REDBUBBLE

CONFERENCE CALL TRANSCRIPT

APPENDIX 4C REPORT AND QUARTERLY UPDATE

REDBUBBLE MAINTAINS PATH TO BUILDING A BUSINESS OF ENDURING VALUE

24 April 2018

Start of Transcript

Paul Gordon: Good morning all, this is Paul Gordon, Company Secretary for Redbubble. Welcome to this teleconference for our third quarter results for the financial year 2018. With me I have Redbubble's CEO Martin Hosking, CFO Chris Nunn, Chief Operating Office Barry Newstead, and GM Finance Zoë Myers.

We released our third quarter results Appendix 4C to the market in an ASX announcement earlier this morning. Martin, Chris and Barry will present before we open up the floor for questions. This presentation and Q&A session are being recorded.

Before I 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 Q&A. Over to you Martin.

Martin Hosking: Thank you Paul. Good morning all, I'm Martin Hosking, Redbubble's CEO. This morning we released Redbubble's quarterly announcement, the Appendix 4C for the third quarter, i.e. March quarter, of FY2018. With me are Redbubble's CFO Chris Nunn who will be speaking about our financial results, and our COO Barry Newstead who will be providing a strategic update and commenting on the operational performance of the Company.

The quarter that has just gone was strong for Redbubble. Each year the March quarter has some seasonal features which mean reporting on it is harder than the other three quarters. In particular, there is the overhang from the December strong sales which generally depresses margins. It is also the start of our new operating year which means there is often less impact from any initiatives that have just begun. Chris will give you a bit more colour on the quarter's metrics.

In summary it was a solid quarter. I would note in particular that topline GTV growth at 28% has kept us on track to achieve greater than 30% growth for the year as a whole. Growth was accelerating during the quarter. This has been achieved with continued low customer acquisition costs, with total marketing expenses as a percentage of revenue falling compared to the first half of the year.

Margins are improving and we'll continue to invest in growth and managing to profitability. The net result is we are focusing a forecasting operating EBITDA profitability for Redbubble next year. This is the confirmation of what we have previously indicated.

I am particularly pleased that the growth continues against backdrop, healthy marketplace dimensions on all three sides - artists, customers and fulfillers. Our investment in the fundamentals of the marketplace will ensure we're in the best position to take advantage of the strong wave of on demand commerce.

We are continuing to demonstrate that Redbubble is a highly disruptive retail model with long-term growth potential on low customer acquisition costs and a positive cash cycle with neither inventory or warehousing requirements. As we grow we are developing a global network of interconnected fulfillers.

I will now pass to Chris to provide more financial commentary on the quarter. After Chris, Barry will talk about the initiatives we are pursuing and provide further details on our strategic priorities and our investment in innovation and growth as we look towards the longer-term.

Chris Nunn: Thank you Martin. As often seems to be the case at this time of the year I have a sore throat. So I will start, but if my voice gives out before I complete then Zoë Myers, Redbubble's GM of Finance, will take over. My apologies if you don't hear me so well.

I am pleased to report third quarter and year to date unaudited results that demonstrate Redbubble's continued success in building a business of enduring value. Our strategic investment in growth is made through both the income statement and the balance sheet.

We are committed to balancing our efforts in growing the business for the longer term while demonstrating operating leverage, thus prudently managing to profitability. Barry will expand a little more on the growth initiatives.

Again Redbubble has demonstrated an ability to drive sustained GTV growth, despite typically more restrained consumer behaviour in the third quarter, post a strong trading performance over the holiday season. Third quarter gross transaction value was $48.9 million, up 28% against prior corresponding period (up 27.8% on a constant currency basis).

I note that quarter three FY2017, the previous corresponding period, benefited from high levels of political activity in the United States and the resulting memes which sold relatively heavily - as much as 3% of all sales in that quarter last year. Year to date GTV is $178.7 million, up 30.6% against the same period last yearn (up 31.6% on a constant currency basis).

Pleasingly, the European markets again demonstrated their ability to deliver high growth rates evident since we launched our three new language sites in 2016. Germany's third quarter GTV was up 83%, France 65%, and Spain was up 88%. All before the added beneficial effect of a stronger Euro.

The mobile iOS app has also demonstrated a promising uptick in its contribution to GTV with a 4% contribution in March, 3.6% for the quarter. Monthly active users on the app is now about 212,000.

Third quarter revenue growth was low relative to GTV for three reasons. I have mentioned before the increasing contribution to sales from Redbubble's European markets with their higher sales tax regimes. But we have also noted a slight increase in artists' margin, most likely related to product mix changes.

However, the biggest contributor to the low relative growth was actually because the prior corresponding period benefited from receipt of a significant sales tax refund which adds to revenue, just as the sales taxes we collect and pay out reduces revenue.

Year to date revenue is $141.2 million, up 28.3% (up 29.8% on a constant currency basis).

The third quarter gross profit margin was slightly improved over the same period last year, but was nevertheless softer than we had anticipated. Our January result was adversely affected by a couple of factors. Seasonally higher rates of refund, which are typically larger than the rest of the year due to December related returns, and increased shipping costs.

Both were in part as a result of higher than expected levels of growth in Europe over the holiday season, for example, over 100% in Germany, compounded by shipping disruptions caused by severe weather conditions in the region. Importantly neither of these factors are systemic in nature and we saw the strong rebound we had expected materialise in February and March as negotiated fulfiller discounts also kicked in.

Moving down to the gross profit after paid acquisition line. We are very pleased with how this is performing. The third quarter demonstrated further improvement in the cost of customer acquisition (and retention). Organic (unpaid) traffic demonstrated strong momentum in this quarter growing at 32.8% year on year in the third quarter, following 32.4% in the second quarter.

Total paid acquisition costs for the third quarter were 8.3% of revenues, versus 9.4% of revenue in the first half. Year to date cost is 9.1% of revenue, up a little from the 8.7% for FY2017. The pleasing underlying growth in unpaid GTV has contributed to improve overall profitability on customer acquisition.

Our paid GTV is both profitable and additive to the unpaid growth. We measure the efficiency of our paid marketing by reference to its cost as a percentage of the paid GTV it generates. Third quarter paid marketing efficiency was approximately 16.4%, and it is running at approximately 16.2% year to date, compared with 16.4% last year.

The year to date efficiency represents an immediate gross profit return of 1.7 times the initial investment. I should point out that we can only finalise the exact paid versus unpaid split about 30 days after the end of each period when attribution is confirmed.

We expect the improving gross margins and the continued low cost of customer acquisition to result in future GPAPA growth rates aligned more closely with growth in revenue.

To operating expenses - Redbubble is focused on maintaining meaningful investment in growth while prudently managing to profitability. We have always charged a significant proportion of our growth-related investments to the income statement, however our third quarter 2018 and year to date investment in the recently announced Content Partnerships business opportunity has been particularly significant and I want to call that out.

There is $945,000 in the operating expenses line year to date, and $550,000 in third quarter related to this exciting opportunity, but it's important to understand that the investment will have a different return profile than our other growth initiatives, with expectations for strong revenues two to three years out.

The emergence of operating leverage has therefore slowed a little this quarter, with the investment in Content Partnerships a key factor. Operating expenses have increased by 15% on a year to date basis, but this would be only 12.1% if investment in establishing the fan art business were excluded. This and the revenue impact mentioned before which affected FY17 are the key reasons for third quarter FY18 not improving on the same period.

Redbubble moves into the final quarter of the year with confidence. GTV is well on track to achieve constant currency growth rates for the remainder FY18, consistent with those achieved year to date and in line with previous guidance. Importantly gross profit margins are expected to lift above 36% for the last quarter, taking the full year margin to around 35% and setting us up well for next year.

The average cost of customer acquisition is forecast to remain at a similar level to that achieved year to date. We expect operating expense growth for FY2018 as a whole to be in the range of 17% to 19%, compared to FY2017. Operating EBITDA for the full 2018 year is therefore expected to show significant improvement from FY2017.

Briefly looking forward to FY2019. We can see operating EBITDA profitability on the basis of the current trends in the core business metrics.

Before I wrap up I want to mention a change to Redbubble's financial statements that will be brought about by the new AASB 15 Accounting Standard which comes into effect from the 1st of July. It will result in changes to how we recognise revenue. After a detailed and lengthy process of interpretation and understanding we have been advised by the technical experts at EY, our auditors, that the artists' margin received by us and passed onto margins but currently not included in our revenue will from the 1st of July need to be so included.

The exact presentation of this change is still being discussed, but it would likely have the effect of grossing up revenue and expenses, specifically cost of sales, by the same amount. I should stress there is no impact on the business model, on cash flows or on growth rates. There is also no impact on gross profit, GPAPA, EBITDA, nor ultimately NPAT, although then reported gross profit margins will be affected, because of grossing up of both the numerator and the denominator in that equation.

Thank you. I will now hand over to Barry.

Barry Newstead: Thank you Chris. Hello everyone, I'm Barry Newstead, Redbubble's COO. Redbubble continues to make good progress in building a business of enduring value. Our strategic investments seek to accelerate the marketplace flywheel that drives Redbubble's growth and scale. In so doing we deliver ever-improving user experiences for artists and customers and achieve economies of scale.

I would like to underscore this. It is a key attribute of Redbubble's marketplace flywheel that growth enables user experience improvements, providing leverage for our capital efficient growth investments.

We see Redbubble's market potential expanding as we innovate to provide customers with a superior value proposition that incorporates unique content, an enjoyable discovery experience, quality products, timely delivery, and competitive prices.

Redbubble's business model is just starting to have a real disruptive impact in global consumer retail. We feel like we're still in the early stages of realising the potential of Redbubble's marketplace flywheel. In the past quarter we have continued investing around four themes: Find Your Thing; Global Acquisition; Scalability; and Deeper Relationships. Rather than walk through each I'd like to briefly touch on a few key highlights.

First, as Chris mentioned, our GTV growth from unpaid sources has accelerated. There are a number of investments that support this with the number one being “all things mobile”. Our mobile web experience is consistently improving thanks to mobile focused discovery improvements including this week's rollout of typeahead search suggestions which saves keystrokes and minimises errors on mobile.

Our iOS app has been adding users and generating more GTV with the introduction of push notifications. As Chris mentioned, we had over 200,000 monthly active users of the app in March. Second, again echoing Chris, our volume gains are allowing for continued discussions with fulfillers about product costs.

We saw reductions in key product costs during Q3 and continue to seek opportunities to reduce product costs. That said, we have balanced price negotiations with discussions focused on holiday capacity and localisation of supply. The relationships with fulfilment partners involve building their confidence to invest in advance of the upcoming holidays while sharing the benefits of economies of scale with the Redbubble market.

Third, we have talked for a while about our foundational investments in the member experience for customers with the objective of getting to personalised content discovery for each member. During Q3 we experimented with a personalised content experience for members on the web and saw very promising results in terms of engagement.

We expanded favouriting on search pages for members with similarly positive results. Both features, along with the performance of similar features in the iOS app, are good validation of the potential of our work to deepen customer relationships and build lifetime value.

Fourth, I'm really pleased with the artist engagement - with our artist engagement work. Similar to the member work, we are looking at ways to further deepen artist loyalty to drive more quality content on Redbubble. The new phase of work is in the early stages, but we've seen tremendous artist engagement from a relatively small start as we introduced a beta version of an artist dashboard.

We have made progress also on content partnerships with five beta deals signed and a solid pipeline of additional ones. This area remains in the early stages with expectations for strong revenues two to three years out.

Finally, our re-platforming work continues at pace. We are making significant investments right now to increase capacity for the holidays, reduce risk of downtime and ultimately lower platform costs while increasing our agility. During the quarter we achieved a number of milestones including the initial rollout of a new platform to power our search service, a core part of Redbubble's infrastructure.

We continue to expand the use of our new faster platform across more of a user experience. We have an area of work underway to reduce the investment costs of adding new fulfillers and products onto the marketplace.

All told, the work we are doing is focused on the medium to long term. More than 50% of our development resources are focused on growth related projects with a greater than 12 month time horizon.

We are delivering value regularly in each area while making development choices that will serve us over time. We are actively avoiding expediency. An area we do not discuss a lot, although it is fundamental to our success, is our investment in people. During Q3 we launched a new leadership program for our managers.

As of today 48 people in Melbourne and San Francisco have completed this two day training and of these 33 have also completed a course in diversity and inclusion. Our number 1 source of long term value has been and will be our people. We are investing in them and in our culture.

As we head towards the northern hemisphere spring season, the back to school and holiday periods, I will reiterate that we're investing around the Redbubble marketplace flywheel. This allows us to deliver improved user experience for artists and customers, particularly members, alongside scalable fulfilment and platforms to drive our economic model and long term growth potential.

We're confident that our strategic direction enables us to grow in scale to generate impact for artists, customers, staff, partners, and shareholders for many years to come. With that, I'll now hand back to Martin to wrap up.

Martin Hosking: Thank you, Chris and Barry. As outlined, Redbubble is a leading global marketplace in a disruptive consumer sector with fundamental innovation at the heart of what we do. We're building a company of enduring value and prudently managing to profitability.

We invest to drive growth through both the income statement and balance sheet, and this has resulted in the business scaling rapidly on the back of strong fundamentals underpinned by, firstly, the shift of consumer preferences, secondly, the evolution of on demand technology, and, finally, the rise of the sharing economy of the internet.

We remain focused on sustained and strong growth through execution and delivering strategic initiatives. Some of these require a commitment to foundational work in order to generate benefits in the longer term, whilst others have immediate value. Striking a balance between those is important to short term momentum and long term sustainability.

Our success to date has meant Redbubble is an ever more meaningful and distinctive shopping destination for global consumers looking for new ways to distinguish themselves. It is an essential platform for many thousands of artists. For the fulfillers it is often key to their future growth enabling them to employ more people.

For our investors, Redbubble will continue to be an opportunity to hold a stake in a global business with long term profitable growth based on fundamentals, scaling operations, and focused execution. Thank you. We'll now be pleased to take questions.

Operator: Thank you. Ladies and gentlemen we will now begin a question and answer session. If you wish to ask a question please press star followed by one on the telephone keypad and wait for your name to be announced. If you wish to cancel the request please press the pound or hash. Once again, if you wish to ask a question please press star followed by one on the telephone keypad and wait for your name to be announced. Our first question comes from Ivor Ries from Morgans Financial. Please ask the question.

Ivor Ries: (Morgans Financial, Analyst) Good morning. If I can ask two questions back to back that would be nice. The first question is about the conversion rate, a bit of a tailing off of the conversion rate. I would have thought that given the improvements in your mobile user experience your conversion rate would have gone up in that quarter rather than going down. If you can give us some feel for why you think that might have happened.

Also, average order value. Can you give us some flavour as to why average order value is still going down?

Chris Nunn: Yes. I'll try and take those and Barry can supplement anything I don't get quite right either. Thanks for your questions. Mobile conversion rate actually went up 10%, Ivor, and of course we still have that problem that mobile is only - is a smaller part - sorry - is a bigger part of our business compared to desktop.

So despite mobile increasing substantially - and bearing in mind it's actually increasing the avenue for which customers come to Redbubble, so we're pretty pleased with a 10% increase there but it just gets weighed out by the desktop. Slightly more specifically though, slightly related to our improved - the improved organic rankings received.

You heard me and Barry mention we've improved organic unpaid income. The more - the better organic ranking, the more traffic we get. The more traffic we get, the more traffic we get you tend to get less conversion.

So we're caught in … not a trap… but a dichotomy would be a better way of saying it - increasing visits. So you really look at the two combined, Ivor, or I would rather than just conversion rates alone, part of the reason why we point you away from Google trends as being a necessary absolutely guide.

I should say that conversion - the app is now starting to make some level of meaningful contribution. We've talked about 4% conversion on the app is double conversion on a mobile. So around about 2.6% conversion on the app in the quarter - 2.7% as opposed to 1.32% for the mobile which in itself is always less than desktop.

Also, I think the speed of the site has improved markedly and, therefore, mobile - we're getting more visits through the mobile channel. Because mobile converts lower that has an effect. So all in all, I think the most important message is mobile is the increasing use for our platform. That has a lower conversion rate and that has increased 10%. So I've summarised it there. Barry, can you add anything to that?

Barry Newstead: I think you've covered it. It is also worth noting that unpaid business tends to get more visits for a lower conversion than paid. So in a sense there's more positive in that change than there is - there's really nothing negative, actually, in that change. I think the second question was about AOV….

Chris Nunn: Yes, AOV. That really is - as we have alluded to in previous quarters, Ivor, it's just down to product mix and increasing percentage of our business in - I think it was the stationary category which we should say has - does have the higher profit - gross profit margin. So we're not overly - we never have been overly concerned about AOV - and we remain unconcerned.

Ivor Ries: (Morgans Financial, Analyst) All right. Thanks.

Operator: Thank you. Our next question comes from Chris Bainbridge of Pie Funds. Please ask your question.

Chris Bainbridge: (Pie Funds, Analyst) Hi, guys. Just two from me. I mean, you mentioned that the exit run rate for revenue during the quarter was accelerating, so - or run rate during - revenue during the quarter was accelerating, so what was the exit run rate?

Martin Hosking: We've indicated it's going above the 30% which we expected for the year and I don't think we can give a stronger indication at this point. But I think the average for the quarter was above the 30% - in order to get to that 28% was above the 30% as we went through the end of the quarter.

Chris Bainbridge: (Pie Funds, Analyst) Right. Traditionally you've talked to that two for one ratio. Does that still hold?

Chris Nunn: As an objective, yes.

Chris Bainbridge: (Pie Funds, Analyst) Yes.

Martin Hosking: We're expecting operating expenditure growth to moderate, as we've indicated, over the next period. The operating expenditure growth I think is clearly in our control.

Chris Bainbridge: (Pie Funds, Analyst) Yes. Would it be fair to say that to some extent the improvement in your customer cost of acquisition - was that to any extent driven by less investment in paid which then brought down the revenue, or is that just by improvement and unpaid conversation?

Martin Hosking: I'll let Barry take that one.

Barry Newstead: Yes. I mean, I think it's actually decelerated. I mean, it's mostly in the acceleration of the unpaid space. I think if we go back a few quarters you'll start to see that the - our GTV from unpaid sources - the growth rate has been increasing pretty significantly by quarter. So that's the main story there.

I think that we continue to view paid in the way that we always have, which is we have profit thresholds we're trying to meet and we spend to those thresholds and we generate the growth from that. In general, there's been no meaningful change in that. I think it's moderated a little bit, but I don't think it's in a meaningful means at this time. So I hope that addresses your question.

Chris Bainbridge: (Pie Funds, Analyst) The last one from me. You did mention, in fairness, that you don't know the exact split between unpaid and paid GTV for 30 days after, but would it be fair to say that - I think it was 54/46 unpaid/paid previously. Do you expect much divergence from that? Or do you have a ball park figure?

Chris Nunn: I'd say I'm not - we're not talking about much. Thirty days is only a third of the quarter anyway, so it's not like it's going to have a major effect. I'd say they're going to be a little better than that for the quarter.

Chris Bainbridge: (Pie Funds, Analyst) Yes. Okay. That's all from me. Thanks guys.

Operator: Thank you. Our next question comes from Stella Wang, private investor. Please ask your question.

Stella Wang: (Private Investor) Hi guys. My - I've got two questions. The first one is could you repeat the app conversion rate and mobile conversion rate you mentioned before?

Chris Nunn: Hi Stella. Chris here. Yes, I can. The app conversion rate for the quarter was 2.65%, and for mobile was 1.32%.

Barry Newstead: I'm sorry. Can I just make one comment briefly, just on how to think about the app conversion rate? The app conversion rate is high, but it's not completely comparable to a web conversion rate because people tend to - what you call snack on the mobile. They'll come back and visit the mobile, typically, more frequently than they will on a web experience, so it's just worth noting that there's a difference there, but likely that difference is actually larger than the numbers will show you in terms of value.

Stella Wang: (Private Investor) Okay, thanks. My second question is about the content and licensing initiatives. Could you help us understand better what's going to happen in the next one, two, three years? What should we expect happening in that area, that will eventualise in substantial revenue contribution? And how should we see the OpEx related to that going up?

Martin Hosking: I think I might - I'll hand it over to Barry. I'll give you just a brief context. As we see the content partnerships as part our overall objective of delivering a strong consumer experience allied with the artist.

So in particular the content partnerships are about enabling right holders to be able to do is to interact with the artists themselves in creating new content for new consumers. So it is about genuine partnerships in which the artists who use Redbubble would have the ability to interact with the rights holders - the property which the rights holders own - to create new content. Chris - Barry may - will give more context.

Barry Newstead: I think that's it. I'll just say market context is that the traditional retail merchant - licensed merchandise business is undergoing significant change. That - if you go back and - to the traditional model, what you would have is you would have a company - you can pick your favorite brand, pop culture brand, and that company would generate a set of designs that they would then distribute through a retail - retail shops, right. You can go down the corner and see those in place.

Those designs were very limited in number and they were largely a reflection of what the brand thought their consumers wanted. That is changing radically. That's really a reflection of the trends that Martin talked about earlier, around changes in consumer preference in particular.

Consumers now want a much wider range of ways in which they can engage with the brands that they're interested in as fans. They don't want to all be wearing the exact same brand of t-shirt. They want to be wearing their own special version of that t-shirt.

That's really where the Redbubble artists come in - our vision is that our artists will be granted licenses from our content partners, and then they will create possibly thousands and thousands of designs that are inspired by that content and then make that much more unique offer available to customers through the Redbubble marketplace.

That's really the basis for which we see the flourishing of a business that is really, really built on the core principles of what Redbubble is, which is really about art created by independent artists, massive amount of choice on great products for consumers, and the rights holders and brands really have the opportunity to participate in that market with us.

So that position - where we are now is that everybody is coming to grips with the changes in the environment. We're working with a small group of brands that really demonstrate the potential of this for them.

In general, the conversations are getting more engaged but, as with any business where you're really making significant change and you're working with large companies, the gestation period is longer than when you're sort of simple, straightforward B2C, business to consumer proposition.

Stella Wang: (Private Investor) Okay. If I understood it right, between now and, say, two years in the future, is all the effort in signing up big brand and content owners and market goes to your artist base and create popular products on those contents licensed. Would we expect any announcement out sometime when you guys do sign up big brand names?

Barry Newstead: I think we will progressively. I will say that we don't want to get ahead of ourselves. I think what we've been wanting to do is really build the foundations and fundamentals of this.

Actually, we want to work with players in the industry where we can be experimenting and learning together as we go. I think we're going to be reasonably conservative in making announcements about partnerships because, frankly, I don't want to - we don't want to get ahead of ourselves. We will continue to mention it to keep investors and others informed about how this is developing. My hope is that it'll be self-evident also that in terms of the kind of content that gets into Redbubble and some of the marketing around that as these partnerships come to fruition.

Stella Wang: (Private Investor) Okay, thanks. Just lastly, would we - how much more OpEx step-up should we expect from this initiative, because this quarter there was a substantial - incremental to what you had expected?

Barry Newstead: I think - I think in the last period of time we've been really putting some key team foundations in place. Of course, that requires a step change.

Our thinking on it is that we've got a core team in place and we've been building some of the core technology to support it. I think future growth - it's likely that the future growth in OpEx is going to be really timed with - probably somewhat advanced - but timed with our view of the revenue potential of these deals.

First, actually getting the deal signed and launched and then really valuing the revenue potential. I wouldn’t expect we're going to have large step changes, although we might have some increases as people that came on in the third quarter that might be more visible in the fourth quarter, but we're not looking at big, big step changes going forward...

Chris Nunn: I should also say we're not seeking to carve that out from the commitment relating to the ratio either at this point. We drew it attention of the investors in this call because it was a reason, but it's not changing the overall objective of the ratio between top line growth and expenses.

Stella Wang: (Private investor) Right. Thank you very much.

Operator: Thank you. Our next question comes from the line of Ivor Ries from Morgan Stanley. Please ask your question.

Ivor Ries: (Morgans Financial, Analyst) Thanks for taking additional questions. First, for Chris, just, obviously, between December and March quarters there's big movements in working capital which affect the operating cash flows. The fourth quarter, would we expect a positive or negative contribution from movement in working capital to your operating cash flows?

And also, in previous statements you have indicated that the Company should be trading at or about an EBITDA break even or a small profit at the end of FY18. You seem to have withdrawn that now, so it seems like you essentially downgraded by a couple of million dollars.

Chris Nunn: I don’t think that’s actually right. Looking at each quarter end, so I would say the fourth quarter is a fairly normal quarter, so you would expect a working capital improvement based on incremental sales versus the previous fourth quarter. So yes, working capital will be a positive contributor to cash flow, as it is throughout the year in total.

On the subject of guidance we are now saying quite clearly that operating profit - operating EBITDA in 2019 will be positive. I think it's what we were alluding to before, Ivor, so I don’t think we downgraded. We have given you fairly explicit guidance in relation to '18 for you to put into your models.

Then you can determine whether there's a downgrade in relation to FY18. What we do say is it's a considerable improvement on what we experienced the same - for FY17.

Ivor Ries: (Morgans Financial, Analyst) And if I can just ask another question for Barry. In terms of the speed project, increasing the page download speed, how far are we progressed through that project now? Are we up to 70%? Or have we still got a long way to go?

Barry Newstead: I can't give you a percentage, but I would say that we're well progressed, and we continue to do - we continue to make improvements on that. I do think we've got some way to go on some specific page areas, but we feel like we're well progressed. As I said, the new platform is rolling out to new parts of the site. Our new artist initiatives and the personalized experience for members - those are all being built on the new platform. I would say we're well advanced, but I think we're still working significantly in that area.

Also we find opportunities to speed up the site on a regular basis that are actually related to, but not directly part of, the core speed work. For example, with the work we've also done some caching work with the highly traffic, search pages that actually significantly speed those pages up, in the last two weeks. So ongoing effort…we feel like we're ahead of the market in general, and we want to continue to be aiming towards being well ahead of the market in terms of the speed - the performance and speed of our site.

Ivor Ries: (Morgans Financial, Analyst) I just did, last week, did some test pages on the mobile, and I was getting t-shirt page downloads of around four to five seconds. Is that the average you're running at the moment?

Barry Newstead: I mean it's hard to give you a general average, but I would say that I think your experience is probably reasonably - which is around - pretty close to what we are seeing as our benchmark, under five seconds, which is worth noting that we - the prior experience was probably more like 10 to 15 seconds…number one. And, number two is under five seconds is really competitive with the best e-commerce and consumer websites in the world.

Ivor Ries: (Morgans Financial, Analyst) That’s fantastic. Thanks for your answers.

Operator: Thank you. Our next question comes from the line of Weimin Xie from MX Capital. Please ask your question.

Weimin Xie: (MX Capital) Hi. Thanks for taking the call. Two questions on the content partnership.

The first one is your current commercial model you pay a percentage. Under the content partnership does that total payment go up because, I guess, you start paying the content owner as well, right. And the second question - Just in the future would you have mitigation about your artists using other people's content.

Barry Newstead: Ah, yes, okay. I'll take both of those. In terms of the economic relationships we will - we would be introducing some payment - licensing fees for the program - we see there's multiple ways in which that is going to - could play out. Our preferred way is that we believe that this content will actually generate - have the ability to generate a slightly premium pricing in the market. What we hope is that it will be passed through to consumers.

That said, the second approach is really that the artists and the rights holders will share the artist - in the artist margin. Those are the two ways in which we're looking at it at the moment, or some blend of those two. We're not seeing - we're not viewing it as likely to interrupt Redbubble's core business as we see it going forward. The conversations we've had to this point, the rights holders indicate that we're - indicate that those assumptions are reasonable.

In terms of the effect of the content partnerships on - I think you're referring to as our content moderation and take-downs - indeed, we expect that over time we will be able to - we are changing the relationship we have with some of these content providers. We may not leave the same content up, but the whole idea here is that where there's interest in certain pop culture memes or brands and whatnot, we'll have - we'll continue - we'll have content that is really relevant for users, and it'll be a situation where rights holders, artists, Redbubble are all aligned around the - our interest in the sustainability of that content.

Weimin Xie: (MX Capital) On the first question, so the commercial model, would that be percentage based on how much you actually sell out? Would that be a fixed fee plus percentage? Which one would that be?

Barry Newstead: The idea around the core model will be related to percentage of sales. That said, we are likely to enter some minimum guarantee agreements with some brands, with the idea being, obviously, that we would have to commit up front. We're clearly being thoughtful and conservative about the kind of commitments that we make on the front end.

Weimin Xie: (MX Capital) Okay, great. Thank you.

Operator: Thank you. Once again, if you wish to ask a question please press star followed one on the telephone keypad and wait for your name to be announced. Once again, if you wish to ask a question please press star followed by one on the telephone keypad and wait for your name to be announced.

Martin Hosking: Thank you everyone. I think we might wrap it up then.

Operator: There are no question. Please go ahead.

Martin Hosking: Thank you. That's the wrap. See you all next quarter.

End of Transcript