APPENDIX 4C REPORT AND FULL YEAR UPDATE

TRANSCRIPT OF CONFERENCE CALL

RB GROUP DELIVERS OPERATING EBITDA OF $3.8M, FIRST SINCE IPO

30 July 2019

Start of Transcript

Operator: Thank you for standing by, and welcome to the Redbubble Limited fourth quarter results, and Appendix 4C conference call. All participants are in a listen-only mode, there will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key, followed by the number one on your telephone keypad.

I would now like to hand the conference over to Mr Paul Gordon, Company Secretary. Please go ahead.

Paul Gordon: Good morning, everyone. This is Paul Gordon, Company Secretary for Redbubble. Welcome to this teleconference, following the release of our fourth quarter results, for the financial year, 2019. With me I have Redbubble CEO, Barry Newstead, and CFO, Emma Clark.

Today we are providing an update to the market for our final quarter of FY19, and a snapshot of the full financial year to 30 June 2019. The key information is in the 4C filing ASX release, and supporting presentation titled, *FY2019 Full Year Update*, which we released to the market earlier this morning, along with a refreshed general investor presentation.

Please note that the results and figures are from internal management reports and have not been subject to audit.

Barry and Emma will now present, referring to the supporting presentation viewable via the webcast. Then we will open up the floor for questions.

Now, we're webcasting slides for the first time on one of these calls, you might experience a bit of delay between the slides flicking over. Bear with us on that.

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 statements regarding forward-looking information in the ASX release accompanying our results. That safe harbour statement also applies to this call and the Q&A.

Now I'll pass to Redbubble CEO, Barry Newstead.

Barry Newstead: Hi, everyone. I'm proud to share that in FY2019, the Redbubble Group achieved an important milestone. We delivered our first positive Operating EBITDA since IPO, in the amount of $3.8 million. We did so without compromising on strategic investments for the long term. We achieved Group revenue growth of 41%, powered by the acquisition of TeePublic, and the resilience of Redbubble.

Underneath the seemingly slow growth of Redbubble are real strengths in key areas that will secure future prospects. The business is generating high take rates, with strong gross margins, and continued low marketing costs.

Operating expense growth has slowed, as management has increased cost discipline, focused on productivity and growth investing. This is a strong result that demonstrates our execution capabilities, and our future potential.

Emma will dig into the financials in a moment.

The Group continues to invest in strategic opportunities, and these are paying off. Let me briefly review the progress.

We're investing in the artist experience, and managing the downside risks of user-generated content. While the risk mitigation work has had some temporary impact on revenue growth, it has helped authentic sellers on Redbubble come to the fore.

Revenue from this core segment grew a very robust 39% in FY19. This community is very healthy.

Investments in the Membership program on Redbubble are delivering real outcomes, reaching 29% of revenue, with 109% year on year growth.

The Redbubble iOS app continues to thrive, representing 8% of Marketplace Revenue in Q4. And our Android app is currently under development.

During Q4, the Redbubble brand has hit an inflection point with a surge in brand-based channel growth, that served to lower our marketing costs.

The Fan Art business is starting to emerge. Content partners are onboarding their brands onto both platforms, that is Redbubble and TeePublic.

A year ago we were actively seeking our first major partnership. Now, we have a backlog of deals we are working hard to onboard pre-holidays. We have launched 48 brands, and the licensed content library has grown from a negligible amount a year ago to 350,000. These partnerships position Redbubble and TeePublic to extend their advantage, as the home for the best and most diverse artistic content, and to provide truly innovative Fan Art experiences for artists, partners and customers alike.

New products have been a major driver of prior growth, and as promised, Redbubble has launched seven products in the past 11 weeks, including five during Q4. Both brands have additional product launches planned before the holidays.

The performance of TeePublic cannot be understated. This is a great business that has a ton of potential and a strong team. It has integrated well, and there are meaningful benefits being realised. We also saw an acceleration of its already strong growth rate during Q4.

Before handing over to Emma, I'd briefly like to mention our leadership changes. As part of my first year as CEO, it was a priority to ensure that we have the leadership in place for the next phase. We have promoted five people to the executive team from within, and added Emma as our CFO. We have retained key leadership at TeePublic, and added key talent there.

One of the defining characteristics of businesses that are "Built to Last", is that they develop talent from within, and always ensure they have the right people on the bus. The team that leads the Redbubble Group has a proven track record and a clear vision for what it's going to take to realise the opportunities ahead of us. This is a business with real momentum, and huge potential.

I'll now hand over to Emma, before I come back and talk a bit more about the strategic direction.

Emma Clark: Thank you, Barry. So having joined only a couple of months ago, my initial observation is it is a great time to have joined. The Group's financial fundamentals are strong, and there are key growth areas that Barry will outline later, which have great opportunities that will power the business in the future.

I'm really pleased that we've achieved our first positive Operating EBITDA since IPO. This is an important milestone that we have been very focused on delivering. This result was achieved based on solid fundamentals, and is sustainable. As a result of this, our Operating EBITDA margin has gone from negative 8% to positive 1.1%.

It's important to note that as we only had eight months of TeePublic in FY19, we will have a headstart in FY2020, as we'll get the full 12 months of their topline and earnings contributions.

In addition to healthy Marketplace Revenue growth, we also had strength in gross margins, growing at a faster rate, even than our Marketplace Revenue. This has been driven by leveraging scale and localisation benefits in our fulfilment network, plus some shipping and pricing optimisation, which has increased the Group's effective take rate.

With the acquisition of TeePublic, we are an increasingly global business, and more and more of our revenue is sourced in currencies other than Australian dollars. As such, the P&L results that you see here are affected by fluctuations in foreign exchange. For FY19, this was a tailwind of approximately 7% on revenue, with an offsetting 5% headwind impact in expenses, creating a natural hedge.

Pleasingly, we also had a very large free cashflow improvement, from negative $7.8 million in the prior period, to negative $3.2 million in the current period, with Operating Cashflow now positive for the Group, and this can be seen in the actual 4C filing.

Looking at our growth by brand, we actually have both brands continuing to grow. The Redbubble growth is powered by continued growth in customers, with more engaged repeat customers, accelerating membership base, and improved mobile experience.

In the third quarter update, we did note that the fourth quarter of FY2018, and the first quarter of FY2019, saw Redbubble's organic search accelerating rapidly. So growth rates based on these comparables were tough in quarter four, and are expected to continue being tough through to the end of September 2019.

However, it is important to note that Redbubble has a sustained track record of successful growth, even through major shifts in the business over our 12 years of existence, and management is very focused on ensuring the business remains focused on growth initiatives.

TeePublic has proven to be an outstanding contributor to the Group, with growth accelerating even in the short time that we have owned them. Their overall growth profile is meeting our acquisition expectations. We intend on coming back next quarter, which would mark the one-year anniversary post-acquisition, to discuss the outcomes and synergies, delivered in more detail. This will give everybody a really good sense of the TeePublic performance.

I did want to briefly mention a couple of other financial items that we are considering at this time. We're reviewing the deferred tax asset balance of $13.9 million, which sits on the Group's balance sheet. Redbubble has significant unbooked losses of approximately $30 million, all of which will need to be taken up before those on the balance sheet could be utilised. I am taking a conservative view, and expect that we will be writing these off. This will also make our treatment of tax losses over time consistent.

As we look ahead, to the longer-term potential of the Group, we believe that it is significantly undervalued, compared to the likes of Etsy. This has become even more profound with a spate of recent listings in the US such as Revolve, Farfetch, The RealReal and Fiverr. These are online marketplaces and e-commerce players which command significant multiples compared to the Redbubble Group.

One of the ways we will address this gap is we plan to launch an ADR program and we will provide details in that in due course.

If we go to our economies of scale, FY19 demonstrated the powerful economies of scale that are emerging. We are generating notable operating leverage, even at the current size. We have continued to increase our effective take rates sustainably over the year.

For operating expenses, our operating expenses as a percentage of Marketplace Revenue are declining, as previous management investments in automation pay off - and the cost base is optimised.

It is important to note that most of our OpEx growth in FY19 came from the addition of TeePublic. Redbubble's operating expenses only grew by 12% in FY2019, and our 48% gross profit growth is outpacing our growth of 34% in OpEx (including paid acquisition) during the year.

In the fourth quarter this was even more pronounced with a 49% growth in gross profit, compared with only a 19% growth in our expense basis - which shows that management is also continuing to exercise cash discipline.

As I mentioned earlier, we have a positive operating cashflow of $5.5 million in FY19. Both Redbubble and TeePublic are operating cashflow positive for the year. We will continue to grow with a prudent and disciplined mindset.

Moving onto the operational metrics for FY19. The most important thing to state about these sets of data is that all metrics for all three sides of the marketplace remain very healthy.

We have a growing content library and many more selling artists, which is ensuring more enriching content on the platform and contributing to a substantive competitive moat.

We also have our iOS apps helping propel mobile growth. This shows no sign of slowing and will be further assisted by the launch of the Android app currently under development.

Pleasingly, we had strong growth in repeat sales of 36% in FY19, and this is now contributing 40% to the Group's revenues. This is a direct result of our strategy around engagement, loyalty and our strengthening brand.

Our membership base is growing strongly, with 5.7 million active members in FY19. In addition to that the revenue per active member continues to grow.

We have high NPS scores. This shows that customers are really loving their experiences across both brands. Generally any NPS score of 50 or above is considered to be excellent. It's important once again to note that this was achieved even as we improved our gross profit margins during the period.

Our marketing spend is being utilised efficiently and was 10.5% of our Marketplace Revenue. This percentage remains well below many of our peers.

I reference this metric because assessing marketing spend as a percentage of Marketplace Revenue provides a more holistic view across all of our channels, as the network of consumer touch-points become increasingly interwoven and intricate.

We continue to manage marketing spend prudently, while still maximising growth opportunities. This is demonstrated by the fact that our marketing spend was only 9.7% of our revenue in the fourth quarter.

As Barry mentioned at the start of the presentation, Redbubble's brand is starting to become more mainstream. We are shifting a lot of our paid mix towards lower cost brand associated channels. Our overall efficiency within our paid channels remains stable.

TeePublic continues to generate profitable paid search growth with exceptional results in Google Shopping as that channel starts to scale.

As I currently see it, we have a clear line of sight to sustained growth on TeePublic and a return to healthy growth rates on Redbubble. Our current economics demonstrate that this growth can be achieved profitably.

Due to historical quarterly movements we are no longer providing specific short-term financial guidance as the Group continues to be focused on the multi-year delivery of our broader ambition. Barry will now discuss this in more detail. Thank you.

Barry Newstead: Thanks Emma. Redbubble and TeePublic are still in our early years. We see a revolution in retail commerce that will open up a large market opportunity. Our vision is to connect authentic artists and content partners with millions of loyal customers, enabling personalised adventures in creativity.

This revolution is powered by three forces that have been building in retail commerce. Firstly, the gig economy that has brought hundreds of thousands of artists to Redbubble and TeePublic to monetise their artistic content with no financial risk or operational hassle.

Second, on demand technologies that allow us to leverage our huge long-tail content library to make and deliver personalised quality affordable products at the same standard as traditional retailers.

Finally, global consumers who want more personal retail experience that enables self-expression, rather than mass-market sameness.

We are a much bigger market play than most people appreciate. The marketplace model extends into a wide array of consumer product markets. We can access these markets as we scale up, build our brands, and consumers realise that they don't need to compromise on personalisation quality, speed and affordability.

We deliver a great experience that is differentiated, and is becoming more so.

We are uniquely positioned to win as we are a flywheel business that is hard to replicate. Our strategy aims to solidify our advantage.

First, we are the artist and content leader that is a magnet for authentic artists. The 24 million strong back catalogue of art is evergreen, generating long running value at a tiny cost to maintain.

Artists continue to join and upload at really no cost of acquisition. The Group is the most attractive play for "no-hassle" monetisation.

In the near-term the offering for artists will only get more attractive as we roll out new services including promotional tools, art theft prevention, and value-added marketing offers for high potential artists to better manage their businesses.

For content partners, Redbubble and TeePublic present a new way to engage fans and evolve the merch business in partnership with artists. We are working with them to create a truly scalable way to manage thousands of brands, and ultimately licence and market millions of content units on a global level. This will extend our content advantage.

Second, we have a diverse product catalogue that multiplies the value of an artwork. This is what makes new products so attractive in the marketplace as we instantly create a massive personalised catalogue for each product we launch.

We will launch many more products in the coming years on both platforms to build category leadership.

Our supply advantage is solidified by the fulfilment and operational capabilities we have built over a decade. Our third-party network can make and delivery any of over 90 products to a North American or European customer in three to five business days with standard shipping.

As Emma shared, our supply economics continue to improve as the business reaches scale. The supply side is our essential moat. We are a business with exceptional and diverse content. Going forward we have the ability to professionally turn this content into hundreds of monetisable products via a global supply chain that delivers a truly great customer experience.

This brings us to the customer side of our strategy. For customers, content is king, and Redbubble and TeePublic continue to have the best content. The business is deepening relationships with customers to enrich the experience.

Customers are flocking to Redbubble's iOS app, and are signing up as members at rapid rates. This allows us to provide these customers with more deeply personalised experiences, with improved recommendations, personalised service, enhanced merchandising, human connections to artists, and of course an Android app, which is coming soon.

We will extend TeePublic into new markets and progressively build out the member experience that is proving so valuable on Redbubble.

Fourth and finally, Redbubble and TeePublic continue to generate a lot of inbound organic traffic - organic and social traffic which keeps our marketing costs low. The Group has well-established paid search capabilities which provide for profitable growth.

What is emerging now is a powerful shift towards brand and content-based marketing partnerships that are enabling new sources of growth. We have the potential to take our brands to scale by partnering with people who love our content, our artists, our customers, our partners and influencers. This is starting to happen now.

In Q4 theme-based influencer campaigns such as Pride and Asteroid Day featured unique content and helped extend the Redbubble brand to new audiences.

Fan Art is widening our reach as artists, partners, affiliates and influencers share this amazing licensed content with huge audiences for brands like Rick & Morty, Star Trek and Billions.   Our referral programs and brand ambassadorships help loyal customers extend the brands by rewarding word of mouth.

Finally, we are seeing organic growth of the brands into youth-focused social media, especially Snapchat and TikTok, allowing for new avenues of low-cost acquisition. Out of nowhere Redbubble-tagged videos on TikTok have been viewed over 4.4 million times as of yesterday.

As we look forward there is an opportunity to really scale up the brands and new customer acquisition at low cost. As customer LTV grows from membership and app penetration this will create additional marketing avenues.

Our business is a flywheel so our moat gets stronger as each strategic initiative reinforces the system. Competitors face a daunting investment challenge to try and reach a similar scale.

Beyond the current growth priorities, we see an opportunity to take on wider retail and wholesale business areas, as listed on the Slide 10.

Redbubble and TeePublic have a long and profitable growth investment runway ahead of us. We are building for this opportunity.

Let me conclude with the summary on Slide 11, which you may or may not be able to see given the performance of the webcast. This summarises the formidable business that we are - and the fact that we have all of the advantages that some of the best marketplace on earth have. We have a team that knows what it takes to win.

Now that we have reached the profitability goal, our next milestone is to go to $1 billion in sales. This is very much within our grasp.

Thank you, and we'll now open the floor to questions.

Operator: Thank you. 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 star-two. If you are on a speakerphone please pick up the handset to ask your question.

You first question comes from Grace Fulton, Goldman Sachs. Please go ahead.

Grace Fulton: (Goldman Sachs, Analyst) Good morning guys, thank you for taking my question. I'd just like to cover off on the algorithm impact first. So if possible, could you please let us know what the paid and unpaid Marketplace Revenue growth rates were for Redbubble and TeePublic in the fourth quarter? Was organic search negative for either marketplace in the quarter?

Barry Newstead: So obviously we've had conversations previously about the performance of the organic search area. I think the summary point is that the position is very much stabilised. We haven't really seen much increase to this point year-on-year. Noting that the comps from last year remain really very tough. So I think that that's the sort of first point on that.

As it relates to the paid and unpaid splits, I'm not going to try to hide behind it, but we've adjusted how we look at this over the last period of time. That's not because we've begun to hide. But actually as Emma alluded to, the business is becoming increasingly interwoven. As we went through the second half of the year what we started to see happening was as the brand was getting strong we saw customers were touching multiple channels as they came through their experiences first and foremost.

Then secondly, we made some adjustments to our attribution model which are really important to ensure that we're spending really effectively. So we do have what's called "last click" paid and unpaid splits, which for FY19 were 68% unpaid and 32% paid. As compared to FY18 which was 72% versus 28%.

But I think that the simplicity of looking at the business just from an organic search growth or paid search growth, I think that's no longer really all that illuminating - because of the strength in other channels. And in particular in recent times the strength in the direct channel and the strength in branded paid search, which have really come on and actually kind of muddied the waters in that sort of traditional view.

Emma Clark: So Grace, I'm aware that the numbers that Barry just quoted for you will be potentially on a different basis than we've talked about then in prior calls. So they're on a last click basis, which we do have over a more historical period and don't take into consideration internal changes we make in our attribution model.

You can see from the numbers he quoted there we've basically got a 4% swing from unpaid to paid. So, not incredibly dramatic by any sense.

Barry Newstead: I also think what's important, Emma talked about this, is that we're really, like a lot of other marketplaces, I think what's most critical is are we able to acquire customers at reasonably low cost. Again, as Emma said, we are able to acquire customers at lower cost than a lot of our marketplace peers, and then are we turning them into loyal customers. I think that's the second point. As you see in the numbers, the performance of members and app users are really critical drivers in that.

Again, that also muddied the waters in that old transactional view because a lot of those users are coming back through different channels than we would have seen 12, 18, 24 months ago.

Emma Clark: This came back to the fact that I quoted marketing costs as a per cent of Marketplace Revenue and I'm going to continue to do that because I think that's actually the appropriate way because customers have multiple touchpoints to assess our overall level of marketing spend to make sure that we continue to profitably grow.

Grace Fulton: (Goldman Sachs, Analyst) Okay. Thanks. Next question. Just a long-term milestone you've quoted of $1 billion in sales. Can you just clarify whether that is Gross Transaction Value or Marketplace Revenue; and can you narrow down the timeframe that you're looking that over?

Barry Newstead: No, on the second part of the question. And I think in general, we're really setting it as an aspirational target. We're going to get there first on Gross Transaction Value, so that's the first metric that we want to look at. Clearly, we view it as a milestone. We feel like we have a long road beyond that as well, but I think we wanted to give an indication of the continued confidence we have in the potential of this business.

Emma Clark: Yes, and a scale that we think we can achieve.

Grace Fulton: (Goldman Sachs, Analyst) Yes. Okay. Also, in the slides you refer to a number of potential growth options. Included are non-organic acquisitions, retail opportunities, Asia expansion. Could you please just dive a bit more detail on each of them and just the potential CapEx and OpEx investment that you'll need to achieve them?

Barry Newstead: Yes. I think the latter part, I think it's premature to talk to CapEx and OpEx. I think really the point here is to say that we've laid out a strategy on page 9, which are the four things we're focused on within the existing marketplaces and what we'll explore is, and certainly with artist services - it's actually a million artists on our platforms and there are real opportunities for us to think about how we provide them with additional services. Obviously, it's to help them sell more in our marketplace, also to make it easier for them to create quality content. So, I think that there's opportunities there, some of which will be readily monetisable.

Wholesale on demand is really starting to think about the fact that there actually are people currently using our marketplaces for wholesale. So, they are going on and selling Redbubble and TeePublic content whether in physical retail or in other online places. We've started to explore, actually more than explore; we've tried to create for them the ability to do things like bulk order, do test prints and so on and so forth so we have the opportunity to open up a wholesale business. I think that's an opportunity that's organic. Over time, as we see that develop, the main thing that we want to think about there is what the fulfillment model is to support wholesale. So, I think that's the second one.

Asia expansion - I think's reasonably self-explanatory and we continue to see that in the 3 to 5-year time horizon.

Selective white labelling - there is some interesting opportunities with certain artists and also with some Fan Art partners to take our content into environments that may be branded differently, in which we may run e-commerce stores for those parties leveraging the content, the Redbubble content as well as the fulfillment capabilities.

Retail footprint - is reasonably self-explanatory. We are in very early days of thinking about how might the core capabilities. Again, with this incredible content we have, how might that allow us to actually expand into a wider retail footprint. We get incredible data on what is popular. What is not just popular short term, but actually what has an evergreen lifestyle - and we think that that will allow us to conceivably use our model in an offline retail environment.

Then finally, disciplined inorganic pursuits is really just that. TeePublic is obviously a great example of what a high quality acquisition can do to accelerate a business's growth and the synergy potential that comes from that. So, I think obviously as we go forward, if there are opportunities of that nature we will look at them closely.

Grace Fulton: (Goldman Sachs, Analyst) Just on the gross margin, so the 36.8% for the year is a good solid outcome, just interested in your thoughts on sustainability or any further opportunities from here. Also, just looking at the fourth quarter, that's often been a seasonally stronger quarter, so is the strength this quarter is still seasonal or was there anything to pull forward into FY20?

Emma Clark: I have strong confidence that those gross margins will continue to power along. In fact, in FY19 there were lots of optimisation initiatives that were undertaken in the fulfillment part of our business which only actually were included for a couple of months of FY19 and we'll get the full benefit of those through FY20. So, I would definitely consider that our margins will continue to remain strong based on our current trajectory.

Barry Newstead: Yes, and I'll just say, going back in time, when we were sitting on 31%, 32% margins, people were saying, this looks like a cap on your margins. I think that as we've said all along, as the business scales, it has the ability to improve its margins and so we don't see that stopping. We have less than 1% of the market that we have available to us, so I think over time we continue to see the opportunity to grow.

Grace Fulton: (Goldman Sachs, Analyst) Okay. Thank you.

Operator: Your next question comes from Owen Humphries, Canaccord Genuity. Please go ahead.

Owen Humphries: (Canaccord Genuity Group Inc, Analyst) G'day guys, and well done on the results, particularly the positive operating leverage that came through. Just thought I'd just touch on that first up one you mentioned early in the call around that authentic artist growth, 39% of the core Redbubble business. I noticed that that compares to call it 11% revenue growth for the year. So, it looks like the non-authentic part was a major drag on your revenue growth in the past 12 months. Can you maybe just provide a bit more colour. How long will that drag last for? Obviously, if that 24% or 25% of the non-authentic revenue wasn't there, your business would be powering along. So, just maybe talk a bit about how you're looking at that strategy?

Barry Newstead: I think it's a very important number, as I said, and I think it's also important because it's very much part of our strategy in the medium to long-term. As I said, it's also part of what we've been trying to do to mitigate risk on the platform. Currently the cycle is a 12-month cycle, so the question is at what point that cycles through. I'm not going to get too micro on it but I think we're going to find ourselves moving beyond that - reducing revenue from "inauthentic artists". I think it's a bit more of a hodgepodge of things in that last category. Certainly, as we look 12, 24, 36 months out, if not sooner.

Already about 75% of what is sold is from authentic artists - and we've also got the emergence of the licenced part, which still is not a significant amount, but as we get to Christmas and into 2020 we'll start to be a real contributor.

Owen Humphries: (Canaccord Genuity Group Inc, Analyst) I guess following on from Grace's questions, the incremental gross profit margin in that last quarter seemed super-strong, like in the 50 percentile. When do you expect this to normalise going forward? I know you touched on that you expect it to power along at 38%. It looks like you guys can power through to mid-40s. Is that something that is achievable mid-term?

Emma Clark: I probably wouldn't go quite that high. I think it will continue to power along and as I said, I think we will get some benefits from the full 12 months of the current initiatives in the pipeline, but mid-40s might be just a tad high, Owen.

Owen Humphries: (Canaccord Genuity Group Inc, Analyst) Fine. Just on synergies. Obviously, part of the acquisition, there was going to be some synergy benefits and we've clearly seen that in some of your line items. Is there more to come? Have you done the hard yards in the integration of the acquisition or is there still more to come across all lines of the business?

Barry Newstead: I think a good monitor - we're what, 8 months in, 9 months in now – is that we've been able to capture quite a lot of fulfilment in margin benefits. Clearly, the scale of the business, particular in the US will give us the continued opportunities to grow a bigger base. The next set of opportunities are really going to start to be about how do we cross-pollinate, particularly content. I think that's a real opportunity. We've started to onboard top artists across the platforms so that that just allows us to broaden the footprint of that really high quality content. I think that's just beginning.

The other thing that's just beginning is to really leverage the content partnerships across both platforms. So, I feel like those are progressively getting harder, but we're not down to small mini-mite opportunities. I think there's still some pretty meaty opportunities ahead.

Emma Clark: Part of the reason that we want to come back next quarter and talk about it, is that we are currently going through the exercise to really strip out those synergies - isolating them from just general other factors that have contributed to good growth, so that was can come back and actually say definitively, this is what we have managed to get out of the acquisition and what we still think we have to come.

Owen Humphries: (Canaccord Genuity Group Inc, Analyst) Gotcha. Okay. Just below the line, that other expenses line seemed to pick up during that period. Can you maybe go in - there's three line items in there that you're talking about with currency, with share based payments and acquisition costs, but it just seemed like it's perked up in that last quarter. Can you maybe just break down what those other expenses are?

Emma Clark: Mainly share based payments is the difference between FY18 and FY19. We've revamped our equity compensation plans for all of our employees at Redbubble and so that's the impact of those flowing through.

Owen Humphries: (Canaccord Genuity Group Inc, Analyst) Gotcha. Okay. Good one. I'll step back in the queue and well done on stabilising and growing the business.

Barry Newstead: Thanks Owen.

Operator: Your next question comes from Tim Piper, Royal Bank of Canada. Please go ahead.

Tim Piper: (Royal Bank of Canada, Analyst) Morning team. Congrats on the result. Just two questions. On the geographic split of sales, just looking at FY19, it looks like Americas has been particularly strong and that's probably a function of the TeePublic acquisition as well. Just looking at regions like the EU and the UK, the implied growth rates there, can you just provide a bit more detail around what you've been seeing because they were growing very strongly through FY18?

Barry Newstead: Yes. I think the UK has been a bit of a challenging market since Brexit, probably like everybody else. The challenge in the EU or the slower growth in the EU is really related back to the organic search. That was a bigger part of the growth in that area and so the softness in the organic search has slowed the EU down more than say, some of the other markets.

Tim Piper: (Royal Bank of Canada, Analyst) Okay. Sure. Then, just secondly on new product launches. You noted there was five in, I think, the fourth quarter. I'm just recalling calendar year 19, I think, excuse me if I'm wrong, but something like 8 to 10 or plus that over calendar year 19. So, are we expecting through first-half 2020 another 5 plus product launches?

Barry Newstead: In that range, yes. We've already put two out in this quarter. So, Yes, in that range.

Tim Piper: (Royal Bank of Canada, Analyst) Okay. Great. Then, sorry, just one more, to follow up on the gross margin questions. Just looking at the split between the Redbubble platform and TeePublic. Just given TeePublic generates higher gross margin, can you provide more detail about what the gross profit margin looks like just for the Redbubble business itself?

Emma Clark: The Redbubble business still had really strong gross margin growth. It was in the mid-20s, stand alone. So, I agree with you, TeePublic does generate slightly higher margins but Redbubble's margins were still growing and at quite a good rate.

Barry Newstead: We wouldn't have been able to deliver the number we had unless Redbubble performed pretty darn strong down the P&L - and the combination of the two. So, I think that would be our summary comment of the performance of Redbubble.

Tim Piper: (Royal Bank of Canada, Analyst) Okay. Thanks. Thanks for taking the questions.

Operator: Your next question comes from Ivor Ries, Morgans Financial, please go ahead.

Ivor Ries: (Morgans Financial, Analyst) Yes, good morning, Barry and Emma. A few questions, if I may. Just in terms of looking at that last quarter there, the artists' revenue, the share of total revenue that the artists were taking fell quite noticeably. I just wondered if there were any particular factors why the artists' share fell?

Barry Newstead: I think it's a little bit because TeePublic has a slightly higher take, so artists on TeePublic make a little bit less than artists on Redbubble do.

Emma Clark: And the TeePublic growth rate is at 46%, they're disproportionately contributing a little bit more to that.

Ivor Ries: (Morgans Financial, Analyst) Do you think that's going to continue? i.e. that lower artist take rate on TeePublic?

Barry Newstead: Yes, I think given we're not intending to make any short-term changes to the way in which TeePublic pays artists, then you would expect that to continue.

Ivor Ries: (Morgans Financial, Analyst) Right, okay. Just in terms of your paid, obviously you were successful in reducing your average cost of your paid customer in that period. I just wondered if you could give us a little bit of the colour about how you did that?

Barry Newstead: Yes, happy to. I think as we alluded to in the conversation, particularly in this last quarter the Redbubble brand has been getting really a lot stronger. So that's allowed a few things to happen. One is we're seeing more traffic coming in through lower cost channels. Particularly people clicking on Redbubble branded ads, which we have to pay for, of course, thanks to Google. But that's a lower cost channel than them going through Google Shopping as a way in. So that's a real source of growth. The other one is once we changed that attribution model, which I referred to earlier when Grace asked, we actually found more customers flowing through the direct channel. So what happens sometimes when you do display marketing and paid social marketing is you end up serving an ad to a customer that would come to you anyway. What we did is we backed off of that by changing the way in which we attribute revenue to those channels. That actually allowed the direct channel to come through in a really strong way. I think we had some really, really strong growth in the direct channels. So those two channels in particular were the core strength.

The channel that we backed off the most on was actually Facebook and Instagram paid social. That was for two reasons. One is we started attributing less revenue to that. The other is we were just finding it too expensive in the short term and so we decided we could make more money by backing off of those channels. On the other hand, we're starting to find things like Snapchat are actually a really good way for us to acquire customers and it's a heck of a lot cheaper to advertise on Snapchat right now than it is on Instagram. In fact, I think it's that recent report, the analysts' commentary was that they have a lot of inventory available and not as many advertisers. Well, I'm quite happy to be on the advertisers' side of that equation. Then, finally, as I mentioned, this out of the blue thing called TikTok is really started to generate a lot more organic traffic, as is our strategies around connecting with influencers and leveraging word of mouth through our customers. All those things combined to lower the advertising in the last quarter.

Emma Clark: Yes, I think last quarter was what we would consider to be a good optimisation of our marketing spend.

Barry Newstead: And look, I think I've talked about it in the last couple of quarters, we're not a one-trick pony focused on Google only. We really want to build a diversified business. I think what we've done in the last six months is really optimise these other channels and, in particular, got some real value behind the brand, which I think is critical long term.

Ivor Ries: (Morgans Financial, Analyst) Yes. If I might just keep going. Your OpEx trajectory for the year ahead, would you expect OpEx to grow not quite as fast as the revenue line?

Emma Clark: Absolutely.

Ivor Ries: (Morgans Financial, Analyst) Yes, okay. Moving on, cash burn. Obviously, you've had positive cash this year. To achieve your billion-dollar revenue goal, do you need to burn cash or do you think the business will be self-sustaining from a cashflow point of view from now on?

Barry Newstead: I mean our goal continues to be to get ourselves to a self-sustaining position. I think clearly some of the investment opportunities we've talked about earlier could conceivably warrant capital. But I think that the goal at core business is to cross over into that cashflow positive position and have resources available to fund our growth. But I think we shouldn't play the next five years out on this call.

Ivor Ries: (Morgans Financial, Analyst) Yes. Look, my math may be a little wonky here. But in terms of just trying to work out what your underlying growth rate was, if I just do some backward maths on a full year of both businesses as if you owned both Redbubble and TeePublic for a full 12 months, it looks like the Group's underlying total growth revenue growth rate was about 18% or 19%. Yet, of course, your last quarter was probably a bit stronger than that. I'm just wondering whether you think that 18%, 19% marked a low point in terms of your revenue trajectory and whether you think you might be able to do better than that on a like-for-like basis in the current year?

Emma Clark: I feel like, as I said when I was speaking to the presentation, the comparables for the next three months are challenging. I feel like after that, so from about October onwards, we'll start to return to more healthy growth rates.

Ivor Ries: (Morgans Financial, Analyst) Yes, great, fantastic, that's very useful.

Barry Newstead: Thanks, Ivor.

Operator: Your next question comes from John Lewis, Osmium Partners, please go ahead.

John Lewis: (Osmium Partners, Analyst) Hey, guys. Hey, Barry. Welcome aboard, Emma.

Emma Clark: Thank you.

John Lewis: (Osmium Partners, Analyst) Well, Barry, it's been one year, I think you've been vindicated on the attractive acquisition of TeePublic and building out a very strong team, so a tip of the hat on that front. I guess I'm just wondering around - what was your direct marketing spend for 2019 fiscal year?

Barry Newstead: Just a second, we'll grab the number.

John Lewis: (Osmium Partners, Analyst) Was it like low $20 millions?

Barry Newstead: It was - go ahead.

Emma Clark: $27.1 million.

John Lewis: (Osmium Partners, Analyst) You guys are almost generating 12 to 13 times your direct marketing spend to revenue, and I think it's really important that you guys unpack how few businesses get that kind of multiplier. I think in our conversations it's helpful to unpack that Redbubble, by my estimation, pays artists and fulfilment partners almost $70 million a year in operating income. And I think there's a tremendous amount of value when you add the royalties and what fulfilment partners make on the platform, it's truly astounding. So I think that Redbubble has an exceptionally high moat, which really requires adding back royalties to that direct marketing spend, because artists actually promote their work which drives traffic to the site. I think you guys have done a wonderful job building an extremely valuable business that hasn't been monetised. So I guess a couple of questions would be, first, Barry, I guess could you elaborate anything more on the partnership front? Then on the second part of that question, what you think you could be able to do with the seven new products you've launched in the last 90 days or so? Because as you said, you have 24 million designs, and when you release them onto the platform, new products are profitable.

Barry Newstead: Yes. So I think the partnership model works - I feel like we're in the first quarter for that - a year ago we were still trying to get our first major deal. We had a couple of deals before, so I shouldn't make any comment about those prior deals, but we really had no licenced content for sale. So the trajectory is incredibly strong.

It's incredibly strong, one, because we're starting to really generate more deals and there are hundreds, actually probably thousands, of brands now, even in the existing deals that we have available to us, that we're going to be able to launch around that. That's going to convert into a huge amount of licensed content. Of course we're a content business so that's going to be great content, and if you go look at some of the content around these things it is truly fantastic content.

The other advantage of that is it allows us to hitch our wagon to some pretty massive brands which have incredible reach, and have an incredible reach in the exact consumer markets that we're after. So I think there's a double benefit there. One the core content itself which is highly saleable and our early statistics on the saleability of that content are incredibly reaffirming. That content sells at a higher rate than other quality content on the site.

Then the other is that we can start to leverage that in marketing and really build true partnerships. That's what why we call it partnering with these brands, because we think we can help them build the relationships with their fans, and also think about the merged businesses in this new world.

So I think it's a really big opportunity. I think products similarly - as I've talked about before, we did a lot of work to get our platform in good shape. We'll put a lot of products out in the coming years. We've never launched a product that is not profitable and so they accumulate value in an annuity fashion. They also draw more artists to the content so they have a flywheel benefit, in that when you launch more products new artists determine that now Redbubble is worth being on because we sell the kind of products that the artists want to create for.

John Lewis: (Osmium Partners, Analyst) Okay, I appreciate that. I guess just really quickly before I move on to the next question, is it fair to add the artist's royalties and that if you're paying artists 15%, 20% of gross sales around 60 million bucks a year, is it fair to add that to direct marketing to say look all these artists link back on Twitter or Facebook, whatever else they're on, to drive traffic because they're getting 20% of sales, so your really true adjusted reach for a new entrant would require $70 million to reach the audience you're reaching?

Barry Newstead: So that's one way to do it. I think the other way to think about it, which is that's in effect the cost of acquiring the content. Now of course we don't pay for that content until it sells so it's quite nice. So unlike Netflix - is dropping hundreds of millions of dollars for content. Whereas we're only paying for the content once it's sold.

But I think it's more like that and I think if you're a new entrant I would think about the cumulative expense, if you will, to acquire 24 million units of content, and in a sense that is our expense. Obviously, as I said, we don't pay for that in advance but that's a good way to put a value on the content library - is to say what are the content creators actually taking out of the content library. I think that's worth saying.

Having said that, what you said is absolutely true - that artists have a built-in incentive to market their own work - and by extension market the Redbubble and TeePublic marketplaces

John Lewis: (Osmium Partners, Analyst) Okay, last comment and then a question. Since May $100 billion worth of two-sided marketplaces have become public mainly driven by Uber and Lyft, but more recently Fiverr, FVRR, as you mentioned, The RealReal, REAL, and even Kornit, KRNT, the hardware manufacturer for print-on-demand, has exceeded seven times sales, Etsy is at 10 and half times sales. The RealReal with a $2 billion market cap is at seven times sales with minus 30% EBITDA margins and Fiverr had seven times sales with 20% margin.

Redbubble's a massive outlier at 70% of sales at 2.5 times gross profit. So I'm very happy to hear that you're getting a US ADR. Can you give us more colour on where you're going on that front? Thanks.

Barry Newstead: Not sure we can give you much more colour, other than obviously it's a statement that we're going to make it happen and our team is going to get the paperwork set up and get it into position. I think we do see that the markets are valuing very similar businesses very differently - very similar businesses to us. Some of which are burning a lot of cash. Maybe with higher growth rates but burning a lot of cash with it.

So I think we see ourselves as pretty comparable to those. We're still probably a little bit smaller but as comparable, and part of the ADR and also part of our investor outreach is to really tell that story and as quickly as possible narrow that valuation cap. We're going -

John Lewis: (Osmium Partners, Analyst) Thanks - you're actually bigger than The RealReal. The RealReal, REAL, did $215 million in that revenue and they have a $2.2 billion valuation. They just became public. Look it's crazy and I hope you guys get a US ADR and thank you. Thanks, that all I have.

Barry Newstead: Thanks John.

Emma Clark: We're on it, John.

Barry Newstead: Good evening.

Operator: Your next question comes from Weimin Xie, MX Capital. Please go ahead.

Weimin Xie: (MX Capital, Analyst) Oh hi guys, a very good result. Two questions. The first one - what portion of your Redbubble GTV or revenue in the fourth quarter will be from the partnership program? The second question is: historically you give us some sense about operating expenses growth versus the revenue growth. Just going forward, I hear you are talking about margin expenses and so on. What kind of OpEx growth rate relative to revenue growth rate should we think about going forward?

Barry Newstead: Yes. So I think we've answered the second question. I think the way we answered that I think when Owen asked us, we do expect that revenue and gross profit will grow faster that OpEx, but I think that's the extent to which we'll specify on that.

As it relates to the partnerships, it's still a negligible part of our revenue – but it'll come on quickly. How quickly is probably to be determined. I think we should just be watching it every six to 12 months, but given we have obviously no licence content a year ago and we have 350,000 content units already, I think we're off to a good start.

As I said earlier, there are a number of brands - more than a number - dozens and dozens of brands that we aim to launch. For example, Star Track just went live on TeePublic just before the end of the quarter. Star Track on its own is a huge brand but we have many others that are of similar weight.

Emma Clark: It's negligible but it's a hockey stick when you look at it on a graph so we expect that to continue.

Weimin Xie: (MX Capital, Analyst) Just a follow-up question. The number of selling artists for the fourth quarter is it 359,000 because I looked at the third quarter and it's only 226,000, so this is a big jump or did I get the number wrong?

Barry Newstead: Compared to the first quarter last year?

Weimin Xie: (MX Capital, Analyst) No, compared to the third quarter, because historically there's different variation, but the fourth quarter I believe in general is not that big, but this time it's very big. I'm trying to work out why.

Barry Newstead: That's the full year. 369,000 selling artists in the full year.

Weimin Xie: (MX Capital, Analyst) Oh for the full year. What would be the number of fourth quarter do you know?

Emma Clark: I do have it. Hang on I'm just getting it for you. So selling artists grew 34% in the fourth quarter.

Weimin Xie: (MX Capital, Analyst) From a year ago?

Emma Clark: Yes.

Operator: There are no further questions at this time. I will now hand back to Mr Newstead for closing remarks.

Barry Newstead: First of all, thanks for taking the time to join the call. As I said, it's an important milestone we achieved this past financial year - and onward to a billion dollars. So we look forward to catching up with all of you again in October.

End of Transcript