



## **3Q FY2020 Business Update**

### **Conference call transcript - 28 April 2020**

#### **Start of Transcript**

Operator: Thank you for standing by and welcome to the Redbubble Limited Investor and Analyst Conference Call Q3 FY2020 Results. 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 here in Australia and good afternoon to our US investors. I am Paul Gordon, Company Secretary, Redbubble Group. Welcome to this investor call in relation to Redbubble Group's third quarter FY2020 business update.

With me on the line I have Redbubble Group's interim CEO Martin Hosking and CFO Emma Clark. The key information for today's update is in the ASX Announcement and supporting slides released to the market this morning. Please note that the financial information in the released documents and in the upcoming call are from internal management reports and have not been subject to audit.

Martin and Emma will now speak and then we will open up the floor for questions. This session is also being recorded. Now, before we start, I would like to call your attention to the safe harbour statement regarding forward looking information in our ASX release. That safe harbour statement also applies to this investor call.

Now I will pass onto Martin.

Martin Hosking: Thank you Paul. Hello again everyone. I hope you are all staying healthy and well. Across all four offices our employees have continued to work from home and we thank each of them for their dedication and commitment during this time. I also want to thank our artists and the incredible talent and creativity that they are sharing. They are making a meaningful contribution to our society during this challenging period of human history. Thanks also to our many partners in licensing, fulfilment and shipping who are going above and beyond.

I am pleased to say that the Group's business operations and supply chain continues to operate normally. This is a testament to the robustness of the supply model and the diversification benefits flowing from localisation. We are watching the external situation closely and contingencies have been reinforced to ensure continuity of supply.

Amidst the uncertainties of COVID-19 I am pleased that we were able to deliver topline growth for the Group of 25% year to date. The third quarter started strongly and then we saw the impact of the Coronavirus on consumer sentiment. Towards the end of March sales were rebounding at Redbubble and TeePublic along with much of online retail. The net of all of this was a good result of 20% topline growth in the third quarter.

We have seen the external positive trends continue into the month of April. Both marketplaces have shown strength as consumers have moved more online. RB Group employees have demonstrated that they can work effectively from home and deliver against important strategic and tactical priorities.

The Group's generally low price point and differentiated offering is proving to be attractive to consumers. This is so during the COVID-19 crisis and also positions us well for the likely recession. Emma will discuss the trading performance in more depth and will also talk about the initiatives that we undertook within the business to ensure we are responding to current consumer behaviour and capturing opportunities.

While we are relatively well positioned for the immediate situation, it's also important we continue to invest to emerge strongly. In particular we are adapting learnings from TeePublic to Redbubble. We are seeing impacts in a range of areas including user acquisition and SEO. Learnings in paid marketing are also being shared across the Group, with both marketplaces experiencing improved marketing efficiency. Redbubble's strong presence in Europe and supply chain optimisation is being leveraged by both marketplaces.

The business is recommitting to the artists as the prime instigators in the marketplace. Both marketplaces have always recognised the centrality of the artists to creating value and we are now moving towards making this a shared Group activity.

This involves leveraging the expertise and systems found in TeePublic, as well as proprietary technology built in Redbubble, in particular the IP Protect tool. We want to ensure as a Group that we identify the artists who are creating legitimate and sellable content and serving them with relentless determination. This orientation is expected to drive immediate returns and long-term impact. It is foundational to good consumer marketing, searching optimisation and brand building.

For the next few months, establishing solid systems for artist acquisition, retention and activation will be a key priority. In addition, the Group will be progressing work in user acquisition and improving the customer experience. All these activities have an impact on short term growth and position us well in a recessionary environment and beyond. We of course also need to resource activities with medium and longer term impact as they are critical to maintaining and extending our global leadership.

The RB Group will expand the product range which delivers both immediate and longer term benefits. We will continue to grow our content partnerships and licensed fan art segment. This is increasingly a Group activity with strong longer term potential.

In addition, our work to improve customer loyalty and develop solid brand propositions is underway. This activity is a strong counterpart to our work on transactional customer improvements. A good first experience is the foundation for good second and later experiences. In certain segments, e.g. US college campuses, Redbubble has a good customer brand proposition. We are committed to finding more such segments and building brand loyalty for both marketplaces.

Finally, I would like to welcome Ben Heap as a new independent non-executive director to the Redbubble Board. Ben is an experienced professional director with a portfolio of roles including at The Star Entertainment Group and Colonial First State Investments. He brings to Redbubble extensive experience in a range of sectors including retail, technology, asset management and venture capital. We are pleased to have such a high calibre appointment to the Board.

Now, over to Emma.

Emma Clark: Thank you Martin and good morning or afternoon to everyone. Whilst the external environment continues to shift and evolve Redbubble Group has demonstrated robustness in a very volatile situation. As we highlighted in our last business update, up until the emergence of COVID-19 in mid-March Redbubble Group's third quarter had been strong with topline growth trending around 25%, noting that in the third quarter TeePublic was fully included in both the current and prior period numbers for the first time when measuring year on year growth rate.

From the second week of March, and coinciding with the spread of COVID-19, globally we began to see changes in demand driven by immediate consumer reactions. This negatively impacted our growth rate for a couple of weeks before we saw a rebound in sales along with general online retail activity. The combination of these factors resulted in a third quarter topline growth rate of 20%. This is a good result and we are proud that the Group continues to deliver growth in the current environment.

We have also maintained overall financial discipline with gross margins strengthening to 38.5% for the quarter as a result of reduced promotional activity combined with continuing efficiencies within our fulfilment network. Paid marketing sat at the higher end of our range at 12.6% which was part of our deliberate strategy to swing Redbubble dollars away from promotions and into paid marketing. This is expected to trend lower in the coming quarter.

Operating expenses grew at 29% which is a high headline number but is somewhat impacted by the weakened Australian dollar as constant currency OpEx growth was only 21% in the third quarter. The remaining growth is largely related to TeePublic in line with our previous statements around the need to continue to invest in their high growing marketplace.

As Martin mentioned earlier, the positive trends that emerged near the end of March have continued. In April the Group has seen significantly stronger sales growth, however it's too early within the quarter to give a number which can be relied upon for an indicative trend, particularly given the volatility of current circumstances. The Group also continues to enjoy currency tailwinds. We have also recently seen improvements in the efficiency of our paid marketing spend as our competitors withdraw from some online advertising channels.

In light of these recent sales trends we have deferred the move to a four day week for Redbubble employees. All other previously announced cost control measures have taken effect in the coming quarter and will reduce the current operating expense base by approximately \$2 million on an annualised basis.

Over the past month the business is demonstrating that it can respond swiftly to emerging trends in consumer activity and online shopping to capture sales. We have undertaken co-promotions with fulfillers to drive win-win outcomes for the marketplace as well as supported artists who were no longer able to sell on competitor sites as Merch by Amazon and TeeSpring closed or minimised their US operations. In addition face masks have been launched on the TeePublic marketplace today and will be available on the Redbubble marketplace within the next week.

The Group's recent sales uplift is most prominent in product categories such as wall art and home décor. From a geographical perspective we are seeing strong performance from the US, Canada, Australia and also in the United Kingdom. We will continue to closely watch how this situation is changing in our core geographies and monitor any changes to overall consumer demand.

Given ongoing uncertainty around COVID-19 it is worth reiterating that the Group will not be providing forward looking guidance. We remain confident that we have a solid financial position. There are a number of levers that the business can utilise to respond to changes in macro conditions and there is sufficient balance sheet strength to meet ongoing business needs. The business remains focused on both short-term execution consistency and delivery on long-term growth investments.

Whilst isolation and lockdown measures remain in place across many parts of the globe, the Group expects to continue benefiting from consumer reliance on online platforms and the uniqueness of our differentiated offering. However we do recognise that the situation is fluid and evolving, and ultimately unpredictable so there may be further variability in business performance. Thus far the Redbubble Group has been responding to and managing the situation in an agile and pragmatic way. We are cautiously optimistic about our position within the current set of circumstances.

Thank you, and we will now open up the line for 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.

Your first question comes from Grace Fulton with Goldman Sachs. Please go ahead.

Grace Fulton: (Goldman Sachs, Analyst) Hi guys, thank you for taking my question. First I was just hoping to dig a bit further into your comments on April so far. So I appreciate your comment that it's still quite early in the quarter. Just what you've said, that you've continued to benefit from increased online activity with stronger sales growth. So that stronger sales growth comment, is that relative to the third quarter as whole or relative to where you exited the third quarter? Is it consistent across both marketplaces?

Emma Clark: Thanks Grace. So we're not giving an April growth number, as I said. In terms of the exit rate, as we had said both today and also in the last business update, we saw sales start to rebound in the last week of March. We have seen that continue into April and through April to date. So that is the rate at which sales are currently growing, which is in excess of both the year to date growth rates and the third quarter growth rate.

Martin Hosking: I think also you asked about both marketplaces. Yes, we are seeing it across both marketplaces.

Grace Fulton: (Goldman Sachs, Analyst) Okay, thank you. Just in terms of the third quarter, can you give what the *marketplace revenue* was for Redbubble and TeePublic separately and what the constant currency growth rates were?

Emma Clark: We have decided, as we've once again, as we've said previously, we're going to be producing consolidated results going forward rather than giving by brand marketplace breakdowns. We gave the by brand marketplace breakdowns for the first year to make sure that the market understood what we had purchased and what it was doing. That being said, we're managing it much more as a consolidated entity now. So we think providing consolidated growth rates is more appropriate.

What I will say is that the growth rates of both brands as they exited Q2 in terms of the impacts that the quarter had on both brands, so impacts were consistent to both brands. So there hasn't been a divergence in the performance of them.

Grace Fulton: (Goldman Sachs, Analyst) Okay, and just could you maybe go into a bit more detail on the supply chain? When I was looking at the two websites earlier in the week I thought there were some comments about some shipment delays in the US and some of the fulfillers being impacted by state '*stay-in place*'-ordinances. Could you maybe just comment on that within sort of gross margin pressure or from some fulfillers not being able to operate for a period of time?

Emma Clark: Yes, sure. I think the supply chain, the level of management and oversight that we've had to do with that through the quarter, and right even through to today, has been as you can imagine quite extreme. We're very, very proud of how well it's held up. There have been periods of time within March where '*shelter-in-place*' meant that a particular fulfillment location maybe had to close down for a couple of days, but then was back up and running.

Most of them were able to continue running under the *essential provision of goods* provisions within those shelter in place orders in various locations. So at all times through the quarter we had no more than one fulfillment location out of 32 down at any point in time. So we were pretty much almost 100% up and running the entire quarter.

Regarding the delays that you reference - we are seeing in some of our geographies that there are some shipping delays. We are making sure that with our customers, when they purchase on our site, the expected delivery dates that we're putting on site are reflective of those changes, which are occurring daily. So that the customer expectation continues to be matched with the actual experience that they get. We have found that that has not impacted in any adverse way the volume of our sales.

Martin Hosking: Yes, and clearly the localisation of supply means that in general those shipping delays are as minimal as can be. Because we're not shipping much between continents or between countries. There are some product lines which we do ship internationally, in which case there will be longer delays. But in general the local fulfillment is helping to moderate that impact of that.

Grace Fulton: (Goldman Sachs, Analyst) Okay. Just sort of in terms of the partner program, just wondering given the current disruption how the pipeline is looking for that. Are you still able to engage in discussions with those right holders at the moment? Or is everyone sort of holding steady for the moment and it will be a little bit later where those discussions resume?

Martin Hosking: Yes, I think you've captured that fairly well. Conversations and negotiations which had started prior are continuing. But there is a slowing down of the rate of engagement with the partners. It doesn't have a material impact on the forecast revenue from that because it wasn't, in the immediate period, a material part of our revenue stream anyway. So we are seeing material gains in sales in a number of other really important initiatives. So yes, it has slowed but it's not a material impact.

Grace Fulton: (Goldman Sachs, Analyst) Okay, thanks, I'll jump back in the queue.

Operator: Thank you. Your next question comes from Ivor Ries with Morgans Financial Limited. Please go ahead.

Ivor Ries: (Morgans Financial Limited, Analyst) Good morning, just three questions if I may. First I wonder if you could share with us the *average order value* for the quarter? Second question is if you could share with us the mix between paid and organic as a share of the revenue? Also if you could share with us what the app contribution to growth was in the quarter?

Emma Clark: Sorry, I was on mute. So yes, in terms of paid/unpaid for the Third Quarter, noting that this is on a last clip basis. We've had previous conversations about attribution models. Unpaid was 62%, paid was 38%. That's across the entire Group.

The app continues to roll along and grow. We're quite happy with how the app is going. We're effectively finding - it's obviously the amount of traffic that it represents on a daily basis does move around a little bit. But it is continuing to grow in line with the rate of growth that it had over the last couple of quarters.

Average order value continues to grow as well. Though some of that, on a floating basis some of that is obviously being impacted by the detail in there. I'm just trying to actually find the number on my sheet.

Martin Hosking: While we're doing that, as a Group because TeePublic doesn't have an app when we talk about the app contribution it will as we start reporting numbers through to the Group we'll see that is less over time because TeePublic doesn't have an app.

Ivor Ries: (Morgans Financial Limited, Analyst) Yes. Am I correct in saying that you would have had some contribution this period from having an Android app? Is that right, you rolled out the Android app in this period?

Emma Clark: It was rolled out in the prior period and - yes. So our average order value, Ivor, just giving you that last piece of data, is currently tracking around the \$44 mark.

Ivor Ries: (Morgans Financial Limited, Analyst) Fantastic, that's great. Thank you.

Operator: Thank you. Your next question comes from Owen Humphries with Canaccord. Please go ahead.

Owen Humphries: (Canaccord, Analyst) G'day guys and thanks for taking my question. Just given the amount of people that have been stood down can you just talk through the engagement you've seen from your artists? Are you seeing a pick-up in the amount of art or content on your website? I know it's a very short time period, but I'm just thinking about how your content aspirates through this period?

Martin Hosking: Yes, I think the answer is absolutely, Owen, we are seeing highly engaged artists. I think just to give you a little bit more flavour to the comment and when I was talking about strategy, our work with the artists is to make sure that a lot of that learnings which have come in via TeePublic about developing a more sales-related relationship with the artists. Actually having them into a sales and marketing platform is seen as critical to engagement with the artists, but also to help them to sell more.

So TeePublic had developed very strong systems there - and we're elevating those to leverage them across the Group. One measure of the engagement of the artists is in relation to face masks. TeePublic launched, face masks today, as Emma mentioned. We're launching them later in the week. In the case of Redbubble we had a new template for the face masks. TeePublic did it slightly differently. But we'd had, within the first few days of launching that new template, over 20,000 artists created art for that template.

Going forward we want to differentiate between more clearly for you the artists which really matter and contribute. Because it's a relatively small number of the total artists group which make the most contribution. Our work is around identifying those people earlier in the pipeline. We will be reporting more numbers on those artists who make the most material contributions rather than the total group of artists and total group of content. So I can defer answering the specific question on the number of artists this quarter, but we will be providing more detail on that at the end of the year and FY21 half yearly results.

Emma Clark: Yes, I would simply just add to that, Owen, that the amount of selling artists is still growing very strongly. So we are definitely not seeing any negative impact of the current situation on artists uploading and selling.

We also more recently, and won't necessarily appear till the current coming quarter numbers, but as I mentioned with Merch by Amazon withdrawing from the US and Teespring minimising some of its US operations. We've proactively reached out to those artist communities who aren't on-board with us already as an acquisition strategy to bring them on-board and be able to support them through these times.

Owen Humphries: (Canaccord, Analyst) Okay, good one. The last question is just around the cost base, but above and below the line excluding marketing. So you've deferred the implementation of the move of employees to four day weeks, which must mean that growth is strong and you guys have flagged that. But maybe are we expecting that number to either normalise here - obviously you said \$2 million annualised cost reductions coming through but are we in a hiring freeze now? Are we flatline growth? You know, are we expecting that number to be zero growth for the next six, 12 months instead of negative?

Emma Clark: Well obviously - like it's an incredibly volatile situation so I certainly wouldn't want to commit to the next 6 or 12 months because we really don't quite know exactly what that's going to look like, Owen. But what I would say is all the other previously announced cost measures did include hiring freezes and they're all currently in place.

So we, at the moment, would be holding our expense base as largely flat and we would have the benefit of the \$2million in savings off the current cost base annualised which will kick in in the coming quarter because we actioned them all effectively from April.

Martin Hosking: Yes, Owen, and the strategy which we're announcing, and while it sounded like it was a lot in it, it actually had a lot more focus than previously and it's really about leveraging between the two marketplaces. So we are expecting, as a consequence of that, to be able to hold operating costs quite steady.

Owen Humphries: (Canaccord, Analyst) Good one, and thanks guys.



Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Tim Piper with RBC. Please go ahead.

Tim Piper: (RBC, Analyst) Morning team. I just had a question on the marketing. Sorry if I missed any comments around this but just over the past month or so in the month of April, just around marketing efficiency. I've sort of heard some companies talking about lesser Google AdWords competition and things like that. How has that sort of skewed your paid versus unpaid traffic and what has it done to your marketing efficiency levels through the month of April?

Emma Clark: Yes, so I did mention that in part of my speaking notes. So, for the quarter - for the third quarter, it was 12.6% which is higher than what we would normally do, as we swung more into paid marketing, particularly when Coronavirus was first starting to appear. That being said, we are seeing increased marketing efficiency. So from the last week of March, we saw a lot of things shift in our business and one of them was that marketing efficiency started to improve. And we are seeing less competitions for online auctions. We're seeing both strength in organic and in paid. So we're seeing it across both areas of our business. But you know, once again, it's a big 'but' around current trends holding for the quarter. But at the moment, we are definitely seeing that we're very efficient and we're spending less to get a better outcome.

Tim Piper: (RBC, Analyst) Okay, sure, got it. And just secondly around your gross profit margin pre acquisition costs, that's a nice move higher. You talked about less promo activity and scale. Can you talk through the difference between those two factors in that uplift? How much is that being driven by your scale benefit versus the slight shift away to marketing compared to promo?

Emma Clark: It's probably more weighted towards promo. So I would say lack of promo activity is the number one reason for the shift upwards. And we're still getting the tail wind of our localisation strategy and our diversified fulfillment network and our ever increasing volume. That's obviously the second factor. But I would say it's probably - it would be roughly, a two third, one third split - in favour of promotional activity.

Tim Piper: (RBC, Analyst) Okay, great. Thanks for that.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone. I will now hand back to Mr Hosking for closing remarks.

Martin Hosking: thank you everyone. I look forward to speaking to you at the end of the financial year and please keep well and keep safe.

Operator: Thank you. That does conclude our conference for today. Thank you for participating. You may now disconnect.

**End of Transcript**