CONFERENCE CALL TRANSCRIPT

APPENDIX 4C REPORT, FULL YEAR UPDATE

REDBUBBLE CONTINUES TO DELIVER ROBUST GROWTH IN REVENUE, GPAPA AND MARKETPLACE METRICS

24 July 2018

Start of Transcript

Paul Gordon: Good morning all, this is Paul Gordon, Company Secretary for Redbubble. Welcome to this teleconference for our fourth quarter results for financial year 2018. With me, I have Redbubble's CEO, Martin Hosking; CFO, Chris Nunn; and COO and CEO Designate, Barry Newstead. We released our fourth 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.

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

Martin Hosking: Thank you, Paul. This is my final investor call as Redbubble's CEO. Firstly, I want to thank all Redbubble investors for your support, commitment and understanding of the Company. It has genuinely been a pleasure to engage with you over the years. I will leave Chris and Barry to provide detailed commentary both on the quarter and the year. It is satisfying to deliver in line with our guidance and reaffirm our guidance for the next year. Clearly the Company is in an exceptionally strong position as we move into financial year 2019, with growth rates above 30%, low customer acquisition costs, solid margins, exceptional mobile performance and healthy marketplace dynamics. Next year will be a watershed year for the Company as we look to deliver operating EBITDA profitability based on demonstrated momentum.

Before handing over to Chris and Barry, I want to briefly reflect on the last eight years since I took over as CEO. What I am most proud of is over all these years, we have pursued with uncompromising passion the mission of the Company, creating the world's largest marketplace for independent artists, bringing more creativity into the world. We have not compromised on it
to achieve financial outcomes and indeed I would say it has enabled these outcomes. We have put the horse before the cart. In this context, the Company’s success over the last eight years is measured by the increase in total artist earnings from $1.4 million up to 2010, to over $116 million now. Surely there would be few other companies that have provided as much support for visual artists and designers.

The success is reflected in other numbers. The number of artists is up to 700,000 from 148,000 in 2010, the gross transaction value last year was $232 million, versus $4.2 million in 2010. This year, mobile represented 55% of all visits and 39% of revenue. Both were negligible in 2010. Delivery time is now down to 3.2 business days, versus seven plus days, if you were lucky, in 2010. We now have 225 staff with offices in Berlin and San Francisco, as well as Melbourne, up from over 12 in 2010. There are 66 products available, versus 17 in 2010 and the net promoter score is now best in class. The share value is up well over 10 times.

I give these numbers not to celebrate the past, but because I see absolutely no reason why the next eight plus years cannot see similar gains. Redbubble remains at the start of its journey. This follows from simple logic. There is no inherent ceiling on what is possible for Redbubble. The market opportunity is essentially unconstrained, the technology and cultural trends are all in our favour and we are in the box seat to take advantage of it. The only thing that stands in our way is our own capabilities, execution and ambition and continuing to seize the opportunity. Few other Australian companies have such vast horizons and this brings me to the fundamental issue of people.

When I look at the Company, I see an organisation with an amazing capacity. At its core, I consider Redbubble a purpose-driven technology company. Technology is at the heart of what we do, but it is to serve a purpose. Our investments in innovative tech solutions, from machine learning to open platforms, are driving enormous gains. Barry will speak more about this, but at the highest level, I do not believe that there are any more innovative companies of our size in Australia and indeed, few in the world. The fact that we have so successfully written the move to mobile, to geographic and product expansion and to social media over the last eight years, all follow from our commitment to innovation.

The net result of these innovations is that Redbubble is an increasingly differentiated and compelling consumer and arts experience in all aspects. Redbubble is becoming a more important destination for more people doing more things, both consumers and artists.
competitive advantage we're opening up with this experience will only get wider as we build more competency across all these dimensions. Looking to the future, it is easy to see Redbubble is a major global brand and regular destination for vast numbers of people, the like of which Australia has not seen before.

I now want to comment on the culture of Redbubble. The thing that stands out is that our people are holding us to the highest standards, they are deeply engaged, they want the Company to be authentic and they want to be part of it. If we are seen to compromise on our mission or our values, we're held to account. For me this is a profoundly good thing. We have a Company that thrives because people want it to. I will continue to be involved in Redbubble as a major shareholders and as a non-executive director. I want to take this opportunity to thank the Board for giving me their support and giving me the honour of serving as CEO. I also want to thank all employees and stakeholders in Redbubble; it has truly been a privilege to have served you.

For all the customers, thank you. I still get a frizzon when I see someone with a product they have acquired from the Redbubble marketplace. Of course I want to thank the artists. You have engaged and provoked me, you have entertained and disturbed me, you have made me think and you have made me feel. Often you have made me laugh. Every day has been a joy to see the creativity which you bring into the world and which you honour all of us at Redbubble by placing in our marketplace.

Now I'll turn over to Chris and Barry. The Company quite literally could not be in better hands. As I said when we announced Barry's appointment, he's the best person to lead the Company and help realise the potential of Redbubble. As you would expect, given how long and effectively we've worked together, the transition to him as CEO has been well received by all stakeholders and is proceeding exceptionally smoothly. Over to you, Chris.

Chris Nunn: Thank you, Martin. Today we have reported fourth quarter and financial year 2018 unaudited results that clearly demonstrate the powerful marketplace dynamics propelling the Redbubble business. Most pleasingly, Redbubble's financial performance for the full year to 30 June delivered results in line with or slightly better than our April guidance across all key levels of the income statement. Redbubble continues to achieve sustained and high levels of top line growth, i.e. GTV and revenue, at rates about 30% on a constant currency basis. We are seeing
improving unit economics, with fourth quarter 2018 gross profit margin of 36.9% and fourth quarter 2018 GPAPA growth of 36.1%.

Our improved FY18 free cash flow outcome versus FY17 demonstrates the increasing sustainability of the business model. Fourth quarter gross transaction value was $52.6 million, up 36.1% against prior corresponding period, that is 34.1% on a constant currency basis. This boosted full year 2018 GTV to a total of $231.3 million and a growth rate of 32.2% compared to FY17 on a constant currency basis. This is in line with our guidance of delivering GTV growth rates with those achieved previously at above 30%. We maintain our belief that this kind of growth rate and I mean at the revenue level, not just GTV, is sustainable for a long period, with no tangible ceiling to our addressable market.

Since launching our new language sites in 2016, European markets have been a strong source of contribution to sales. Sustained growth in these regions through the fourth quarter contributed full year 2018 growth rates of 88% in Germany, 93% in Spain and 63% in France, before the added beneficial effect of a stronger euro. The mobile iOS app has also continued to demonstrate its growing potential to make increasing contributions to GTV, with a 4.3% contribution for the fourth quarter, up from 3.6% in the third quarter and a 4.5% contribution in June. Monthly active users on the app is now about 240,000.

FY18 revenue was $182.8 million, up 29.7%, up 34% on a constant currency basis. Absent a small year-on-year shipping timing difference, it would have been nearer 31% constant currency. Revenue growth over FY18 continues to trend slightly lower relative to GTV due to increasing sales practice from Europe's contribution. That is why we will focus on revenue and not GTV growth going forward.

I would like to briefly digress here as I work down the income statement. I want to reiterate a change to Redbubble's financial statements that I forewarned in April, which will be brought about by the new AASB 15 accounting standard, which has come into effect from 1 July. It results in changes to how we recognise revenue. The artist's margin, which is set by them, but received by us and passed on to them, will now be included in our revenue.
Required restatement of 2018 revenue, when compared with 2019 results, will take it up by $35.9 million, or 19.7% from $182.8 million to $218.7 million. This change will also increase expenses, specifically cost of sales, by the same amount. I should stress again that there is no impact on the business model, cash flows or growth rates. There is also no impact on gross profit, GPAPA, EBITDA, nor ultimately NPAT, although reported gross profit margins will be affected by the grossing up of both the numerator and the denominator in those equations. We will be updating the market as to the exact presentation of this change in the financial statements released with our Appendix 4E on 23 August.

FY18 delivered gross profit of $63.9 million at a margin of 35% in line with guidance. As the business grows and scales, we are benefiting from improving unit economics. We achieved a particularly pronounced boost to gross profit, with an outstanding growth rate of 36.8% in the fourth quarter. This was driven by a healthy GP margin of 36.9%, reflecting continuing benefits of scale and better terms of trade. As negotiated fulfilment discounts take effect, the strong rebound across quarter four underpins our strengthened confidence in future margins.

Moving to the gross profit after paid acquisition line, Redbubble continues to drive improvements in this metric. We saw an increased proportion of traffic coming from unpaid or free sources, with the previous trend to paid reversing in the second half of the year. For the full year, 56.5% of GTV was sourced from unpaid channels, but for the second half, it was above 59% and for the fourth quarter, above 60%. Barry will speak further on how we are achieving continued success in driving unpaid, free traffic to generate sales results.

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. Fourth quarter paid marketing efficiency was approximately 18.5% in FY2018, slightly better than FY2018, with an efficiency of 16.7% delivered for the whole of FY18, which is only slightly higher than the 16.4% in FY17. For the year, that level of paid spend efficiency represents an immediate gross profit return of 1.65 times the investment.

For fourth quarter 2018, total paid acquisition costs as a percentage of total revenue was 9.4%, versus 9.9% in the fourth quarter of last year, reflecting the improving unpaid contribution I just mentioned. Across the whole of FY18, which includes the bigger paid contribution in the first half, total paid acquisition costs were 9.2% of revenue, up from 8.7% last year.
Our business is becoming increasingly sophisticated, balancing pricing and promotions, fulfilment and shipping margins, as well as marketing spend to drive increases in GPAPA dollars. We expect improving gross margins and continued low cost and profitable customer acquisition to result in future GPAPA growth rates aligning more closely with growth in revenue.

Looking to operating expenses, FY2018 grew at 19%, which is in the range of guidance. The run rate implicit in the fourth quarter is inflated by a few factors which we do not expect to be reflected in the first quarter of FY19. We experienced a lower rate of capitalised development costs in the forecast in the fourth quarter, we took up for the first time provisions for insurance deductibles in relation to our two IP claims cases and most importantly, we made investment to generate future OpEx savings, specifically in customer service efficiencies. These items total around $500,000.

Overall, Redbubble demonstrated a commitment to maintaining its FY18 overall operating expenses in line with guidance, but we remain focused on making meaningful investments for growth, while prudently managing to profitability. Fourth quarter 2018 saw higher growth rates in operating expenses, whereas the first quarter of FY18 was particularly subdued. This means that we expect to report high relative year-on-year OpEx growth in the first quarter, however that trend will stabilise through the year such that total FY19 operating expenses are expected to grow at a similar rate to that we are reporting for FY18.

In supporting that, we continue to adopt a disciplined approach to our cash. The closing cash balance at 30 June is $21.3 million, total cash outflows for FY18 were $6.6 million, which compares to the $14.2 million outflows for the previous year. Of this, aggregate operating and investing cash flow, commonly known as free cash flow, was an outflow of $6.9 million in FY18, improving 48%, compared to $13.3 million in FY17, demonstrating the increasing sustainability of the business.

Redbubble moves into FY19 with strong confidence. A significant market opportunity lies ahead and the business expects to sustain robust, revenue growth rates at least in line with FY18 on a constant currency business. With improving unit economics, GPAPA growth rates are also expected to align closely with the rate of revenue growth, ongoing momentum in the business
has Redbubble on track to deliver FY19 operating EBITDA profitability in the range of $2 million to $4 million and near free cash flow outflows not exceeding $2 million.

Thank you, I'll now hand over to Barry.

Barry Newstead: Thanks Chris, hello everyone. I'm excited about the immense opportunity that lies ahead for Redbubble and look forward to leading the business as we continue in our endeavour to create the world's largest marketplace for independent artists, bringing more creativity into the world. Over the past few weeks, we have been progressing smoothly with the CEO transition. I have visited our offices in San Francisco and Berlin, communicated with artists and fulfillers and engaged in conversations with Redbubble shareholders.

The key messages I've heard are: there's a lot of enthusiasm for the revolutionary potential for Redbubble; there's a strong belief in the strength of our marketplace flywheel and the competitive advantage and opportunities for growth it provides; and finally, as Martin alluded to, there is a continued commitment of our people and partners to realising our mission, executing with discipline and building a large-scale business.

Redbubble's business model is only just starting to have a disruptive impact in global retail commerce. We feel we are just starting to realise the potential of our marketplace at scale. We see our market potential expanding as we innovate to provide customers and artists with a superior value proposition that incorporates unique content and enjoyable discovery experience, quality products, timely delivery and affordable prices. As both Chris and Martin alluded to, we see no ceiling in our addressable market at any time in the near future.

The CEO transition notwithstanding, we (and I) remain focused on executing our strategic plan and preparing for back-to-school and then the holidays later this year. Our strategic investments have accelerated the marketplace flywheel to continue to propel Redbubble. As we grow and scale, we are able to deliver differentiated user experiences for artists and customers and achieve enhanced unit economics.
A major theme of our strategy is and will be building relationships. We are a powerful transactional business and this will remain the strength of the Redbubble marketplace. Over the past year, we have been beginning to build platforms that will deepen our relationships with artists and customers. We see relationships as fuel for the flywheel and these provide opportunities for growth in coming months and years.

On the customer side, we have launched the first version of personalised discovery in our newly-created member homepage. This has increased homepage engagement by 4X and has garnered very positive feedback from our members. In addition, as Chris shared, the iOS app continued to scale up, representing 4.5% of sales in June. We have seen that an average app user spends more than the average web user and the app user's first month retention is also stronger than the web user.

We have deployed improvements in email marketing that have been valuable in both driving sales and building our brand story with loyal customers. All of this work is validation for the potential for our customer relationship work. We are full throttle on both the experience and on encouraging users to become members, to open up new value creation opportunities.

On the artist side, we have a very healthy community of artists but we are not complacent because their fresh content is what powers our marketplace. We have deployed a beta version of a dashboard that helps artists with insights that will improve their results on Redbubble. The dashboard helps keep artists engaged and is the first step in our work to deepen our relationships with the RB artist community of 700,000 people.

We are currently conducting research into the needs of the more commercially-minded segment of the artist community with a view towards enhancing our services for them in 2019. Deeper artist relationships will increase quality content on Redbubble which will drive additional sustainable growth.

Our relationships with third-party fulfillers has not been neglected. In fact, we are making good progress on building a more scalable platform to support a much larger array of products and fulfilment partners. In the last quarter, we successfully onboarded the first fulfiller onto our new fulfilment API and we have made progress on the backend systems that support products,
including new ones, on the Redbubble platform. We have more work to do but we are on track and this new platform will provide returns for growth and scalability starting in 2019. It is worth noting that our supply chain and customer support teams are making really good progress in preparing for the 2018 holiday season.

The commercial work to optimise pricing, promotions, volume and fulfilment and shipping margins has been and remains a key lever for GPAPA growth. As Chris mentioned, our fulfilment cost reductions negotiated earlier in the year took full effect in the fourth quarter as you can see in our margins. As we scale, we expect to generate continued improvements and we have additional savings coming into effect this quarter.

Finally, you will see that the business has had strong unpaid growth, complemented by continued efficient paid marketing. This is a product of the work that we do to make it easier for customers to discover content on Redbubble, particularly on mobile devices. It is worth noting again how strong performance on mobile has been. We achieve a 61.9% mobile GTV growth in the fourth quarter. Mobile conversion grew 18.5% year-on-year in FY18. This is a result of our strategic focus on being mobile first for over three years now.

We have improved discovery by investing in our data science team to generate the insights to power search results, personalised recommendation and paid marketing fees. Our work on platform speeds and improvements in navigation have also contributed to the performance. All of this work is what helps drive the strong unpaid growth that we are experiencing.

As you have heard, we delivered robust growth across all aspects of the marketplace in FY2018. I am thrilled by the fact that we have delivered these results while reserving a lot of our growth investments for longer-term projects, including investments in our core platform. What you see in our results today is the fruits of earlier investing of this sort. Looking back three to four years, we committed then to growing via new products and new markets. We shifted the business towards mobile and we invested in search, paid marketing and data science as core capability areas. These are driving the value today.

We are aiming to sustain this level of performance for many years to come by focusing over multiple years on major areas for growth in the marketplace flywheel. New products, new
markets, search, data science, paid marketing, platform speed and mobile are core areas we continue to leverage. Our newer themes of deeper customer relationships, deeper artist relationships, content partnerships and scalable platforms build on this prior work.

We have a lot of great work happening all focused on accelerating the Redbubble marketplace flywheel. I'm confident our strategic direction that invests in sustainable growth and are more confident than ever in our ability to execute effectively on the range of opportunities we have at hand.

I want to reiterate once again our FY19 guidance for sustained revenue growth at or above 30%, operating EBITDA profitability in the range of $2 million to $4 million, consuming less than $2 million in cash.

Before finishing, I just want to take this opportunity to again thank Martin for his contribution to Redbubble as a founder and as our CEO. As his remarks show, Redbubble is a revolutionary company. We are creating a world of opportunity for artists and entrepreneurial fulfills and we are adding a depth of personal meaning and humanity to global commerce. We are leading the emergence of an era of personal commerce powered by consumer demand for the personally relevant, print-on-demand technologies and the sharing economy. Martin has been instrumental in our success and I look forward to working with him for many years to come in our new capacities.

I'm immensely honoured and excited to serve our shareholders, artists, partners and our tremendous team to realise Redbubble’s mission to bring more creativity into the world. I am deeply committed to realising the full potential of our mission and our business.

With that, I will open it up for questions.

Operator: Ladies and gentlemen, if you wish to ask a question, please press star-1 on your telephone and wait for your name to be announced. If you wish to cancel your request, you can press the pound or hash key. Our first question on the line comes from Owen Humphries from Canaccord. Please go ahead.
Owen Humphries: (Canaccord, Analyst) Good day guys and congratulations on the very impressive results, particularly around that unpaid or organic growth, it's accelerating quite nicely. Just a quick question around your new interface with your fulfillers, obviously there's a lot of re-platforming been going on in the business. Can you just chat around what this could mean for margins and geographic expansion and when can we expect most of your 30-odd fulfillers to come onto this new platform, and maybe just outline what the medium-term strategy or the benefits of this re-platforming exercise is?

Barry Newstead: Yes, sure. No, worries, Owen. I hope you're well.

Briefly, this is a project we started at the beginning of the year and the basic - the strategic rationale for doing the platform, which I think will you answer your question, is we see significant, really significant opportunities for us to add more products to the Redbubble marketplace. In addition, we have seen and continue to see the potential of adding additional fulfillers into the marketplace as well. The new products drive top-line growth; the additional fulfillers allow us to serve - to obviously deliver those products and serve customers in a really time-efficient way. In addition to that, the new fulfillers also allow us to create appropriate competitiveness within the marketplace to help us retain strong margins and/or control fulfilment costs. That's the strategic basis on which we make the investments.

Where we are right now is that we're working through a significant first piece of work, which is to create a new fulfilment API which allows new fulfillers and our existing fulfillers to operate on a more standardised and more scalable platform going forward. As I said, we have moved one fulfiller onto that platform, that's a new fulfiller, and through the rest of this year and into next year we will be doing the migration of the existing fulfillers with a view towards enabling new product launches next year as part of that activity, as well as enabling us to continue to bring additional fulfillers onto the platform. That will be happening over the next year to 18 months and then beyond that our expectations will be on a fully new platform which will allow us to more readily bulk launch new products and add fulfillers.

I think your question had geographic expansion in there. This clearly enables - would enable geographic expansion as well because one of the real questions for us as we move beyond our
current markets will be the establishment of fulfilment relationships in the supply chain in those additional markets.

Owen Humphries: (Canaccord, Analyst) Good one. I guess the question on investors' minds, I guess, as you pass through EBITDA, operating EBITDA and cash flow breakeven, you have this ability given numbers are so strong and you're generating IRRs of greater than 70% for your paid channels, how are you - what's the expectations around accelerating your paid marketing to substitute your strong growth in unpaid? Or are you guiding towards operating leverage over the next couple of years or do you think you'll push on the paid channel given the accretive nature of that spend?

Barry Newstead: I think Chris had a comment in his remarks which I'll just reiterate. I think we see we have significant opportunities to - and Martin said this as well and we all said it, I think - we have real opportunities for investment growth in this company and that's an important priority for us is to take advantage of the high IRR, high ROI opportunities ahead of us. I don't want to get any further ahead that we've gone to in our guidance, but I think there's a range of places in which we think there's opportunities to invest in the business to drive future growth.

Owen Humphries: (Canaccord, Analyst) Good one. Exciting times ahead. Thanks, guys.

Operator: Our next question comes from the line of Grace Fulton from Goldman Sachs. Please ask your question.

Grace Fulton: (Goldman Sachs, Analyst) Hi, guys. Thanks for taking my questions. I was just wondering if you could give an update on the content partnerships opportunity, what sort of investment you're expecting in FY19 and when you might be announcing a partner for it?

Barry Newstead: This continues to be an area where we think there's real opportunity for us to build an innovative business going forward. As Chris alluded to in his remarks, I think we really see the significant, strong revenue contributions still being a couple of years out, two to three years out.
As I said in the last couple of calls, the real challenge in entering this space is the long sales cycles and I think we're advancing those sales conversations but probably a little bit more slowly than we would ideally like but not outside of what is reasonable for the kind of organisations that we're talking to, which are very large corporate organisations. I can just say what we've said before is I think as soon as we have partnerships that we think are worthy of announcing to the market, we will do so.

Grace Fulton: (Goldman Sachs, Analyst) All right, thanks. Just one question on paid marketing efficiency, just how your mix between Google and social media is evolving.

Chris Nunn: Yes. It's evolving in a number of ways. I haven't actually got statistics in my head as to the mix between Google and social media but there's no doubt that we're looking increasingly on social media with things which aren't so direct, like using influencers to boost our sales activities. It's a strong area of focus and as Barry said, it's one of a number of areas of focus on growth. I don't think the mix is particularly changing, Google Shopping is still a very significant part of our activity in that space, like social media and tweaking and experimenting with different channels is also an ongoing process that the marketing team is adopting.

Barry Newstead: Yes. Two things actually I'll just - since you asked the questions, two things that are interesting. They're both - you mentioned the social influencer. That's an area of innovation that we're starting to scale up - I wouldn't say scale up, actually. We're doing more work on this US back-to-school and we're excited to see how that progresses. It's not a huge investment overall but it's an area that we have seen some very promising early results.

The other is - this is really hot off the presses but in the last few weeks we've started to - Facebook has enabled us to do some of our Facebook advertising through Facebook Messenger, and again, very small scale but really, really good first results in there and an efficiency we haven't really seen in social previously. So, a couple areas of interesting innovation in the social space which I think will help us continue to augment that area and hopefully also keep the efficiency at levels that allow us to continue to have strong efficiency overall in the paid marketing arena.

Grace Fulton: (Goldman Sachs, Analyst) All right, thank you.
Operator: Just a reminder for those on the phones, it is star-1 to ask a question. Our next question comes from the line of Ivor Ries from Morgans Financial. Please go ahead.

Ivor Ries: (Morgans Financial, Analyst) Good morning, Chris. Good morning, Barry. Just a couple of questions if I can ask. First is on the CapEx spend. Just triangulating between your forecast EBITDA of circa $3 million and only $2 million cash loss, I'm reading that as a big cut in your CapEx or is there something else moving in the cash flow space that explains that gap there? Also, in terms of download speeds, can you just give us a bit of progress on where you are, how complete you are through the download speed improvement process?

Chris Nunn: Yes. Ivor, the missing link to your logic is the working capital cycle at Redbubble, which is still very positive and you saw that reflected in the difference between EBITDA and operating cash flow in our latest 4C. I think that's what you've got to look at. I'll have another conversation with you offline in more detail if necessary but that's the missing link.

Ivor Ries: (Morgans Financial, Analyst) Yes. So, CapEx as a percentage of revenue will remain roughly the same?

Chris Nunn: Well no, probably not in terms of revenue because really, CapEx is a reflection of our overall operating expenses. So, it's a reflection, I wouldn't say it's completely, but as we're talking about growing operating expenses in the same level as we did this year and we're talking about growing revenue at not far short of being double that, you would say no, it wouldn't be growing at the same rate.

Ivor Ries: (Morgans Financial, Analyst) Yes, okay. Just on the download speeds, I know that that's still a work-in-progress. How much further have you got to go on that?

Barry Newstead: Usually what happens is I answer then you tell me what the speed you got on your downloads are. I think the main thing that we've extended towards is the search result pages have now - the work on the search result pages have now been expanded to the other three languages, so that's probably the main progress there in the last quarter. I think we're
going to be working through the next phase which is what we call the product pages. In general, as I think I alluded to, we're definitely feeling that the speed of the site is helping us, helping the unpaid, helping our - and definitely helping the mobile, but I think we still have some additional distance to travel on that. Actually, there's a whole bunch of other things which we do quietly in the background which are improvements that are just ongoing, just to fine-tune our platform and things like serving images and so on and so forth. That's a roundabout answer.

Ivor Ries: (Morgans Financial, Analyst) Fantastic. If I may be so rude as to butt in with one final question on the IP claims. You've mentioned there you've taken up a provision. I'm not exactly sure what you mean by that, whether that's - you've raised a provision against the P&L that has reduced your profit for insurance deductibles for potential IP claims or whether you've drawn down a provision and boosted profit. How should we read that?

Chris Nunn: First of all, not potential IP claims. These are the ones that have been public since the prospectus was issued, Ivor. They're for two claims, Pokémon and Hells Angels. We have always said that the consequence of our financials will be relatively immaterial, and they are. It's just that we - relevant to growth rates on a quarter-by-quarter basis they're sort of relevant but they're not really material. We had a policy in place in relation to the business when the plans were first made, that potentially covered even the cost of the deductible. We thought that was the case. It turns out that there's some doubt about whether in fact the overall policy does cover the deductible costs. So we're looking further into that. But we've taken the provision on the likely chance that we'll have to wear those deductible costs going in the future.

Barry Newstead: It's worth noting - I don't think this - this doesn't reflect at all on our view of the potential outcomes of the case. This is a purely accounting.

Chris Nunn: No, nothing to do with the outcome of the case. It's purely to do with the amount which is the deductible on the main insurance policy. We thought we had another policy that covered even that deductible. It turns out that there's some debate in the wording. It's all about the law and the wording of the contract which says maybe we haven't. So we've taken the prudent but probably advisable decision to provide for it.
Ivor Ries: (Morgans Financial, Analyst) Right, so we're talking about a couple of hundred grand or something like that.

Chris Nunn: In US dollars exactly that.

Ivor Ries: (Morgans Financial, Analyst) Great, fantastic. That's all my questions, thanks.

Operator: Our next question comes from the line of Stella Wang. Please ask your question.

Stella Wang: (Morgan Stanley, Analyst) Good morning guys. How are you?

Chris Nunn: Hi Stella.

Stella Wang: (Morgan Stanley, Analyst) Great. A follow-up - two follow-up questions. One is to the IP claim. Where are we at with the two cases in terms of knowing the final result?

Paul Gordon: Paul Gordon here, company secretary Stella. At the moment we're waiting for the judgement in the Hells Angels proceeding. The hearing was late September last year. We're still waiting for that judgement. We have appealed - publicly appealed the finding in the Pokemon claim. That appeal hearing will be after the Hells Angels judgement.

Stella Wang: (Morgan Stanley, Analyst) Okay, thanks for that. The second follow-up is to Owen's first question in terms of the new platform in place. How would that help launching of new products in the next financial year and future financial year, and how should we expect the margin of those new products compared to your current existing products? Do you have a number of how many new products launching you are thinking of for this coming financial year?

Chris Nunn: The first part of the question Stella was addressed to an earlier question from one of the analysts. So I'm suggesting Barry - we can talk to you offline Stella to do that. But otherwise Barry can address the second part of the question.
Barry Newstead: Yes, so I think we'll have at least two products launched between now and Christmas is the current plan. Then I'm going to hold off on answering about what we'll do in the second half. I want us to - the priority right now is to advance the platform work. The current goal is for the platform work to - to enable us to do - to start launching additional products in the second half of FY19. But I don't want to get too specific on that because I want to - I'll commit to a number on that when we feel like the platform work is done or sufficiently progressed that we are starting to launch those products. I do expect in FY20 that we will - that'll be a much more sensible conversation a year from now certainly.

In terms of margin again it's probably a bit speculative. We've historically - the margins of our products have historically been in similar ranges to each other. We typically - it's typically part of the criteria set for selecting products.

Stella Wang: (Morgan Stanley, Analyst) So should I interpret that it's a bit early to say but obviously you aim at choosing the higher margin products to launch?

Barry Newstead: We - I think it's reasonable to say that - if you're trying to assess the value of future products I think a reasonable starting point is the existing aggregate margin. I think some products may be slightly higher margin, some might be slightly lower margin. But in general we think that we're aiming towards the ability to sustain or over time improve margins. An important criterion by the way is the flywheel potential of products. So it's also us thinking about what's the potential of that to get to significant volume so that over time we could get both the ability to localise into more geographies for that product but also then over time our ability to extract additional margin from those products. So there's also a question of not just at the beginning but actually over time what that potential is.

Stella Wang: (Morgan Stanley, Analyst) Okay, thanks for that. Next question is - you talked about capitalised development costs. That kind of reflects the trend of OpEx. Should I expect the increase in that line about - grow about the same speed as the OpEx, the OpEx excluding paid marketing?
Chris Nunn: Sorry I think I have to answer that question - I didn't actually hear the first part of the question.

Stella Wang: (Morgan Stanley, Analyst) Sorry I'll repeat that. Should we expect the growth of the capitalised development costs in line with the growth of the OpEx excluding paid marketing?

Chris Nunn: Yes I would say that's a good proxy.

Stella Wang: (Morgan Stanley, Analyst) Okay fair enough. Last question. I'm sorry for being a bit cheeky. Last question - so looking at your projection for FY19 should I expect the GPAPA about the same margin as this half year? That's about 26.5%?

Chris Nunn: Well as I said the expectation is for the margin at the GPAPA level to be similar to the margin at the - sorry not the margin - the growth rate in the GPAPA to be similar to the growth rate in revenues. So at this point I would need to see a bit of an up-tick in that from the current number. So I think the current quarter was 27.6% margin GPAPA. We'd expect that to lifting slightly.

Stella Wang: (Morgan Stanley, Analyst) Fantastic. Thank you very much.

Operator: Our next question comes from the line of Robert Bruce from Acorn. Please go ahead.

Robert Bruce: (Acorn Capital Ltd, Analyst) Thanks. Just firstly I'd like to thank Martin for your vision and success in building such a great business. I think you leave it in very capable hands with Barry, Chris and the rest of the crew. So thanks Martin. I had a broad question on that success in unpaid growth. Is there much of that coming from the fact that the IOS app has launched and most of that traffic is coming in as unpaid because there's a lot of repeat business of frequent users on the - repeat business users on the app?
Secondly where obviously unpaid customers grew quite strongly, where do you think that could get to as a percentage of the total going forward if you take your plans going forward for the next year or two or three?

Barry Newstead: I think - first of all I do think on the first part of the question that is a real benefit of the IOS app, that it's a - it largely is - obviously we have to maintain it and develop it - but in terms of - we're largely drawing people from unpaid channels. Then they become our repeating customers. I didn't mention it in my notes but clearly one of the things that we turned on in the last half was push notifications. We've seen really good response rates to the push notifications which is a kind of extension of email into the app world. So I think that is a contributor. We expect that to be a continued contributor and obviously a growing contributor.

To the second part of your question I probably won't give that an answer because I think that there is - right now we're comfortable with the place where we're at. But it's really about the complementarity of two sources of sales, right? The unpaid, the free sources and the paid. I wouldn't forecast which ones are going to be - what the percentage rates are or is going to be because I think the dynamics can change in multiple ways all of which could be positive. I mean it could be positive that we find new ways to market the business and acquire new customers further through pay channels and turn them into loyal customers. That might show a certain outcome for a certain period of time.

What I will say is I think that the continued focus of Redbubble is that portfolio. I'll add what I said in my notes is the real future potential of deeper relationships with customers which I guess comes back to the comment about the app. The real free opportunity if you will is to actually have more and more customers more deeply engaged with Redbubble and coming back to Redbubble on a more regular basis and buying on a more regular basis. That's probably the opportunity that would shift that relationship more significantly.

Chris Nunn: I’d add if I could Barry that I don't really see them being separate channels in a sense. I mean we had - I'm sure the marketing team would tell me that a lot of what they do on the paid marketing is actually helping the unpaid side as well. There's no doubt that's absolutely true. It's the brand element which does not charge to paid marketing. That's having a factor as well. So there's a bunch of things that go on to help the unpaid. That will continue.
Robert Bruce: (Acorn Capital Ltd, Analyst) Okay thanks. Just a couple of quick question for Chris just on the financials. Your forecast of 30% constant currency growth for FY19 what is the main FX rates average for FY18 you’re using, to give us an idea of where we’re sitting versus current rates?

Chris Nunn: Well that's deliberately why I state a constant currency number Rob, because I can't be held accountable, nor can the business really, if the currency goes the wrong way for us. At the moment we're getting a massive tailwind. Currently as we speak I think each of the three major currencies we sell in are about 7% stronger than they were this time last year. We don't look at it that way. It's proving a nice benefit. But it also affects the cost side. So we always quote a constant currency number to answer your question.

Robert Bruce: (Acorn Capital Ltd, Analyst) Yes, that's fine. I do too. It's out of your control. It's just nice to know occasionally. Secondly I think Chris you've always flagged that GP margin would revert back down to lower levels - I think 35% or thereabouts, maybe even slightly more conservative. With that very strong performance in the fourth quarter would you now look to revise that to a slightly higher sustainable number?

Chris Nunn: Well yes. Just to clarify the 35% was really because we had a - we were affected over the Christmas period by some backlog in shipping and also weather events which caused a short term effect on that quarter's GP margin. Therefore the fourth quarter only took our full year number to 35%. I think our fourth quarter is more representative of our ongoing ability to deliver a margin than the full year result for FY18. I think that answers your question.

Robert Bruce: (Acorn Capital Ltd, Analyst) Yes, okay. Well great. Thank a lot. I think you’re well positioned so thanks a lot.

Chris Nunn: Thanks Robert.

Robert Bruce: (Acorn Capital Ltd, Analyst) Cheers.
Operator: Just a reminder it is star one to ask a question. There are no further questions on the line at this time.

Barry Newstead: Great. Well thank you everybody. Thank you Martin, once again. We will - our next release will be on 23 August, 2018. Have a good rest of the day.

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

End of Transcript