

## Research Flash

### Redbubble: Guidance lifted after solid March quarter

- Online art marketplace Redbubble has lifted its FY17 guidance range after posting a solid result in the March quarter, with transaction volumes in the quarter up 36.4%.
- While there were both positives and negatives in the March quarter, overall the outcomes at the revenue and EBITDA level were better than we had expected. The main positive was that RBL has returned to higher levels of growth in customer numbers and transaction volumes after the unexpected slowing in growth rates in the second half of 2016.
- In the March quarter RBL reported 25.7% YOY growth in transaction values, an increase of 35.3% in constant currency terms. On a constant currency basis GTV growth was about 6 percentage points higher than the December quarter, suggesting that the company is returning to former underlying top-line growth of around 35%.
- Strong growth in European markets - especially Germany, France and Spain which have local-language sites that were not operating in the prior corresponding period - was one contributor to the rebound in growth rates. Importantly most of the net increase in traffic was organic (not from paid sources), a crucial factor in future operating leverage. Management said that the growth in traffic was driven by a "multitude of factors", including investment in an improved mobile customer experience.
- Management noted that currencies, which have been a huge drag on performance over the past 12 months, have begun to stabilise or gradually shift in RBL's favour. Over the past 12 months currency has been a net 9% drag on revenues in A\$ terms. Currency stabilisation would enable the company to return to former top-line growth rates sooner.
- Management has largely re-iterated guidance metrics for FY17 although there is a slight improvement in the expected EBITDA outcome. The company now expects the EBITDA loss before one-off items to fall in a range between A\$5m and A\$8m (previously the range was from A\$6m to A\$9m). Based on performance in the year to date, the Q4 EBITDA loss is expected to be very minor. With costs growing at roughly half the rate of revenues, we expect RBL to be solidly cash flow positive in FY18.
- Investment View: RBL operates a fast-growing global marketplace in art inspired consumer goods. In our view the global market potential for its merchandise is many times the current volume of sales and therefore the potential for value creation is significant. The company has yet to reach cash-flow break even and is thus High Risk. However successful implementation of the current strategy would deliver substantial returns commensurate with this risk. As the stock trades well below our valuation and price target, we maintain an ADD recommendation.

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