



INVESTOR BRIEFING TRANSCRIPT

Q1 FY19 RESULTS & TEEPUBLIC ACQUISITION

2 November 2018

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Louise Lambeth: Good morning everyone, this is Louise Lambeth, Head of Investor Relations for Redbubble. Welcome to the investor update relating to our first quarter results for financial year 2019 and the TeePublic acquisition. Both were recently announced to the market on 24 October. With me I have Redbubble CEO, Barry Newstead and CFO, Chris Nunn. Barry and Chris will present before we open up the lines for questions. This presentation and subsequent Q&A session are both being recorded. Before we start, I would like to call your attention to the safe harbour statement regarding forward-looking information contained in the related ASX releases. That safe harbour statement also applies to this call and Q&A session.

Now, over to you, Barry.

Barry Newstead: Good morning or good afternoon, depending on where you are. Welcome to Redbubble's investor update conference call. Our call is a bit delayed this quarter due to the acquisition and capital raising activities last week. As many of you have already seen, we announced our acquisition of TeePublic last week. In doing so, we welcome TeePublic's artists, customers, fulfillers, employees and founders into the Redbubble Group. To enable this acquisition, we successfully completed an institutional placement and institutional portion of an entitlement offer, raising approximately \$52 million. We are grateful for the strong support of both existing and new shareholders, during a period where global markets have been a little bit turbulent.

For eligible retail shareholders, the second part of the entitlement offer is now open and the retail offer booklet has been dispatched. Just as the institutional portion was fully underwritten, the retail component is also fully underwritten. We welcome participation and look forward to embarking on this next chapter with your continued support.

I'd like to take a moment and use the majority of my remarks this morning to focus on Redbubble's vision and in that, share the rationale for the TeePublic acquisition. We are building a unique retail commerce platform that at scale will be highly disruptive across the power, home and lifestyle retailing. The supply side of our platform is the combination of scalable content and fulfilment that provides attractive unit economics. The scalable content comes from firstly a diverse community of artists in Redbubble as a passion project that has the added benefit of income generation. Redbubble and TeePublic host over 800,000 artists and over 18 million images. It is critical to say that this is our core. We are a contents business with an evergreen library that grows organically with negligible investments.



Second, products are the multiplier of the artwork. We host 77 products combined and has the potential to add hundreds more. Third, our scalable content is starting to move towards partnerships with brands that have the potential to revolutionise licensed merch, an industry worth over \$100 billion in the US alone. The future of merch is fan art and Redbubble is the ideal partner for brands to reinvent their licensing businesses to meet changing customer demands. We are thrilled to share that we have soft launched a partnership with Cartoon Network and Turner, with new re-licensed fan art of *Rick and Morty*, live on the Redbubble site right now. This is a really exciting step for our content partners that we've been advancing for over two years now. We have a range of other partner discussions making progress and we'll announce those as they come to fruition.

This scalable content is monetised by our world-leading third party supply chain that enables fast, cost effective fulfilment of a wide range of products in North America, Western Europe and Australia, markets with over one billion people. This network will enable rapid cart launches once the current phase of platform work is complete in 2019. It's really important to say that Redbubble has built critical capabilities that enable this content and fulfilment platform to scale, but we are only emerging as a scalable platform and have real opportunities to continue to invest in the profitable growth at each area above. Content is queen - and we are the content leader. We have a model that helps to monetise this content across very, very large retail sectors.

On the demand side, we remain at the early stages of creating compelling customer brand and value proposition for the mainstream customer. The business to date has been a transactional platform rather than a customer relationship one. We execute on transactions well, from a Google search to a delivered order, our customers rate us highly for this. We have been shifting our focus in recent times as we know that scale comes from highly engaged loyal customers. Our demand side strategy is really simple, create joyful, personal experiences to help every customer find unique content that supports independent artists and enables creative expression, all this delivered at affordable prices with quality service.

We are seeing the green shoots of the potential for personal experiences. Since April, we've been rolling out personal experiences for Redbubble members on the web and our iOS app. The results are excellent but off a small base of our revenue. We have so much further to go in this journey and we know there is much future economic value in our ability to deliver deeper relationships with our customers. Once we've nailed the experience, we'll have the potential to invest in building brands that speak to compelling experience in a manner that connects with key demographic groups. We will also reduce our reliance on third party platforms like Google for customer acquisition and retention.

The connection between supply and demand is powerful when building the scale and economic value of our platform. Marketplaces are all about aggregating volume and over time, the winning platform is the only place to be, for customers, for artists, for fulfillers, for partners. We are focused on this big picture direction. If we continue to add artists, products, fulfillers and content partners to our platform and both expand and deepen the customer side, we will be unassailable in ways that retail commerce platforms like Etsy and Farfetch are becoming in their segments. That is where our focus lies. We are leading and seeing the potential upside scale from our investments in content, supply chain and customer relationships.



The economic value of Redbubble derives from this platform scale. The take rate at our market place is \$0.28 on every gross transaction value dollar. It is worth noting that Etsy's take rate is only \$0.05 on the dollar. As our business scales, we see leverage in our fulfilment and shipping costs, as well as operating leverage in our operating costs, particularly those costs associated with the current revenue generation, that will allow us to grow our profit base and generate positive cash flow.

It is in this frame that the TeePublic acquisition sits. We're acquiring in TeePublic a really well-run marketplace, with very similar characteristics to Redbubble. Fundamentally the acquisition adds scale to the Redbubble Group platform. More artists, more content, more products, more customer reach, a high valued and growing artist community with quality products, overlapping fulfilment and a strong customer base within our largest market, with potential for growth in new markets. TeePublic generated an adjusted FY18 revenue of AU\$35.9 million and gross profit of AU\$14.1 million with an operating EBITDA of AU\$4.6 million. Importantly, the Q1 FY19 sales saw 57% year-on-year revenue growth and operating EBITDA for the business doubling year on year to \$1.4 million in Q1. This business is performing well and it's a pleasure to have it as part of the Redbubble Group.

Importantly, TeePublic has a talented team that has generated strong and profitable growth in the business. Adam Schwartz and his team are serious operators with a long-term commitment to building a strong marketplace, leveraging the Redbubble platform. With the connection to Redbubble scale, TeePublic is positioned to continue to grow and generate strong EBITDA growth. TeePublic is a team of 38 people located mostly in its headquarters in New York and they will continue to operate there with Adam Schwartz running the business, reporting to me. We will take a focused approach to integrating garnering synergy potential, fulfilment operations and procurement in the early stages and then moving on to the potential for platform integration in a selective manner. This is key to sustaining focus within both companies and generating value.

Redbubble has executed definitive agreements to acquire all of the issued shares of TeePublic from the founders. The acquisition involves total cash consideration of \$41 million, or AU\$57.7 million and it's worth noting that we've hedged the FX exposure. We expect to complete the acquisition on Monday and Redbubble will start to consolidate TeePublic's financials actually starting today in the US, 1 November. This is a financially accretive acquisition with positive EBITDA and cash flow, adding immediate value to Redbubble, including this holiday season. We are deeply committed to making this a smooth transition and generating significant additional value in both platforms. Redbubble and TeePublic are at the forefront of what will be a revolution in retail commerce and together we are positioned become the number one platform for artists around the globe.

I'll now hand over to Chris who will speak briefly about the quarterly results before we open up for questions.

Chris Nunn: Thank you Barry. I'm going to look back to the first quarter for Redbubble and it's very pleasing to report another positive quarter to start the 2019 year. Our marketplace is healthy and vibrant. Key first quarter marketplace metrics were: unique customers increased by 31.7% year on year to 1.2 million; selling artists increased by 32.8% year on year, to just under 200,000; visits to the site increased by 28.5% year on year to 73.5 million; mobile represented 57.4% of first quarter visits, 54.6% for the same quarter last year and first quarter



mobile sales grew at 60.7% year on year, with mobile devices delivering 41.7% of gross transaction value GTV. Mobile app sales were up to 5.7% of our GTV from only 2% in the same quarter last year.

Moving on to the financials, the results reported today comply with the new revenue recognition criteria resulting from the implementation of AASB 15, revenue from contracts with customers, which came into effect on 1 July. As such, artists' margins, now described as artists' revenue, are included in total revenue and product and shipping revenue equates to the previously reported revenue. Artists' margin is now also included as costs, negating the impact of the higher total revenue at the gross profit at GPAPA, gross profit after paid acquisition, level.

Top line growth is strong, with Redbubble's results benefiting from a stronger US dollar, euro and British pound against the same period last year. Gross transaction value at \$64.1 million is up 40.5%, that is up 31.2% on a constant currency basis. Product and shipping revenue, the same as our previous revenue, I point out, at \$49.2 million is up 39.6% and 30.3% on a constant currency basis. Total revenue, inclusive of artists' margin, of \$59.6 million is up 40.7%, 31.3% on a constant currency basis.

Redbubble's top line performance was, as usual in this quarter, buoyed by the trading over the back-to-school period in the norther hemisphere, which typically drives strong sales across wall art, homewares and stickers. Stickers remain the standout performer, graded over 71% and contributing 18.9% of product revenue, whilst t-shirts continue to perform well with growth of 33.6% for the quarter. Revenue growth was good across all markets, with the European markets continuing to be strong contributors, France growing at 97% year on year and Germany and Spain over 66%. Their combined contributions to GTV is now over 10%, up from 8% in the same quarter last year.

Further down the P&L, first quarter trends, when measured against the same period last year, remain positive. Redbubble achieved a first quarter gross profit margin of 36.5% when measured against the old revenue line, now referred to as product and shipping revenue. That is a margin of 30.2% when measured against the total revenue line and I apologise to listeners for this confusion; we have to go through this accounting change, so we just want to make sure everyone understands these numbers clearly. Gross profit, in dollar terms, was \$18 million and grew by 42.9%, 33.6% on a constant currency basis, a rate exceeding product and shipping revenue growth, demonstrating strengthening unit economics as we realise the effects of negotiated fulfilment terms. First quarter GPAPA growth of 42.3%, 32.9% on a constant currency basis, is further evidence of strong execution across the business.

Redbubble continues to see the majority of traffic coming from unpaid, that is, free sources, however paid channels remain strongly profitable. The gross profit return on paid marketing this quarter was 1.62 times the investment, compared to 1.59 times for both the previous corresponding period and for fourth quarter last year. A reminder, this is an immediate return calculation, not one as measured over a customer's lifetime value. Redbubble is continuing to invest in acquisition channel opportunities. In this quarter, the social influences program was launched, targeting a new customer base and contributing strong returns at scale and helping to support the efficient paid acquisition program.



Whilst operating expenses of \$13.9 million is up 35.4%, that is 29.1% on a constant currency basis against the same quarter last year and at first glance seems high, it was expected. In my comments on this call in July, I said, I quote: we expect to report high relative year-on-year opex growth in the first quarter of FY19, however the trend will stabilise throughout the year such that total FY19 operating expenses are expected to grow at a rate similar that we are reporting for FY18, unquote. I stand by that statement, subject only to the uncontrollable effects of currency movements. Fourth quarter 2018 included some specified and significant one-off expenses, which is why you see a lower charge this quarter. The rate of growth in operating expenses is expected to moderate as this year progresses, whereas in 2018 they grew significantly in the back half. So we still expect to see operating expenses for the year as a whole to grow at a similar rate to last year, that is, around 19% in line with guidance given in July.

Turning to cash flow, Redbubble delivered positive cash flow of \$900,000 for the quarter with an aggregate of our operating and investing cash flows being an outflow of only \$250,000. I mentioned earlier marketplace first quarter visits to the site increased by 28.5% year-on-year. This growth was slightly softer than other metrics due to a Google algorithm change in August impacting search result rankings and organic search visits across the month of September.

In recent weeks the business has seen some softness in organic search traffic due to Google, as it does regularly, changing its algorithms. Based on its previous experience, Redbubble expects this effect to be short lived as the business takes actions to respond. Redbubble remains confident on its previous guidance.

Before I pass back to Barry, I just want to address a question I have recently been asked by a couple of investors about the changes to the sales tax laws in the US and whether they are having any effect on Redbubble's operations. A reminder that the US represents approximately 60% of our sales. For those less aware, on 23 June this year the Supreme Court ruled in the *Wayfair* case that the physical presence, variously defined, of a business in a US state need not be the only nexus that creates an obligation on a seller or a marketplace in our case to collect and remit sales tax in that state. California, where we have our US office, was our only previous physical presence.

With the *Wayfair* judgement, states are taking advantage of the opportunity to collect sales tax with the creation of a nexus by the residence of the online customer in their state and marketplaces such as Redbubble will in most cases have an obligation to collect and remit in most states on product revenue and in some cases shipping revenues, as they progressively enact their relevant legislation.

Redbubble has now completed the necessary code changes to its systems to collect sales tax in the States as and when their laws come into effect. Some states have been quicker off the mark than others and our gross profit margin this quarter has suffered slightly as we've made the changes to collect the tax in the relevant zip codes. We expect that leakage to margins to largely cease from this month onwards.



To conclude, Redbubble continues to build a business of enduring value, supported by core fundamentals emphasised in previous reports, a healthy and vibrant marketplace, strong top line growth, profitable customer acquisition and emerging operating leverage. Thank you. I'll hand back to Barry.

Barry Newstead: Thanks, Chris. I'll just pretty much reiterate what you just said a moment ago. I think we're at an exciting moment at Redbubble. I think the acquisition of TeePublic and that opportunities that it had for us definitely have a lot of energy in the building and obviously in the new buildings in New York as well. Even with the short-term variability thanks to Google's algorithm changes that we're working through at Redbubble right now, we remain extremely confident about the future potential of our global retail commerce platform. Together, Redbubble and TeePublic are positioned to achieve a scale, market leadership and cash flow strength that will be a disruptive force in retail commerce for years to come.

I'll now open it up for questions.

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. 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, please press the pound or hash key. Once again, ladies and gentlemen, to ask a question it is star-1 and wait for your name to be announced. Thank you.

Our first question is from Owen Humphries from Canaccord. Please ask your question, Owen.

Owen Humphries: (Canaccord, Analyst) Hi, guys. Congratulations on the acquisition and the capital-raising. Just a quick question, just maybe you can highlight some quick wins you could have and synergy benefits from the acquisition of TeePublic and maybe you can outline further plans over the 12 months, and not at the top line but also the bottom line in terms of the synergy benefits?

Barry Newstead: Sure. Thanks, Owen. I think the most immediate benefits we're going to probably put in place as soon as next week, and that is in relation to Christmas coordination, our fulfilment network, ensuring that the capacity that's set aside for Redbubble and TeePublic with those fulfillers, particularly where we're overlapping it's coordinated so we're both able to support the growth through the period.

That then follows into the real priorities at the beginning of 2019 in terms of synergies will be in coordinating our price discussions with our fulfilment partners and generating benefits from that; that will be the earliest one. Then in addition, looking at some aspects of coordination in our paid marketing activities, as well as looking at places where we share procurement or can benefit from the procurement scale on other costs between the two businesses. The near-term things are going to really focus in on those costs, the costs with third parties, and that will be the focus.



As I said in my remarks, as 2019 goes on what we will look at are other places for operational integration. Clearly, we're going to have things like our legal team and finance team coming together early in 2019 and in some cases even before the end of the year and generating benefits from those in the next year. Those will be the major areas. As I said, beyond next year we'll start to look at opportunities to integrate aspects of our platform to generate synergies there as well.

A lot of those synergies will really orient not just towards cost, actually, but significantly towards the artist experience and quite likely, actually more than quite likely, our content partnerships being able to put content across both of the platforms as well as new products, being able to put new products across both of the platforms. We see much more significant upside in generating growth from the platforms coming together than it is about a pure cost play.

Then the final remark as it relates to that is were going to look through next year and into the following year about utilising Redbubble's position in non-English language markets to provide TeePublic with access or deeper access to markets like Germany, France and Spain.

Owen Humphries: (Canaccord, Analyst) Okay, great. Thanks, guys.

Currently there are no further questions at this time. I would like to hand the call back to the speakers for any concluding remarks.

Barry Newstead: Well, that was brief but hopefully we covered the critical elements. I'd just reiterate, I think probably the highlight at the moment is the acquisition of TeePublic and we're really excited to bring the two businesses together and to build on what Owens' question a minute ago – the real potential of these businesses to come together to generate benefits together and to generate additional scale to really achieve the potential of our retail commerce marketplaces, to really transform fundamentally how consumers consume and the access to markets for artists, fulfillers and our content partnerships. So thank you, everybody, for your continued support and for listening in and we hope you have a good rest of Friday and Thursday if you're in the US. Thank you very much.

Operator: Ladies and gentlemen, that does conclude the call. Thank you for participating. You may all disconnect. Goodbye.

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