



FY2021 Half Year Report & Accounts

Conference call transcript – 16 February 2021

Start of Transcript

Operator: Thank you for standing by and welcome to the Redbubble FY21 H1 results announcement. All participants are in a listen only mode. There'll 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 for our US investors. This is Paul Gordon, Company Secretary for Redbubble. Welcome to this investor call following the release of Redbubble's FY21 half year results and reports earlier today. With me on the line I have Redbubble CEO Michael Ilczynski and CFO Emma Clark. As well as the half year results and reports the key information for today's update is contained in the ASX announcement and investor presentation, also released to the market this morning.

Please note that unless stated otherwise the financial results have been subject to audit review. The accompanying strategic and operational metrics are from internal management reports and have not been subject to audit review. Mike and Emma will now speak and then we will open the floor to questions. Please note that this session is being recorded. Now before we start I would like to draw 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 on to Mike.

Michael Ilczynski: Thank you Paul and hello everybody. My name is Michael Ilczynski and I am tremendously excited to be speaking with you today as Redbubble's CEO. I too would like to extend a warm welcome to all of you who have joined us. I would like to thank all of those shareholders that have already reached out to me in a number of ways and I'm sorry that I haven't really been able to respond until now. Importantly I would like to express my thanks to the Board for giving me this opportunity.

2020 was a unique and tragic year for many across the globe and our thoughts are with all of those who have been impacted over this past year. It brought with it a tremendous shift to online activities of which Redbubble was a clear beneficiary. This has resulted in a record half for the Company and this set of results showcases the strength and economics of the business when it is able to operate at this level of scale.

At the Group level Redbubble delivered \$353 million of Marketplace Revenue in the half, up 96% year-on-year and up 105% on a constant currency basis. This growth at the topline translated into strong



financial results further down the P&L with Gross Profit After Paid Acquisition of \$100 million, up 116% year-on-year and an EBIT profit of \$42 million compared to negative \$1.9 million in the first half of FY20. We also had a closing cash balance of \$130 million at 31 December and Emma will go into more details of the financials in a few minutes.

Slide 3. We believe that the investment thesis for Redbubble is clear. The events of last year have brought about a marked acceleration in e-commerce activity. The structural shift to online has been underway for many years and we believe that much of the spike during 2020 will prove to be an enduring part of the retail landscape over time. We also believe the trend of consumers desiring products that are personalised and unique as well as the focus on environmental sustainability will continue to grow in importance with Redbubble being an ongoing beneficiary of each of these structural trends.

We are on our way to realising our ambition of creating the world's largest marketplace for independent artists with rapid scaling enabled by a combination of artist or user generated content combined with make on demand technology. We are in the fortunate position to be the owner of two industry leading marketplaces in Redbubble.com and TeePublic.com. Marketplaces are hard to build and they are even harder to replicate, especially when they are three-sided like ours.

As the marketplace or flywheel effects start to strengthen the value and opportunity inherent in these sorts of marketplaces start to become clearer and I believe that this is the place that we are in now. The business has been building this virtuous cycle for some years now and its power to generate scale economies and financial outcomes has been demonstrated in this latest set of results.

The business has also shown that our model is scalable, diversified and resilient. The benefits of the third party fulfilment network was demonstrated last year with continuity of operations and supply maintained throughout, even in the face of surging demand and record volumes. The flexibility of this third party network also enabled Redbubble to add new product categories, localised production and manage shipping delays that many companies experienced due to this COVID surge during this time.

The scalability of the make-on-demand network meant that this demand was able to be met efficiently and profitably. This means that Redbubble is positioned to really invest for the next phase of growth. We have confidence in the business model, confidence in the opportunity in front of us and confidence that continuing to invest into all aspects of the marketplace will generate strong growth over the medium to long term.

Moving to slide 4. The importance of the flywheel to our business can't be overstated. The strong results of the half were only possible because of the strength of all three elements of the marketplace. For those of you unfamiliar with why this is so important, the flywheel creates a virtuous cycle across the elements. As more artists enter the marketplace they provide more content, attracting more customers. More customers create more order volume and more order volume enables a bigger and better fulfilment network. This in turn brings back more customers and with more customers, more artists join and so it goes, creating a reinforcing growth cycle.



In the first half of this financial year this reached a really significant scale.

In the half:

- there were approximately 572,000 selling artists;
- those selling artists attracted 6.2 million customers;
- those customers bought \$442 million of products in gross transaction value; and
- these products were created at 41 fulfilment locations all over the world.

Over the next few slides we'll talk further to each of these in a little more detail.

Slide 5. In the first half approximately 572,000 artists received \$65 million for their sales across our marketplaces. As an organisation we are really proud to have been able to help facilitate this level of sales for artists across the globe in a time when this income was really important for many individuals. Growth in selling artists is closely tracked to the trajectory of other aspects of the marketplace and this growing cohort of selling artists is both an asset and a defensive moat for the business.

Slide 6. 2020 saw millions of new customers shop online and we believe many of them will continue to shop this way. Redbubble recorded 6.2 million unique customers in the first half of FY21, representing customer growth of 69% versus the previous corresponding period.

Moving to slide 7. During this period repeat purchasers grew 98% year-on-year, which was in line with overall growth rates. The split of revenue from new versus repeat customers has remained at approximately 60/40 with loyalty remaining an area of significant opportunity for the business moving forward.

I've been a customer of Redbubble for a number of years and understand the special nature of our offering and the joy that giving or receiving or purchasing our products can bring. We have a unique opportunity to make the most of the momentum that 2020 gave us and focus on building loyal customers and a global brand.

Slide 8. Our mobile apps are an important part of this long term strategy. As such it was pleasing to see Marketplace Revenue on our apps grow 163% year-on-year in the first half, outpacing the already overall strong growth. 14% of Redbubble's marketplace sales are now coming via the iOS or Android apps and we believe this will be a key part of helping to attract and retain loyal users over the medium to long term.

I'll now hand over to Redbubble Group CFO, Emma Clark.

Emma Clark: Thanks Mike and hello everyone. Redbubble's exposure to major western markets is a key strength of the business and growth continued across all of the core geographies. North America



remains our largest contributor to sales, making up 69% of the total and grew 89% in the first half. The UK was a standout during the first half, growing 105% year-on-year and we also saw continued strength in the ANZ and EU markets.

Our current key markets have a combined population of almost 1 billion consumers, so there is plenty of future growth available. The marketplaces also host a diverse range of physical product offerings. With 117 products across six major product categories, reliance on any given product is diminished. Face masks were unsurprisingly a highlight during the half, boosting accessories growth to 358% year-on-year. Their contribution began to moderate prior to the holiday season and was 7% of total sales for the second quarter.

During holidays customers shifted towards categories that are more amenable to gifting, with extremely large percentage growth, albeit off a small base, for products like jigsaw puzzles and socks. Both artwork and home decor continued to grow in excess of 100% year-on-year and encouragingly t-shirts also saw a boost during the holidays. Redbubble has seen a continuation of record results with almost all key revenue metrics doubling from the prior corresponding period for the half. Before I delve into them, please note that unless otherwise stated the numbers discussed below are on a delivered basis as per our statutory reporting requirements.

Firstly, I will comment specifically on the first half results. As Mike has already mentioned, the business delivered \$353 million of Marketplace Revenue and growth rates of 96% in the first half of this financial year. Customer demand was sustained through the peak holiday season, even as offline retail started to re-emerge from COVID impacted trading. This revenue flowed through to \$144 million in gross profit. The business achieved a 118% growth in gross profit and margins improved from 36.7% in the first half of last year, to 40.8% in this half.

Paid acquisition costs were 12.5% of Marketplace Revenue for the half and we delivered GPAPA of \$100 million at an improved margin of 28.3%, compared to 25.7% in the first half of last financial year. Operating expenses were also managed prudently through the first half and grew at a significantly slower rate than GPAPA, even as the business continued to rapidly scale.

We have also shown the second quarter results on this page and I'd like to make the following comments specific to business performance during the most recent quarter. Revenue growth for the quarter was pleasingly strong at 84%. As most of you are aware, Amazon ran their annual Prime Day promotion in October and we took advantage of this timing, as did most retailers, to kick off our holiday sales season earlier. Customer sales remained strong during November and December.

However, COVID-related disruptions meant that global shipping conditions were challenging, particularly in December. This affected many in the e-commerce space and we, too, saw an impact, as a much higher proportion of our customers selected express rather than standard shipping. This behaviour resulted in lower margins for the month of December. This, along with the reducing proportion of mask sales is the reason that quarter-two margins are lower than in the first quarter.



As we flagged at our last quarterly update, we increased paid acquisition during the holiday season to capture additional customers, whilst ensuring that we kept an eye on overall GPAPA margins to protect profitability. Operating expenses increased by 19% for the quarter. The entirety of this increase was driven by the higher sales volumes. Foreign exchange headwinds have started to materially emerge and thus the strengthening Australian dollar resulted in \$2.2 million of currency losses in the second quarter, which are captured within the Other Expenses line.

Overall, we are proud to have achieved our largest first half EBIT profit of \$42 million. The business model is able to scale rapidly and efficiently and these advantages are clearly seen in both Redbubble's financial profitability and increasing cash balance. Looking forward, the second half has also started well, with Marketplace Revenue paid growth rates of 66%, which is 82% on a constant currency basis, for the month of January. I'll now hand back to Mike to close.

Michael Ilczynski: Thanks, Emma. To conclude, 2020 demonstrated the potential of the Redbubble and TeePublic marketplaces. 2021 presents the chance to build on this and to go after the global opportunity that clearly exists for the Group. To do this, we will continue to focus on the four key themes Martin and Emma outlined last year. We believe a continued and consistent focus on investing in improving the core aspects of the marketplace is the optimal path for the business right now and the best way to generate long-term shareholder value.

As such, we will continue to focus on artist activation and retention at a Group level, user acquisition and transaction optimisation, customer understanding, increasing our customer loyalty and building our brands and adding new physical products and expanding the fulfillment network.

We will now open the lines 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 speaker phone, please pick up your handset to ask your question. Your first question comes from Tim Piper from RBC. Please go ahead.

Timothy Piper: (RBC Capital Markets, Analyst) Morning team. Well done on the update and, Michael, great to have you lead the team at Redbubble. Just a general one to start with on the competitive position, just given your background, Michael, business with the market-leading position and its geography, so how do you view Redbubble's competitive position in the US? You flagged that flywheel effect of growing artists and customers and that's driving strong growth, but is there a level of scale you see the business needing to drive greater repeat customer share? Also, is there a level of scale where some defensiveness in the business model can come through from a competitive point of view?

Michael Ilczynski: Thanks, Tim, really appreciate the comments and the questions. The competitive positioning is an interesting one. In some ways, Redbubble is somewhat unique in our three-sided



marketplace. In other ways the business is exposed and competing against some of the biggest and most sophisticated retailers in the world, if we look more on a product basis, as opposed to a make-on-demand artist services marketplace. So, the competitive positioning for the business is one of the interesting - is one of the interesting questions.

I think what the business experienced in the half, as we talked about, is that that level of scale started to be really demonstrated. There are very positive economic and feedback loops when the business can operate at the scale that it did. I think, rightly though, you highlighted that one of the big opportunities still in front of the business is to really focus on moving these customers that have come to Redbubble for the first time into loyal customers that repeat. Then, as customers repeat, to turn them into customers that purchase more often.

There is still a lot of work to be done in that area. It's why we talked about the need to invest into numerous aspects of business, that's both the digital experience and also the physical product experience. Obviously, the more scale that we have, the more that we can invest into those aspects. More scale allows us to add more fulfillers, more scale gives us more leeway at both the OpEx and a margin perspective for those investments. So, for us, the focus is on investment and then, on topline growth, because we can see the impact that that has on the economics as we start to grow.

Timothy Piper: (RBC Capital Markets, Analyst) Thanks. You started touching on my second question there around investing for growth. In your opinion, what are the priorities for the business, in terms of investment across things like platform marketing, etc? How do you view the incremental value that investment will create? How do you measure that? Is it purely on a gross profit type return, or how do you measure that?

Michael Ilczynski: Look, measuring - I think that's an excellent question. Over the medium to long term, the metrics that we'd want to see is obviously revenue growth and then margin growth and then bottom-line growth, in that order. In terms of the investment though, there are investments that are required into what I call the foundations of the business, whether that's on site, in terms of making sure that our site is scalable, that we continually invest in, as we've highlighted, in our user acquisition, in our transaction optimisation, as we invest in our customer understanding that's working to - into our marketing platforms, into our data capabilities, to make sure that we're capturing data and understanding our customers.

Then, additionally, the working to the new physical products, there's investment required to launch and improve different physical products. So, it's a very broad answer, because we really do see those four key areas all the way from across our artists, across our customers and across the physical product, all of those areas are opportunities for investment that we believe will pay off over time.

Timothy Piper: (RBC Capital Markets, Analyst) Thanks. Just one final one from me, maybe for Emma, just on the cashflow was very strong. I know you get a seasonal strength in the second quarter there. What do think the second half looks like from a cashflow perspective? Typically, it's been negative, but



you're now firmly in positive EBITDA territory. Are you expecting an operating cash outflow in the second half?

Emma Clark: Yes, look, obviously I'm not going to comment specifically on - give future guidance on that. But you're right, Tim, in the sense that we look a lot like a traditional retailer in terms of the profile of our business over a year. So, you would expect to obviously see the largest inflows during that second quarter. Obviously there will be net outflows as always in the third quarter as we settle all of the invoices that we effectively got billed for in the second quarter. So, January is always a month there's a lot of cash goes out the door and that's just part of our normal operating rhythm.

In terms of moving forward, as you point out, we're operating at a significantly larger scale now. So, I think, the dynamics of comparing year-on-year cashflows are still going to be favourable. That being said, I would definitely still re-emphasise that there is that retail pattern. So, obviously the sales will come off seasonally, as they always do and so therefore that will also have an impact on how much cash we can generate in any given quarter.

Timothy Piper: (RBC Capital Markets, Analyst) Thanks. I'll leave it there. Michael, welcome, again, to the Group. Thanks, bye.

Operator: Thank you. Your next question comes from Anthony Porto from Morgans Financial. Please go ahead.

Anthony Porto: (Morgans Financial Limited, Analyst) Hi, guys. I hope you can hear me. Welcome, Michael. Look, just I know you mentioned some of the issues that hurt gross margins in the second quarter, but 500 basis points down on the first quarter, is that - I mean, you generally see about a 200 basis point differential, how much of the other 300 was made up of those two specific areas, versus needing to discount a bit heavier?

Emma Clark: Yes, it's a good...

Michael Ilczynski: Thank you, Anthony, I'll give that one to Emma, yes.

Emma Clark: Yes. It's a good question, Anthony. So, this is why I called out the specific trends that were at play. So, the reason that the margin fell more than it has historically from a seasonal perspective was really that dynamic in December, where we saw a lot more people move to express shipping. Redbubble makes little to no margin on express shipping, because the cost of the service is so high. We saw double the amount of customers swap to that shipping option than what we would see in a normal year, obviously because of the broader COVID issues impacting the global supply chain. I think we all got emails saying, shop early, or miss the opportunity to get it before Christmas.



So, that's been the main driver of the decline. As I've said and I think this is now my sixth call, we consistently want the business to be operating at margins that are around 40%. There's nothing in the most recent quarter's results that would make me change that view, in terms of what the BAU margin should actually be.

Anthony Porto: (Morgans Financial Limited, Analyst) Yes, okay. I guess, I mean, you have mentioned increasing repeat usage, et cetera, is a key driver. I mean, can we get a little bit more tangible what's going to propel that? I guess Michael, coming in, when you look at the search functionality and the general amenity of the site, versus an Etsy, I mean, how far behind do you think you guys are there?

Michael Ilczynski: Thanks Anthony, I'm not going to comment relative to other companies. I think, however, that there are opportunities all the way along the customer experience to improve the experience and that will help generate repeat usage and ongoing loyalty. We've had a team that's been - since that strategy was announced, there's been a team pretty focused on that work and what those different loyalty levers might be, whether that's on site, as you talk, about search and discovery, whether that's about ongoing recommendations to customers when they're on and off platform, right through and not forgetting the actual physical experience that someone has with our products, so with the products that we help our artists sell.

So, when a customer receives a product by an artist on Redbubble, we want them to be surprised and delighted, not just by the design, but also by the quality of that product. That's where there's opportunities all the way along. So, whether it's the on-site experience, whether it's the physical product, whether it's the unboxing and delivery experience, I'm sorry that I'm not giving you specifics and that's because we do believe that there are opportunities all the way along the experience, to continue to invest in the platform, invest in the marketplace and improve it. Each one of those, we believe, will go to driving loyalty.

There's not - there's what there isn't is there definitely isn't one silver bullet, it's just a whole lot of hard work. We think there's plenty of opportunity. This is going to be an ongoing focus for us, for not just six or 12 months, this will be an ongoing focus for a significant period of time.

Anthony Porto: (Morgans Financial Limited, Analyst) Yes, I was going to ask and dovetailing that into, I guess, some of Tim's questions there, how do you think about that investment you're going to make into the need to cycle the start of the pandemic and the uplift you've got there and, I mean, obviously 90% or 100% growth rate? So, how do you think about phasing that investment over the next period, or you're not too worried about short-term results?

Michael Ilczynski: Oh, look, I think what you've seen well with the business, is the business has been pretty prudent in the OpEx over the last six months. That was really clear in the results that were demonstrated. We're of course going to be cognisant of the macro environment and at the same time though we want to invest to build a great business over the medium to long term.



So, yes, there's an opportunity, given the financial position of the business, particularly the cash position, to very strategically, but very carefully do some investments in OpEx. But we're not going to, by any means, blow it out of the water. But there are, where we think there are clear opportunities to do some target investments, whether that's into in particularly focused on internal capabilities, we will do so, but it's not going to be crazy massive step ups. I'm not going to talk to exact amounts but in what - I think what's on us is to demonstrate that those investments are worthwhile and they're the right things to build the business over the medium to long-term.

Anthony Porto: (Morgans Financial Limited, Analyst) Great. Thanks for that Michael. Look forward to catching up in person.

Michael Ilczynski: Thank you.

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 Ash Chandra from Goldman Sachs. Please, go ahead.

Ash Chandra: (Goldman Sachs, Analyst) Good morning, Michael and Emma. Thanks for taking the questions. Just a couple from me. The paid acquisition costs in that second quarter stepped up quite a bit. Is there anything here on timing of these costs that relate to revenues that you'll only be booking after 31 December? I think you've had these timing issues in the past where you haven't been able to get the product delivered.

So I was just wondering if I could ask if one, there's a timing mismatch and two, the underlying trend in paid acquisition costs ticking up. Has that been anything that you think is now a sustainably high cost of acquisition because of increasing competition across e-commerce?

Michael Ilczynski: Yes, I'll give that to Emma. Thanks, Ash.

Emma Clark: Hi, Ash. Good questions. So in terms of the overhang in revenue - and you can see this, for those of you who like to look through our financials in our 4D, we still have a substantial amount on the balance sheet for unrecognised revenue.

In total, it's not all delivery date adjustment but the majority of it is and it's almost \$20 million sitting on the balance sheet. So obviously, that's unrecognised at this point in time. Obviously, as we've discussed previously, if the business keeps on going, that remains unrecognised but it is there.

There was nothing specific in terms of the delivery date adjustments on the December month-end that were unusual so there's really nothing there that would be materially affected in the result.



The step-up in costs across the quarter was actually quite deliberate, Ash. There was really good customer demand out there and it was profitable. So we still maintain first transaction profitability, as I said before. We made sure we were keeping an eye on our GPAPA margins. We had room to go and obtain those extra customers and so that's what we did.

So that was a conscious choice rather than external market dynamics coming and making us spend that extra money, if that makes sense.

So in terms of as we look forward, does that mean that structurally we would have to spend \$0.141 in the dollar moving forward? Absolutely not. We still stick within our overall range of \$0.10 to \$0.12. There is, as we said earlier on in our presentation, certainly some of the offline retail is re-emerging from COVID-induced lockdowns. So we are seeing more competition on the paid marketing front but nothing that once again, would make us think that our long-term trajectory in terms of what we pay on paid acquisition is going to materially change.

Ash Chandra: (Goldman Sachs, Analyst) Okay, got it. Understood. In terms, Michael, I don't know how - if you will answer this but I'll ask it anyway. Not too long ago, Redbubble used to talk about 20%, 30% sustainable revenue growth year-on-year.

Just given the global scale of the platform that you've got and the breadth and depth of the product portfolio being significantly better today than it was at the time these were targets, just in broad terms, do you see those sorts of levels of growth beyond this COVID tail wind is still achievable? Do you have any view on this?

Michael Ilczynski: Thanks, Ash. Yes, look, I understand the question and I understand you asking it. To be honest, two things. There's one, it's way too early in my time to be commenting on those sort of specifics.

Secondly, to be honest, there is significant macro-uncertainty. We've had this huge surge really, off - clearly driven significantly by COVID. We're now going to enter into a really interesting phase as economies start to open up and some of that pent-up demand for services re-emerges and so how that balances out and impacts short-term consumer demand for our sorts of products is going to be really interesting to see and whether there's a bounce back or where it lands is really interesting.

So the next six to 12 months could actually be quite volatile from a consumer demand perspective and the reality is, nobody knows where that lands. So our view is, we're going to focus on ourselves in terms of investing into our platform and we're going to focus on the customer and improving that experience.

I do think that 2020 was so unique, 2021 will have some very interesting and probably counter-dynamics that landing - where that then lands us on a steady-state basis through that is something that we need



to work through and then what that then means for future growth rates is going to take us some time before I think we can give projections like that.

Ash Chandra: (Goldman Sachs, Analyst) That's fair enough. If I could just sneak in one last question? Again, it's sort of a twist on the repeat usage question that you've been getting.

Obviously you've indicated that this requires a broad range of areas to invest in. Could I just perhaps ask, over what sort of timeframe though, would you expect that you and we might be able to see an improvement? Is this a three-to-six-month process? Is it 12 to 24 months? Yes, what would you be hopeful would be visible in what timeframe?

Michael Ilczynski: Look, it's a very fair question, Ash. Again, though, I don't want to give specifics because I'll be pinning to watching a particular metric go up and down at the next results, which we're not ready to do.

There's - with all the - with all businesses like ours that are digital and physical marketplaces, the combination between investing in the underlying foundations, which don't have immediate business impact but set you up for long-term and - medium and long-term growth, you need to balance those internal investments in the foundations with specific business impacting initiatives that do hit in more like a three-to-six-month period.

So a business like ours, as Emma said, we do look a fair bit like a traditional retailer where a large percentage of the sales and profit is made in the back half of the calendar year so a lot of the work we'll be doing this year will be to focus on impacting into that holiday season but we're trying to balance the short-term business impact with really, investing now into the foundations because we've got confidence of what the three, five, seven year opportunity looks for this business.

That's one of the challenges that we have as management, is getting that balance right between things that will impact for the coming holiday season and things that really build on the foundations that gives us a platform to build on over the next three, four, five years.

Ash Chandra: (Goldman Sachs, Analyst) Terrific, thank you kindly. Thanks Michael.

Michael Ilczynski: Thanks, Ash.

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



Owen Humphries: (Canaccord, Analyst) Hey guys and thanks for taking my question and welcome to Redbubble, Michael. I might just start with obviously a couple of questions coming to me from your investors and I might just ask them directly.

Just around the margin profile of the business, I'm expecting - hoping that you guys will say that that will normalise somewhat in the second half. Can you maybe just provide a bit of understanding of expecting the market to have a step down in that last quarter and what you're expecting for the next six months around the gross profit and then GPAPA margins?

Michael Ilczynski: I think Emma can speak to the last half and I'm not sure that we're going to be giving specific targets on margins over the halves moving forward but I'll let Emma take that.

Emma Clark: Yes, so I think - hey Owen. It comes back to the question that I answered previously from Anthony on the same topic, which is, there were things on the margin that were quite specific to the quarter. As I've disclosed in previous quarters, masks themselves also have a higher margin than a lot of our other products so as they decline as a proportion of the mix, they're the two things that were impacting margin for the quarter.

Masks, you need to separately make a call on what you think's going to happen with that product over the next six months and the impact on margins. The express shipping was definitely a holiday thing that is not part of the remaining three quarters of the year in terms of behaviour.

Owen Humphries: (Canaccord, Analyst) Okay, no worries and just to understand - just around the unit economics themselves, the marketing, can you just remind me, Emma, what's the percentage of your revenue derived from - call it paid versus unpaid?

Emma Clark: Yes, so it's remained relatively consistent in the low 60%^s unpaid and therefore high 30%^s paid.

Owen Humphries: (Canaccord, Analyst) Good one. Just lastly, just from the OpEx step up quarter-on-quarter, let's call it \$2 million. You said on the call, it stepped up due to growth factors. Is that seasonal or was that people costs?

Emma Clark: A little bit of both. Largely seasonal in the sense that as you know, having been through a few Christmases with us before, we obviously step up customer service over the Christmas period in order to deal with the increased sales volumes. So obviously that's quite seasonal.



There is a small step up in fixed operating cost expenditure but keeping in mind, of course, that's coming off a very low base. We're actually coming in on a lower OpEx base than we were running when we were running half the volumes.

Owen Humphries: (Canaccord, Analyst) Yes, okay. Good one and \$130 million of cash on hand, it builds it by \$45 million in the quarter. Obviously part of that was working capital builds and seasonal factors. Maybe Michael, a question for you. I'm guessing you're not going to answer it but been in the role now for six, seven weeks, a lot of people are asking where the re-investment will be from your perspective.

Obviously you've stepped up sales and marketing in the quarter - the team has. Has the team thought about capital management initiatives or where you plan to utilise the excess liquidity on your balance sheet?

Michael Ilczynski: Yes, thanks. Thanks, Owen. We were expecting that question from investors, which was why we - the Board put out an explicit statement in the release saying that there's no plan or intention to pay out a dividend in the short to medium-term.

In terms of other capital management initiatives, I think similar. Obviously it's incumbent on the Board and they will consistently look at opportunities but there's no plans in the short to medium term and I think there's two reasons for that. Number one, primarily is - we view our business as a growth business and that there are significant opportunities to invest into the business.

Now, that doesn't mean that we're going to be spending all of that cash internally. We understand the impact that would have on profitability and other things but we do think there is significant opportunity to invest internally into the business and as I said before, we will start that in a relatively slow and considered fashion. Then, as more opportunities present themselves that we think will generate a really strong return on that investment over the medium to long term, then having that cash in order to undertake those activities is something that provides the business with real strategic flexibility moving forward.

Secondly, as I said, there is just a general amount of uncertainty as to what the coming calendar year will look like and what - where there was an incredible change in consumer demand in the last 12 months and just providing us with the flexibility, because there is unknowns about what happens to consumer demand in 2021 versus what hopefully by '22, '23 calendar years looks more like a steady state is something that I think is important for the books for the Company to know that we've got stability regardless of whatever scenario plays out.

So it's a sort of broad answer but I wanted to pass on our thinking there. We do think there's great opportunities to invest in the business, we're also cognisant of the fact that we're entering into another period of macro-uncertainty through '21.



Owen Humphries: (Canaccord, Analyst) Good one and look forward to catching up in person.

Michael Ilczynski: Thanks, Owen.

Operator: Thank you. That does conclude the question session at this time. I will now hand back to Michael for closing remarks.

Michael Ilczynski: Thank you very much. Look, I'd like to close by saying that myself and the Board and management team, we truly believe that Redbubble is a unique organisation and it is an immensely exciting time to be joining and to be part of the Company.

The business has experienced a tremendous increase in scale from a year ago and this has flowed into strong financial results demonstrating the potential for our business model when it can operate at this sort of scale.

All of this has been achieved during a global pandemic with our teams working remotely, which is a testament to all of the Group's employees right across the globe. The strategic priority for the Group now is to ensure that we capitalise on this and build from the market position that we've established.

To do this, as I've said a few times now, we're going to focus on the core aspects of the marketplace to make the most of the opportunity and to ensure long-term levels of growth. I'm personally really excited and looking forward to the journey ahead and I thank all of you for being part of it.

With that, we will close the call and I look forward to speaking to a number of you in the coming few days. Thank you.

Operator: Thank you. That does conclude the conference for today. Thank you for participating, you may now disconnect.

End of Transcript