



## Trading Update – Q1 FY2021

### Conference call transcript – 15 October 2020

#### Start of Transcript

Operator: Thank you for standing by and welcome to the Redbubble Group Q1 market update conference call. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr Paul Gordon, Company Secretary. Please go ahead.

Paul Gordon: Hello everyone, this is Paul Gordon, Company Secretary for Redbubble. Welcome to this investor call following the release of Redbubble's first quarter financial year 2021 trading update earlier today. With me on the line I have Redbubble Group CEO, Martin Hosking and CFO, Emma Clark. The key information for today's update is contained in the trading update and investor presentation released to the market this morning, Australian time. Please note that the financial information in the released documents and in the upcoming call are from internal management reports and have not been subject to audit. Martin and Emma will now speak and then we will open up the floor for questions. This call, including the Q&A session is being recorded.

Before we start, I would like to call your attention to the safe harbour statement regarding forward-looking information in our trading update and investor presentation. That safe harbour statement also applies to this investor call. Now I will pass on to Martin.

Martin Hosking: Thank you, Paul. I'm going to keep my comments brief as we only spoke a few weeks ago. What we are seeing in Q1 reflects what we had foreshadowed with year-end results, namely that Redbubble is moving into a period of rapidly increasing profitability as the business scales. The scaling reflects the fundamentals of the business, our strong margins and low marginal OpEx, underlying solid growth and the acceleration brought about by the COVID crisis.

Our challenge and opportunity is to extend the gains created by this period of accelerated growth and ensure Redbubble is the defining global e-commerce leader in the new commerce category of more relevant and meaningful products. We must be willing to both innovate and invest to ensure this is achieved. We are much closer to the start of the game than the finish. After Emma runs through the numbers, I will comment further on this matter.

Over to Emma.

Emma Clark: Thanks Martin. The shift in consumer behaviour due to COVID, which started in April, has continued through to the end of the current quarter, resulting in the strongest quarterly financial results in Redbubble's

history. Marketplace revenue came in at \$147.5 million, up 116%. Strong margins and efficient paid acquisition translated to an ever-stronger set of numbers as we progress down the P&L and I'll speak to more detail on this in the next slide.

Given we are required to report statutory accounts on a delivered basis, we have been quite transparent in this trading update by also providing key financial metrics in the release on a look through paid basis. Either way, it is clear that the business is performing very well and this can be seen in the cash balance, which has increased by over \$27 million in the quarter, to sit at a healthy \$85.4 million as at the end of September.

Moving through the P&L, with such strong customer demand, we had a quarter of all-time lows in promotional activity, resulting in much higher gross profit percentages. The 43.7% gross profit margin is our best result delivered to date. As we head into the holiday season, we do expect the macro level of promotions to increase and we will be participating as required to ensure continued level of voice and sales, as demonstrated by the four-day promotion we are currently running that aligns with Amazon Prime day.

Paid acquisition costs continue to remain well under control and return on spend has been incredibly efficient. However, once again we expect these costs to increase in the next quarter as we spend more with the objective of protecting and gaining even more market share over the peak retail season. At \$21.1 million, the quarter's operating expenses fell below the fourth quarter of financial year 2020, in spite of a sustained increase in volumes leading to more variable costs being incurred. We expect our cost base to remain quite stable, noting of course that we usually do have a seasonal uptick in variable costs over holidays.

Other expenses, largely containing share-based compensation, leasing and currency losses, has remained in line with last year's full year expense of \$10.1 million, with \$2.7 million of expenses booked within the quarter. Depreciation and amortisation costs have also remained consistent. It is worth noting that Redbubble is currently writing back more in capitalised development than it is deferring each month, creating a headwind on total OpEx that we expect to carry for at least the remainder of this year. Overall, I am very pleased to report that we continue to demonstrate the sound fundamentals of a marketplace that is now operating at scale, with an extremely high take rate that directly translates both at the bottom line of the P&L and also in our cash balance.

As we discussed at the full year results, Redbubble now operates at scale from both a product and geographical perspective. Whilst this makes us difficult to benchmark directly against some of our smaller competitors, we fundamentally believe this to be an ongoing strength of our business. Indeed in the past three months as macro instability has continued, we are glad we are not overly reliant on any one product category or geography. Masks are a good case in point. When we last reported, mask sales were rapidly increasing as a proportion of our total sales, reaching 27% in July. The sales levels of masks then moderated back from the start of August due to a range of external factors. In September, masks had dropped back to be 14% of sales, still a meaningful percentage, but well off their highs.

However, over the same period, our homeware and artworks categories continue to perform exceptionally well. In addition, T-shirt sales arrested their long-term gradual decline as a percentage of sales, which helped offset the reduction we experienced in masks. However even given all of that, we certainly wouldn't want anyone to think that we are resting on our laurels. We have been busy at work developing the next generation of masks and I'm pleased to say that this is available for customer sales from tomorrow, 16 October. We are excited to both offer our artists yet another opportunity to generate sales and our customers a much better product that will meet their day-to-day mask-wearing needs.

From a geographical perspective, we have continued to see very strong sales growth in the UK and even with all of the current instability, the US has continued to grow at over 100% year on year. The star performer in the

quarter was Australia and New Zealand, with growth accelerating from 79% last quarter to 124% this quarter, largely driven by increased localisation, particularly for masks. As Martin has mentioned in previous announcements, there are over one billion people in our core geographies and one of the main focus areas for us will be to reach as many of them as possible with a fantastic offering that encourages them to make multiple purchases in a year.

With that, I will hand back over to Martin.

Martin Hosking: Thank you Emma. I hope you all recognise this slide. It is unchanged from a few weeks ago and indeed is only a small iteration of what I've shared with you over the last six months. This is deliberate. Redbubble is entering a period where our success will not be determined by the evolution of our strategy, but by the effectiveness of our execution. The promise of the Company is not about doing something new, but about doing what we do better and with relentless commitment to improving the customer experience. In this context, the four areas of strategic focus are worth commenting on.

The first, artist retention and activation, is an area which is well advanced. The Group, via TeePublic, was already good at this and the Redbubble marketplace had also developed solid systems. It has been at the core of both marketplaces and the integration is proceeding well. Increasingly we'll be able to serve those artists that matter the most and create the most value much more effectively. This is of high importance as we've seen an influx of many more artists during the current crisis.

The second area, user activation and transaction optimisation, is also well advanced. Again, both marketplaces had expertise in this area and this is being shared across the Group. The work on streaming artists assists us in this area and both marketplaces are leveraging well-understood technologies such as the Customer Data Platform to improve our ability to acquire customers cheaply and have them transact efficiently. We're already seeing the impact of this work and the continuing low customer acquisition costs.

The third area, customer understanding, loyalty and brand building, is, as I've previously said, where the most innovation will need to occur. Both marketplaces are increasingly confident of who their customers are and our work over the next year and beyond is going to be about building solutions to ensure greater brand clarity and that build loyalty with those segments. Over the coming quarters we look forward to sharing more with you on this topic.

Finally, physical product and fulfilment network expansion, again this is a well-understood area for the Company. While we will continue to take tactical opportunities as they emerge, such as masks, the primary orientation for this area of activity is actually about building customer loyalty. Our ability to deliver more timely products with lower shipping costs and a better total customer experience is a known area for increasing loyalty. It should be looked at through this lens.

As Emma has noted, our work in the last two areas in particular will increasingly be about delivering higher actual and perceived customer value. Even small changes in loyalty can have a major impact on overall long-term growth rates and future profitability. We will be actively exploiting the trade-off between our margins and loyalty as we evolve in this area.

Such work is vital to ensure we seize the promise which has been presented, extend our market leadership position and define the global category which we have largely been responsible for creating. We are in the fortunate position that our margins and operating expenditure structure means we can do this while maintaining overall profitability. Thank you and over to 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 the handset to ask your question. Your first question comes from Ashwini Chandra from Goldman Sachs. Please, go ahead.

Ashwini Chandra: (Goldman Sachs, Analyst) Good morning, I was wondering if I could just ask a couple of questions. I do have a few but obviously I'll just jump out of the queue. But one question I'd like to ask you is, with the OpEx that you've reported in the quarter, Emma, I think your comment was that you expect that to be stable. So can I just interpret that as roughly we can just multiply that by four over the course of the year? Or is there any sort of nuance we should be a little bit aware of as to how that will flex? Just - obviously, I'm just looking for a simplistic answer.

Emma Clark: Yes, look, and as with all lines in the P&L, there's a range of headwinds and tailwinds on all of them. I think in regards to OpEx, as we've previously discussed in prior announcements, we obviously undertook the restructure in June and so the cost savings that we talked about at that time are flowing through the base and obviously provide a tailwind to the OpEx.

That being said, the point that I pulled out just before, in the actual announcement, if you go back and look at our OpEx and you look at the seasonal nature of our OpEx, you will always see an uptick in OpEx over the Christmas quarter as we invest in the variable costs, particularly around customer service through holidays. I wouldn't expect that to be any different this year.

Then, look, over time, I still think you will see a slightly increasing OpEx base because we still will need to add more people over time. With the kind of growth we have, keeping our OpEx completely flat is probably not particularly realistic. That being said, I would expect it to be only small increments, not large increments. So I would not simply multiply it by four, I would add a little bit but not a great deal.

Ashwini Chandra: (Goldman Sachs, Analyst) So, can I ask, you've now been in a multi-month period of seeing this rapid ratchet up in revenue growth. Are you getting a better sense of just exactly what scale you can achieve per dollar of OpEx? Just because that's just so sensitive to how we think about the value that has been created on the platform. So you know, if your revenues from here would have incrementally run-rated an extra \$100 million a year, for example, just as a random number, are you getting any sense of what kind of OpEx that takes to facilitate every incremental \$100 million?

Emma Clark: We haven't actually run the model and looked at it in the way that you're exactly asking the question, Ash. But I think if you look at the period of time since COVID started, so the last six months now, as you say, it's been going on for a while. We did the restructure in the middle of it, took the OpEx base down by 10% of the people and we've been able to absorb that 100% growth and that higher sales revenue with the base of people that we currently have.

Now, there are some things that we want to keep doing and do better, to Martin's points on the call, and some of those things will require more people over time, but I think we've demonstrated that the days going back a few years where we kept growing OpEx a lot, we can absorb our current volumes with our current OpEx base.

If we want to add more to our current base, we will obviously over time need to add more people, but as I said we're talking a lot smaller increments than what we've had in the past.

Martin Hosking: I think what we have said to the markets very clearly is our commitment is profitable growth. So the Board will make the right decisions which it believes are for the long-term interests of the Company. Some investments will be required to do that but they're not forced - the fundamentals of the business have demonstrated a strong margin.

Ashwini Chandra: (Goldman Sachs, Analyst) Thank you and could you give us a sense of the face mask contribution? Because obviously, I think when you gave the update for the July number year-to-date, that was a fairly material contribution. Has that remained? I think it was about 28% in July. Has it remained at those levels and is that also adding to the gross profit margin strength?

Emma Clark: So as I said at the start of the call, the mask reached a peak of 27% in July. By September they're down to 14%. You can see how they've changed over time so you could - you can absolutely work out the mask's contribution in dollars if you so choose, based on the information that we've released this morning.

Ashwini Chandra: (Goldman Sachs, Analyst) Okay, perfect. Perfect, thank you. Sorry, I missed that. I'll jump back in the queue.

Emma Clark: No worries, thanks, Ash.

Operator: Thank you. Your next question comes from Grace Fulton from Goldman Sachs. Please, go ahead.

Grace Fulton: (Goldman Sachs, Analyst) Hi guys, thanks for taking my question. I was just wondering if we could maybe just start building on what Ash said earlier. Just start with the gross margin. You had a really good uplift in this quarter, can you just go through how sustainable you expect that to be going forward?

Emma Clark: Look, as I said in the last quarter's update, the three things that are effectively impacting margins being so strong at the moment, in order of their impact, are (1) the low level of promotional activity (2) the contribution of higher margin products like masks and (3) the underlying tailwind that we have from continuing to localise and getting volume across our fulfilment network.

They're all the same factors this quarter as well. The main one and the reason I called it out earlier is the lack of promotion. If you were to go back and look at particularly the Redbubble marketplace and look at how many promotions there were over the quarter, I think it's the lowest number of promotions that we have ever run.

So that was part of the reason that I made sure I called out that for the Christmas quarter, and as you guys know, we're running a promotion right now, I expect that we will increase that level of promotion. So that will have a headwind impact on margin in the Christmas quarter.

Grace Fulton: (Goldman Sachs, Analyst) Okay, great. So, Emma, you've mentioned briefly in the notes, something about a headwind from capitalised R&D through the P&L. I didn't quite catch that. Can you maybe just expand that a little bit?

Emma Clark: Yes, sure. So over the last couple of years, in terms of our operating expense base that we report, obviously we have capitalised costs - development costs that we defer. If you were to look at that line (not that

you guys can see that line) and look at the depreciation amortisation line, they're pretty much offsetting each other. So the actual impact of capitalisation on our OpEx base was negligible over the past few years. That has shifted slightly this year, where we're actually deferring less every month and we're still writing back a higher level through the D&A line. So that was the headwind actually is - there's now a slight disconnect between those two lines in terms of timing.

Grace Fulton: (Goldman Sachs, Analyst) Brilliant and your cash balance increased quite a lot in the quarter, could you maybe just talk about how you're planning to be using that funds, as the cash balance you're sitting on is quite elevated now.

Emma Clark: Yes, so I think once again, reaffirming what we've said previously, the focus right now is getting a good holiday, Christmas quarter and I think as we said last quarter, we're very focussed on the tactical through to the end of December.

To pick up Martin's points, we really do see our four priorities quite clearly and within that, the third priority around customer understanding, loyalty and brand building, we do feel that we need to make the most change there. Lean into there and that's probably the area of those four priorities that will require the most of that cash balance - as we choose to go back in and reinvest.

Martin Hosking: it's a relatively new experience for the Company to have this rapidly increasing cash balance so the Board has not made any decisions about how they wish to provide in a fundamental sense. So it is clearly something that the Board will need to look at in due course but just to give us a little bit of grace here, if you will, we've only been in this period for six months or so, so I think the Board will be considering that issue. Because even the cash balance certainly is larger than any conceivable or foreseeable investments, but we haven't made any final decisions.

Grace Fulton: (Goldman Sachs, Analyst) Yes, great and just one last question from me. From your past experience with US election cycles, is there anything we should be aware of with nuances in the next couple of weeks?

Martin Hosking: I don't think so. People have suggested that US elections are good for us. They are only at the margin, is the truth of the matter. They're neither particularly good or particularly bad. I can see scenarios, though, which it would be bad and the total global economic scenario would be bad, but it really just depends upon what happens with the election. The worst outcome for us would be a hung scenario which could have a devastating impact on the total global economy but that's something well beyond our control.

Grace Fulton: (Goldman Sachs, Analyst) Yes, great. Thank you.

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

Owen Humphries: (Canaccord, Analyst) G'day guys and well done on some big numbers today. Maybe just to help with my maths and just save me doing it wrong, can you maybe just highlight what the growth was, exiting period - call it September ex-masks? Because that seems to be a topic where it gets asked of me a lot. So maybe just to highlight what that was, adjusting for masks?

Emma Clark: Yes, look, so I can't give you the period in September, I don't have that number in front of me for that month itself but across the quarter, the growth rate ex-masks was around 60% on a paid basis. So obviously, once again, if you start at the 98 in the release and you come back down. Take masks out completely.

But masks are pretty stable now at - as I said, they're around 14% in September. This is without the new mask variant that's being released tomorrow. They've been pretty stable for the last month.

Owen Humphries: (Canaccord, Analyst) Good one and obviously you've had a bit of a tick up through COVID and structural tail winds back. Do you expect the seasonality to be broadly similar to what it's been in the past in terms of that second quarter? Or do you believe - because obviously this quarter you've got Black Friday, Cyber Monday, Christmas. Do you believe the seasonality will be as much as what it's been in the past?

Emma Clark: Yes, look, we actually had an all-staff update literally an hour ago. We were talking about our holiday plans and I said fundamentally trying to predict Christmas is like blindfolding me, putting a dartboard up on a wall and asking me to throw some darts at it. It's quite difficult to get a really good look through on whether this Christmas will be like Christmases prior for Redbubble.

That being said, we're - I think that the two things I would say is, one is that we're prepared for a range of scenarios. So if it does seasonally uplift the way that it has historically seasonally uplifted, we're confident that we can deal with the volume and we're confident that we can give customers a really good experience and artists a really good experience. So we are ready for that.

If it ends up being something different, we're ready for a vast array of scenarios that hopefully would encompass what actually happens. The profile is somewhat different this year, I can already see that because obviously with Amazon Prime Day running right now that is an earlier kick off, I suppose, of the holiday season than what we would have seen in prior years. We see that as a good thing. That gives us early signals on where customers heads are at and what their buying behaviour is actually going to be through the holiday season, so we'll be monitoring that closely. Honestly Owen, there's a lot of uncertainty around how that holiday season is going to play out.

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

Anthony Porto: (Morgans Financial, Analyst) Hey guys, how are you going? Congratulations on the quarterly result. Just a quick question. Percentage of sales via the app, one and then repeat customers in the period?

Emma Clark: Yes, so repeat customers has remained relatively consistent to last quarter and app percentage of sales. Noting of course that the app is Redbubble only, TeePublic doesn't have an app, so if I take the app as a percentage of Redbubble sales it was about 16%. If I take it at the Group level it's about 12%.

Anthony Porto: (Morgans Financial, Analyst) How does that - okay, so that was kind of 15% for the second half.

Emma Clark: It's up. It's continuing to steadily increase.

Anthony Porto: (Morgans Financial, Analyst) Okay, yes, no problem. Just the impact of Prime Day on end of September trading. I mean is the US consumer, I suppose the US in general but generally the global consumer,

have they been trying to, you know, did they know that Prime Day was coming and do you think it impacted your sales growth towards the end of September?

Emma Clark: Yes, I saw your note on that and I smiled. I thought it's as good a theory as any other theory. I don't know is the short answer Anthony. I mean we're seeing quite consistent strong performance so it would be hard for me to look at the last part of September and say that the upcoming Prime Day had any material impact on what was happening at that point within the quarter.

Anthony Porto: (Morgans Financial, Analyst) Yes, okay. Just finally, I mean Martin mentioned the gross margin which is quite - it's very strong. I guess just a question of how you're going to reinvest some of that gross margin. Is it all in price or is there other ways you're going to invest it?

Martin Hosking: I'll take this one Emma. I think what we're doing is we're very actively exploring a whole range of things so we have been actively experimenting with various loyalty programs related to shipping, free shipping, shipping with different thresholds, so that is an area which we would be exploring. It is important that what we're looking at doing here overwhelmingly is not to increase the first purchase but to increase loyalty. That's the lens which we're looking at and so margin reduction which has an impact on loyalty has a long-term potential net growth upside to business in terms of growth.

That could be discounting programs for multiple purchases. Either multiple purchases in a year, it could be related to shipping or it could be related to the inserts and packaging, for example. We have historically not done very much there. We have got an advantage versus Etsy. Etsy can't put into the packages actual inserts because they're packaged - they come from their diversified network. That's not something which we have very actively explored. We've had a limited range of things into the packaging, the unboxing experience itself, the nature of what a customer is and what you would offer to a more loyal customer over time. So the lens through which we are looking at it is to the extent that we can - any reduction in margin can increase loyalty. It is for the business a serious net positive and so that's what the Board and the management team are looking at.

Anthony Porto: (Morgans Financial, Analyst) Great. Thanks for that Martin. That's all from me.

Operator: Thank you. Your next question comes from Robert Bruce from Acorn Capital. Please go ahead.

Robert Bruce: (Acorn Capital, Analyst) Great. Great result guys. Thank you as a shareholder. A quick question. I think last time we spoke you mentioned that heading into Christmas period you weren't going to try and do too much and just let it run to a degree, rather than make significant changes. I'm just wondering following your experience in the last couple of years in what is traditionally peak trading period what lessons you might have learnt where sometimes it has disappointed and sometimes it's been successful and how are you preparing for all these peak events this year? Is it any different to what you've done in previous years?

Emma Clark: Yes look, it's a good question Rob and I think we touched on this in the last quarter's update as well. I think we're more joined up and prepared this year. I mean obviously I say that with some hesitation only because I haven't been here for five or six years and there may have been a time a few years ago where we were better prepared, but I wouldn't have been here to see that so I don't want to give it a recency bias, but certainly we started planning for holidays in May. Normally we started planning for holidays in August. We really engaged widely across the entire organisation and made sure we were very aligned on the few things that we wanted to deliver well for holidays and then we've gone off and we've executed those things and we haven't got distracted by other things, which sometimes can happen.

I feel like from an execution perspective the things that we needed to do on our end to be ready for holidays, even with the uncertainty of what it will bring, I feel like we are actually very well prepared and so I think that does make a difference. I think there's a lot more transparency across our entire Group around exactly what's happening with things like last order by dates, what's happening within the shipping networks and our fulfillers are all well set up with various ranges of volume forecasts. I just think it comes down to - like because I can't control the macro environment and no one in Redbubble can control the macro environment, it really comes down for us making sure that we're executing very, very well and so that's what we focused on. All the things we can control, we've gotten together and we've controlled those and I think we're in a really great position from an execution perspective.

Martin Hosking: Just on that front Rob. One of the things which we had, had been on the backburner but had not actually got done, got accelerated, has been a gifting experience. That is actually rolling out right now, so people will be able to send to different locations. A person will be able to track their own gift. So, you will see in the AFR this morning, there's a conversation about the expectation that there will be much higher levels of virtual gifting and actual gifting going on and so we've enabled that in anticipation of these holidays. I think to the extent we can feel confident about our own position, we're very confident what the total macro environment looks like, it is out of our control although there are some reasons to be optimistic about that as well.

Robert Bruce: (Acorn Capital, Analyst) Great. Well done and good luck for the upcoming periods. Thank you very much. Thank you.

Martin Hosking: Thanks Rob.

Emma Clark: Thanks.

Operator: Thank you. Your next question comes from Richard Cawsey from Denali Capital. Please go ahead.

Richard Cawsey: (Denali Capital) Happy birthday Martin. That's a great present that you and the team decided to coincide with your birthday. Thanks for the insight so far on the call and two further questions have come to mind. Emma, you mentioned that you've pulled back on promotional spending and I presume that was based you didn't need to do it, but was there an opportunity to do it to grow faster, or you felt that the economics weren't there?

Emma Clark: It's a good question Richard because quite often people will say to me, hey, you've got 116% growth rate, why not just throw more at paid acquisition and you could get 160% growth rate. As you know there's a point at which that then becomes inefficient. I think we're making sure that we're keeping an eye across all of the P&L, not just the top line and so if we're looking at it that way maximising GPAPA dollars is effectively - has been the goal and remains the goal and so our paid acquisition spend is set to a level that actually delivers that. We do say - like two weeks ago we did a bunch of tests on some channels to push that spend out to see where that line was, where it became inefficient. We found where that line was and we stopped spending just before that line.

At the total quarterly level, it's a big number and comes in at a rough percentage, but it's something that we manage on a day to day basis. Honestly, to answer your question, I feel like I could have spent more, got more growth, but financially it would have cost us at the bottom of the P&L if I had done that.

Martin Hosking: Richard, was also asking about promotional to the extent we run discounts.

Richard Cawsey: (Denali Capital) Yes.

Martin Hosking: We have trialled some discounts, smaller discounts, during the quarter related to very specific product items. There was one done with iPhone cases and so forth. So it is an area which we continue to explore, but to Emma's point, it is about driving the GPAPA dollars when it's not necessary to run a discount and if you can actually get full retail price. That's clearly better. I think as well as we look at our brand, the brand of the Redbubble marketplace, it's become increasingly clear to us that we are seen by our customers as a premium brand and as a premium brand we don't want to be undermining that by running discounts. So it's a strategic as well as financial decision not to get overly discounted. It has been a very good opportunity for us to consolidate that brand positioning which we have - which our customers see us as.

Richard Cawsey: (Denali Capital) That means the promotional will be - the promotional spend will be seasonal and brand driven rather than purely efficiency driven.

Martin Hosking: Very much so. It's all, again, it comes back to the loyalty lens. We had, we were undermining, we had done a lot of work on the brand over the last month and we were undermining the premium nature of the brand. If you're Gucci and you run a discount every week, you're no longer Gucci. We were running discounts too frequently and undermining the actual value of the brand itself.

Richard Cawsey: (Denali Capital) Great. Okay, one further question before dropping off is now that we're in NPAT, or coming to NPAT, the tax asset, how do you think that's going to start showing up on the balance sheet or re-emerging on the balance sheet and how do you think this will roll out through the earnings through the half and the full year?

Emma Clark: Yes. We test the tax asset position every half in line with our statutory audit, so we'll obviously be testing that again in December and then once again in June and so we'll write back, well the intention would be to write back the tax losses onto the balance sheet as we need them. Generally speaking, most auditors and finance teams take a relatively conservative view of tax assets and so no one's yelling at me right now to write it all back on the balance sheet, which is good, but obviously we'll continue to assess it and write it back on as needed, so we won't be paying taxes for quite some time.

Richard Cawsey: (Denali Capital) So I guess that's going to come down – so you're going to be expecting the EBIT to be almost falling straight through to NPAT for some period of time.

Emma Clark: Yes, absolutely, so we did a quick check in this quarter on what the difference between EBIT and NPAT actually is and it's almost zero.

Martin Hosking: Okay and Richard was asking about I think the ultimate size of the tax asset as well, were you?

Richard Cawsey: (Denali Capital) Yes, what is the ultimate size of the tax asset?

Emma Clark: I don't have the number in front of me, but it's in the high \$20 millions, in terms of the actual tax dollars, so we have to divide that by 0.3 to get the amount of profit we'd have to put through before we actually start to pay tax.

Richard Cawsey: (Denali Capital) But you won't be, as you correctly answered, you won't be writing that onto the balance sheet in one fell swoop before...

Emma Clark: Not before the \$29 million or whatever the number.

Richard Cawsey: (Denali Capital) But that's effectively the sheltered position over the next period of time of NPAT coming in.

Emma Clark: Correct.

Richard Cawsey: (Denali Capital) Okay, thanks very much folks and congratulations, great outcome, to you and the team.

Emma Clark: Thanks.

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

Timothy Piper: (RBC Capital Markets, Analyst) Morning team, congrats on the result. I just had one high-level question. When we're looking at the acceleration and growth you've seen over the past six months or so and kind of look at sustainability of that going forward, obviously a key pillar in your strategy of building customer loyalty and brand, etc, is going to be very important. Now that we've gone through six months of an accelerated customer, new customer acquisitions cycle, can you give us a sense on how you see those customers, those new customers, behaving on the platform compared to either existing customers or in the past? You mentioned the repeat rate is pretty steady, but within those newer cohorts, are they spending more, are they spending more frequently? Do you have any stats on that?

Emma Clark: Yes, so in terms of the spending more, what we've seen through COVID across both new customers and repeat customers is an increase in AOV of about 6% or 7% and that's largely driven by product mix, changes that we saw at the start of COVID and they've remained relatively stable. So obviously people buy more homewares and wall art, less stickers, higher AOV.

Outside of that shift, there hasn't really been a change and so at the moment the customers, the COVID customers that we've got on, you can't see any of it, I'm air quoting it, aren't behaving any differently to the customer cohorts that we had before, neither better nor worse, they're pretty much of a muchness, which I think is one of the reasons that we know that we need to lean into customer retention and customer loyalty through customer experience, because there is an annuity value there to be had that we're not necessarily maximising at the moment.

Timothy Piper: (RBC Capital Markets, Analyst) Okay great and just one quick one, you talked about marketing spend maximising GPAPA dollars, just given the seasonality of the second quarter, I mean are you willing to forgo a little bit of that, just given the opportunity to build out a significant number of new customers over the next couple of months?

Emma Clark: Yes.

Timothy Piper: (RBC Capital Markets, Analyst) Okay, perfect, thanks for that.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Mr Hosking for closing remarks.

Martin Hosking: Thank you very much. There are a large number of people on the call and it's been great to engage with you all, so thank you to all our new investors and particularly thank you to all of the longer-term investors and we're very pleased to have been able to deliver these results for you, staff and for the entire group of stakeholders in Redbubble.

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

**End of Transcript**