FY2021 Q3 Results and Investor Letter

Conference call transcript – 22 April 2021

Start of Transcript

Operator: Thank you for standing by and welcome to the Redbubble Q3 Market Update. 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 today's release of Redbubble's FY2021 third quarter results, letter to shareholders and accompanying slides which we will refer to in the webcast. With me on the line I have Redbubble CEO Michael Ilczynski and CFO Emma Clark. Please note that unless stated otherwise, the information provided is from internal management reports and has not been subject to audit.

Mike and Emma will now speak and then we will open up the floor for questions. Please note that this session is also being recorded. Before we start, I would like to call 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 to Mike.

Michael Ilczynski: Thanks Paul, and a very warm welcome to everyone. We have released quite a bit of information to the market today, so I'll take a moment to explain how we will be discussing these on the call today. Shortly, I will hand over to Emma, who will provide an overview of our FY21 year to date and the third quarter results. The information and slides that she will be referring to are contained in the trading update. The call will then pass back to me and I will be using the letter to shareholders as well as the slides in the accompanying investor presentation.

This will be the main focus today and I want to use most of the time that we have to talk through our vision for where Redbubble Group is headed and the size of the opportunity ahead of us. I will also outline the aspirations for the business as we pursue our growth potential. We'll then open up the line for questions. First, over to Emma.

Emma Clark: Thank you Mike, and hello to everyone. It's been a good start to 2021 and we are pleased to see revenue generation continue at our now larger scale. We have our eyes firmly set on and are confident in our ability to continue our market leadership by growing and scaling Redbubble. In the nine months year to date, the business has delivered Marketplace Revenue of $456 million, up 85% on a floating basis and 97% on a constant currency basis. Of this, $103 million was delivered in the third quarter, up 54% and 76% respectively.

Consumer confidence and spending in our core geographies is still largely being driven by macroeconomic factors such as lockdowns, reopenings and fiscal stimulus. The third quarter performance is more impressive once adjusted for mask sales which contributed only 6% to sales for the quarter, down from 8% last quarter and 21% in the first quarter.

For those of you who are less familiar with our business, it is worth noting that Redbubble generates approximately 94% of its revenues in US dollars, the euro and pound sterling, however, as we are domiciled in Australia, we translate this back to Australian dollars for reporting purposes. This gives rise to FX differences which have been a headwind for the year to date of 12%. This difference was even more pronounced in the latest quarter, with a headwind of 22%.

Year to date, Redbubble has generated gross profit of $184 million, up 100% on a floating basis and 114% on a constant currency basis. Gross margins were 38.4% in the third quarter. We have seen margins, including shipping margins, resume to normal levels, however gross margins carry a small seasonal headwind in the third quarter as customer returns and refunds from the holiday season in the prior quarter are processed. On a year-to-date basis, gross margins are 40.3%.

Gross profit after paid acquisitions for the year to date was $125 million, of which the third quarter contributed $26 million. Paid acquisition as a percentage of Marketplace Revenue was 12.8% for the year to date and 13.7% in the third quarter. We saw organic demand soften in February and took up opportunities to drive additional top line growth via paid acquisition channels. Organic demand rebounded in March, especially in the US.

Operating expenses remained largely flat with only a very small uptick of 3% versus 12 months ago. Operating expenses for the year to date have grown only 16%, well below the top line and GPAPA growth. Part of this is due to the currency differential I described earlier, however most of it is as a result of not filling headcount vacancies as quickly as we had expected and as at the end of the quarter, there are still approximately 30 vacant roles that we are hiring for. We would expect to fill these over the next few months, and OpEx will grow accordingly. These hires will add to Redbubble's ability to pursue its longer-term potential.

These factors resulted in a year-to-date EBITDA of $51 million compared to a loss of $2 million year to date for the prior year. EBIT for the year-to-date period has also grown significantly to $41 million compared with a loss of $12 million in the prior year. This contributed to operating cash inflows of $54 million for the year to date compared to only $6 million over the same period in FY20. Redbubble's closing cash balance as at 31 March 2021 was $102 million.

For those of you who are familiar with the business, you will remember that a strong holiday season in the second quarter always results in a net cash outflow in the third quarter after payments for holiday sales are made to all other marketplace participants. We now head into the next quarter, where all e-commerce businesses are expected to cycle COVID comps. Whilst we are mindful of the short-term volatility this may cause, we will continue to operate the business prudently and for the longer-term.

With the significant opportunity that lies ahead, the focus is now on making disciplined investments that will generate top line growth and we can do this confident that Redbubble has proven economic viability and power of its business model. We are also pleased to see our progress reflected in the public markets and it is great to see Redbubble now included in both the ASX300 and the ASX200 market indices.

Lastly, I want to remind everyone again that the business operates through a retail cycle and is therefore seasonal in nature. The first half of the financial year is always larger than the second half and this is reflected all the way down the P&L, as well as through the cashflows and across the balance sheet. As such, our financial metrics should be viewed over a full financial year period. This is particularly important as we work towards our medium-term aspirations and longer-term opportunity. I'll now hand back over to Mike.

Michael Ilczynski: Welcome and thanks again. Thanks, Emma, for the trading update. I'll now turn to the letter to shareholders. Approaching three months into the role of CEO, I believe it is important to lay out the overall direction and philosophy of the Group and share our medium-term aspirations. I joined Redbubble after having been a customer on the platform and believing there is something special about this organisation.

After three months, my enthusiasm for the opportunity has continued to grow and I'm more excited than ever in the tremendous potential the Redbubble Group has. Our mission to create the world's largest marketplace for independent artists really does sit at the centre of what we do and reflects the broad ambition for the Group. Consumer preferences and the e-commerce landscape continue to change across the globe. By offering consumers an absolutely unique content and product offering within a compelling shopping experience, Redbubble is positioned to become one of the global winners in this evolving landscape.

Consumers are less interested in wearing the same commodity black T-shirt owned by millions of others. Instead, they are looking for meaning and uniqueness in what they buy. They want a T-shirt or phone case or poster with a design that expresses their individuality, personality and passion. Redbubble is far and away the best destination to find a design/product combination that fulfils this need. No other platform in the world combines the breadth of artist-generated designs with their availability on a wide range of made-on-demand consumer products.

This compelling position occurs within an enormous addressable consumer goods market. E-commerce spend for the current range of products sold on Redbubble Group marketplaces was estimated over $300 billion in our core geography and over $700 billion globally in 2020. This is predicted to grow to more than $1 trillion by 2024 and within these markets, 35% to 40% of customers are already seeking a product that is unique and meaningful, and this group will only grow.

Redbubble sits in a large growing market and is uniquely positioned within this growing segment of that market. The uniqueness, breadth and scale of the designs and products sold by artists and designers on the Redbubble and TeePublic platforms positions the Group to capitalise on key macro trends that continue to impact consumer demand and grow this total addressable market.

These key trends include the continuing migration of shopping and purchase from offline to online, the increasing desire from consumers for unique goods and services that express and celebrate their personal interest and their individualism, the growing creator economy providing new and exciting designs and products that feeds into this search for personalisation and meaning, and the ongoing focus on sustainability and corporate social responsibility.

As we look back on 2020, Redbubble demonstrated key elements of this potential. Growth of the business across all geographies showed the broad and global appeal of the offering, with growth across multiple product categories demonstrated the breadth and variety of consumer markets in which the model can apply. The resilience and scalability of the third-party fulfilment and logistics network was demonstrated by their ability to meet a significant increase in order volumes across all product categories during a worldwide pandemic.

The financial potential of the business was also clearly proven as unit economics were maintained, resulting in strong cashflow and increasing EBITDA through the inherent operating leverage and negative working capital nature of the model. Looking forward, we see a tremendous opportunity to continue growing and scaling the business. Given this opportunity, our focus is on building an organisation capable of sustained growth over the medium and long term. We believe this is the best way to realise the full potential of generating growth for all stakeholders across the Redbubble platform: artists, consumers, the third-party fulfilment network, employees and of course, shareholders.

As such, the decisions we will make over the coming months and years will be with a focus on building the strongest possible business for the medium to long term. Our medium-term aspiration is to drive top line sales growth to enable us to step change the scale of the business and the impact we have for artists. The metrics by which we will measure our success are firstly gross transaction value and artist revenue and Marketplace Revenue, as these metrics directly demonstrate our success or otherwise in bringing consumers to the marketplace, enabling them to purchase, creating loyal and returning customers, and delivering on the key proposition to the artist community which is helping them grow sales of their products.

For these metrics, our medium-term aspiration is to grow gross transaction value to more than $1.5 billion per annum, to grow artist revenue to $250 million, and to produce Marketplace Revenue of $1.25 billion per annum. Those numbers are in Australian dollars. Achieving these aspirations will be a challenge, requiring a combination of disciplined investment, creative and thoughtful experimentation and focused execution. We will make targeted investments across the gross margin, marketing and OpEx lines and the combination of these may lead to some short-term reduction in EBITDA margins.

With these investments in the short-term, EBITDA as a percent of Marketplace Revenue is expected to be in the mid-single-digit range over an annual period. We strongly believe that above-system growth can only be achieved in the long-term through proactive actions. As such, we will focus on a process of targeted experimentation with disciplined investment only when we are confident in the returns to be generated. Leading a company that can continue to demonstrate strong revenue growth rates while maintaining positive EBITDA is both challenging and exciting.

With these aspirations and focus on growth, we see the next few years evolving in the following phases. Firstly, calendar year ’21 is focused on four strategic themes to build the foundations for further growth. The previously shared key strategic themes remain the right areas of focus to strengthen the foundations of the business, building our internal capabilities to enable us to grow in the periods ahead. These key themes remain artist activation and retention, customer understanding, loyalty, and brand development, user acquisition and transaction optimisation, and physical product range and third-party fulfilment network scaling.

Calendar year ’22 through ’24: grow top line sales through disciplined investment. The increased internal capabilities will enable us to undertake disciplined investment to increase both customer acquisition and loyalty. There will be some investment into people as well as targeted investment in gross margin and marketing.

There are multiple levers for growth that we will pursue including: firstly, enhancing the core customer experience through improved digital experience and physical product quality and growing loyalty and repeat purchase, continuing to earn growth in core markets through consistent and selective addition of new physical products and improvement to the third-party fulfilment and logistics network, and then amplifying growth by increasing customers. We'll do this through brand investment to increase awareness and trial and expansion into new geographic markets.

Then for calendar year '24 and beyond, we want to build margin and bottom line as we scale and grow from this investment. So, as sales and revenue grow, we will look to accelerate the operating leverage once again and see corresponding growth in cashflows and EBITDA. We believe the margin profile below is achievable at a scale of $1.25 billion plus of Marketplace Revenue as investment in brand and OpEx are offset by scale economies across the supply chain and efficiencies internally.

Our margin aspirations at $1.25 billion plus of Marketplace Revenue are for 40% to 42% gross margin - this is percent of MPR – 12% to 15% marketing, both paid acquisition and brand, 15% OpEx and that will result in 10% to 15% EBITDA margin. I feel tremendously privileged to be the CEO of the Redbubble Group. I'll continue to develop a compelling workplace culture and environment that attracts and retains the best people on a global basis who have ambition, customer focused and are aligned with shareholders when rewarded for success.

There's a lot of hard work in front of us, progress may not occur in a linear fashion and there is likely to be challenges along the way. None of this, however, will change the opportunity we have and the potential for the business. We are committed to seizing this opportunity and growing the Redbubble Group into one of the leading global e-commerce marketplaces.

I'd like to close by expressing our gratitude and thanks to the artists who trust us to help them monetise their art and designs, the consumers who increasingly turn to Redbubble to find unique and meaningful products, the third-party fulfillers who make these millions of great items, and to our shareholders for your ongoing support and commitment. With that, we'd like to open up the line to questions. Thank you.

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're on a speakerphone, please pick up the handset to ask your question. Your first question comes from Anthony Porto with Morgans Financial. Please go ahead.

Anthony Porto: (Morgans Financial, Analyst) Hi guys and thanks for the update. Look, just on the marketing spend moving more towards brand, obviously this is something you've seen with Etsy et cetera but just how are you actually going to be able to do that? Are we talking more social media brand umbrella advertising? I guess you won't be able to do TV or mainstream media advertising, so just how effectively are you going to be able to implement that and the paybacks you're looking for there as opposed to performance marketing?

Then quickly, the headcount increase, the 30 roles that you've got earmarked there, how much of that is geared towards growth and your growth aspirations versus just having to replenish and you being at a low point at the moment?

Michael Ilczynski: Thanks Anthony, I'll talk to the first one. Regarding the brand investment, that's definitely something that we see more into calendar year '22 and beyond. Our core markets are the US, UK and Europe, which are very large markets and you're absolutely right, it's very easy to spend an enormous amount on brand.

That said, we're very confident in today's day and age and given who our consumer markets are, they access media across a variety of channels and terrestrial and broadcast TV is decreasing in importance to them.

So, we see a real opportunity to put real investment into brand through a variety of different channels and that's part of when we talk about the experimentation that we'll be taking. We're not going to just go out and launch an untested brand campaign out of nowhere; this will be something that we'll be testing both the messages and the channels and then making those targeted and disciplined investments when we see that paying back. So, you're right that these would be markets that we play in.

At the same time, though, the number of channels that we can touch our customers on these days, there's never been more options and there's never been a better ability to track the impact of those marketing investments. So, like I said, it's not going to be some big campaign we're launching in August, this is a CY22 on and we think there's a real way to experiment and step into that.

Emma Clark: I'll just chime in on the second part of your question around the 30 headcount, Anthony. So, it's a little bit from A and a little bit from B, so as you would be aware, think about holistically, the business has doubled in size over the last year. We obviously did a restructure last June where we took out approximately 15% of our headcount which was absolutely the right thing to do at the time, but the combination of those two factors means that we've been running the business – it's very stretched in terms of the amount of people on the ground to do things, particularly over the past six months.

So, there is some natural reinvestment in the current scale that we are to be able to make sure that we can continue to operate at our current scale without anything falling between the cracks, but there is also an element that as we look ahead and as we've outlined in our medium-term aspirations, to get to that $1.25 billion in Marketplace Revenue, we do need to invest in some areas of our business to increase the bandwidth to be able to do the things that will get us there, and so some of those 30 hires are also to be able to do that.

Anthony Porto: (Morgans Financial, Analyst): Okay, thanks Emma.

Operator: Your next question comes from a Robert Bruce with Acorn. Please go ahead.

Robert Bruce: (Acorn, Analyst) Yes, hi. Thanks for taking my call. I just had I suppose one short-term question. The gross profit margin at 38.4% remains below the target of 40%, 42% and whilst the December quarter was called out as facing specific pressures as peak express shipping increased from 10% to 20% of demand, I'm just wondering why it hasn't rebounded in the third quarter in a normalised period without that specific one-off pressure there. Then the second question is probably more medium-term in terms of discipline on spend and what sort of metrics you'll measure there to maintain a control on spend going forward.

I think – I'm speaking as a shareholder in the past – that whilst it's good to engage with all stakeholders, for a while there it felt like shareholders were not the highest priority there and some of the spend was a bit loose, so I'm just wondering how you're going to address that as a management team going forward. Thanks.

Emma Clark: Sure, so I'll deal with the first piece on the gross profit margins and then I'll hand over to Mike for the second piece, Rob. So, in terms of gross profit margins, we've consistently said that the business doesn't need to operate above 40% gross profit margins in order to be a really successful business from a unit economic perspective. That absolutely remains our view. That 40% does need to be viewed as an annual number, not at every quarter.

As you know, having been with us for quite a period of time, there is variability within the quarters in terms of gross profit margin and also in paid acquisition and we would expect that to continue. It's very difficult to be able to hit 40% on the mark every single quarter or every single month. Certainly, what I would say about gross profit margins at the moment is I don't see any cause for concern. We are tracking to where we would expect to track. We will be around that 40% for the full year, we will continue to try and maintain that 40% moving forward, other than if we choose to do investments specifically into that gross profit margin line, at which point we will come and tell you about those.

So, we're comfortable with where it's sitting. I think we come out and we give you a top line number; there's obviously many, many factors that go into that margin including shipping and a product component and then there's obviously product mixes that go into that. So, it does move around as a result of all those factors, but the 40% is in terms of where we're sitting right now and over an annual period is – I can confirm that.

Robert Bruce: (Acorn, Analyst) Right, so you're not seeing any increased competition in the market or anything else that would keep it at that 38% level?

Emma Clark: No. Mike, if you wanted to…

Michael Ilczynski: Yes, sure, thanks Robert. What I would say to be clear is that the aspiration margins that we put at the end, the 40% to 42%, that is at a significantly different scale and as we said, we do intend to run experiments and investments and some of those will hit the gross margin line. On your broader question, look, Robert, I can't speak to the past and whether previous spend in investment was good, bad or indifferent. What I can talk to is what we're doing now and the future and our very strong philosophy is around targeted experimentation and then disciplined investment and we're using those words quite deliberately.

In terms of the metrics that we focus on, it depends on the experiment and what its goal is to do, and every experiment that's run has to have a clear target metric. If it hits those metrics and we think that the results from that experiment can be scaled, then we'll invest. That's where we see it actually really – that's where we could get short-term impacts on margin or otherwise. But to be honest, most of these experiments we're running, you're talking payback within a 12-month or shorter period, and payback in terms of revenue.

So, the experiments, whether they're changes to the website, whether they're changes to other things, we would expect them to pay back in the period in revenue, effectively. That's our real focus. Our focus is on driving top line and driving top line through small-scale experiments. If they work and they pay back, then we double down and roll out those experiments more broadly. If they don't, we learn from them, we shut it down and we move on. So, you can see the combination for keeping costs under control: 1) keep the experiments small and 2) only roll out and push them broader when we're confident in the ability to scale the results.

Robert Bruce: (Acorn, Analyst) Great, thanks. I suppose the word experiment can lead to a degree of a risk, but if you're going to keep the investment small until the experiments are proven, that I suppose sounds like a sensible way. Thank you for that.

Michael Ilczynski: That's the goal. There's not many things that we can do and know for certain something is going to work, and therefore the scale of magnitude of each one of those experiments – and don't get me wrong, there is cost around those, and then it's our job as a management team to keep the scale of those experiments right sized until we're confident in the results.

Robert Bruce: (Acorn, Analyst) Okay. Thank you.

Operator: Your next question comes from Martin Tran, a private investor. Please go ahead.

Martin Tran: (Private Investor) Thanks for taking my call. I just want to know what the current artist retention rate is and how that compares to the industry? I remember in the 2019 annual report it was 3.3 years.

Emma Clark: So, we don't actually have that metric in front of us, Martin. Thanks for the question, though. What I can say is that our artist retention is very good, so it is not any cause for concern for us at the moment. The amount of artists that remain with us and content that remains on our site that has been there for more than a year, as we always say, is about 60% of our sales and it has remained quite consistent over the past few years, which mathematically tells you that the artists and their content are staying around for the long haul.

So, that's not been an issue and we're actually very comfortable with the artist or supply side of our flywheel at the moment. We continue to bring new artists on. There's been no change during COVID about artists leaving the platform; quite the opposite and so really, there's actual work involved in deciding not to be an artist and taking your content down and the reality is that most artists just don't ever do that.

Martin Tran: (Private Investor) Yes, right. Just another question: what kind of things do you do to keep artists on your platform?

Michael Ilczynski: Yes, sure, it's an excellent question. We run a variety of artist engagement initiatives, in particular one of the – you'll see on the key themes that we've got for calendar year 2021 is artist activation and retention. That's actually a Group initiative that we're operating across our two business of Redbubble and TeePublic to bring some of the best practices from both of the businesses together in terms of how we acquire and retain. When we talk about retain, that's about management and bringing in another level of sophistication, particularly with how we identify those selling artists with real potential to grow their sales on the platform through a little bit of help and a few more tips and techniques.

So, that initiative is ongoing. It's not yet scaled up but it's invested and the team is up and running and we're quite excited about the potential that that has over time to help artists on both platforms and also potentially create some cross-migration of artists that are on one platform and not the other, particularly where they're selling artists.

Martin Tran: (Private Investor) Thanks for answering my questions. Thanks guys.

Emma Clark: No worries.

Operator: Your next question comes from Tim Piper with RBC Capital Market. Please go ahead.

Tim Piper: (RBC Capital Market, Analyst) Morning, team. Just a few questions. Just the first general one around your longer-term aspirational targets, when you talk to $1.25 billion of GTV, can you provide a framework around that? How have you come to that number? You've provided some addressable market figures in the release as well, but you've also recently talked about Redbubble potentially being a broader marketplace. Is this still focused on the core categories and core products of what Redbubble is or are you thinking about an expansion beyond that within that target?

Michael Ilczynski: Sure, Tim. Thanks for the question and I know that you've got probably one or two more. In terms of how do we frame it, a couple of things: 1) you're recognising that COVID did produce a substantial uplift in the business and that calendar year '21, as we've talked about a few times, will be a volatile year, particularly as we cycle into the comps, which we're just starting to cycle right about now. That said, when we look ahead and when we look at where do we think we're going to exit calendar year '21 and then what do we think this business has the potential – what's an average CAGR at the revenue level that we think this business should be able to achieve from the end of calendar year '21 onwards, that's one absolutely key frame for us.

The second frame, as you'd mentioned, was looking at our total addressable market, looking at the product categories that we're in now, and then thirdly, to go to the other part of your question, is what are those potential levers for growth that we see in the business? So, when we look at all of those things, where do we think we're going to exit '21, what do we think a reasonable revenue CAGR for this business should be, what do we think the growth opportunities are and what's the TAM of the markets we're playing in?

We do see enormous growth potential in a number of those levers. Some of those are absolutely current markets, current customers, and we do think there's a lot of growth there just through improving the way that we operate internally, increasing our customer acquisition and really driving customer loyalty and increasing our repeat rates. That said, though, we also do see expansion through selected addition of new product categories onto the marketplace as well as probably later – and this is probably more looking into calendar year '23 – expansion into new geographies.

So, we see all of those levers being able to be pulled. They are reliant on us really building our internal capabilities for any of those to work. So, when we put all of the opportunities that we see for expansion, what we think our starting point will be and what we think the business is capable of, that's where we get to that aspiration that we want to shoot for and we want to shoot to effectively double the more business from where it is today.

Tim Piper: (RBC Capital Market, Analyst) Okay, thanks. Just a second one: you talked to strong artist retention; I guess on the other side of the network you've got customer retention which may be an area that you've obviously been focusing on and could continually improve. When you talk to targeted experimentation in the near-term, how good is the platform you have around measuring the success of those experimentations in terms of is it working from a customer repeat and frequency type perspective?

Michael Ilczynski: Yes, great, perfect question. So, that is actually where investment and work is happening right now, is on targeted experiments around trying to increase some of those repeat purchase rates. We are only running experiments. We're confident in the ability to measure the results. That does mean that some experiments at the moment we can't run because we're not confident in our ability to measure results and to address that, we do have a major ongoing initiative around our customer data platform and I think we spoke to that in February, that initiative's ongoing and it's going well.

It's not fully in yet and it will take probably quite a few more months to be at the position that we want, but it's progressing on track for what we thought. So, it's a dual combination answer: 1) that yes, we're running money experiments where we're confident we can measure the results, and 2) where we can't measure results, it's why and what do we have to do to our systems to increase our internal capability?

Tim Piper: (RBC Capital Market, Analyst) Okay, thanks. I might just squeeze in one last one, just around gross margins but more on a longer-term basis when we think about reinvestment. Are your targets factoring in continued improvements in the quality of the products, the quality of the blanks? I think there's maybe some areas where some improvements across some products are still required. Is that something that is going to be required that is going to pull gross margins down at all?

Emma Clark: Yes, really great question, Tim, and obviously one that's probably on everyone's mind. So, in setting out the mid-term aspiration and saying that at that $1.25 billion plus we're running at 40%, 42%, that takes into account both the structural tailwind that we have in margins, increasing scale, increasing volumes, lower cost of printing technology, but it is also includes the net effect of all the investments we've made, exactly to your point, to improve the blank quality and improve the actual experience, whether it be the shipping price that a person's paying or the actual products that we're giving them and how we select that.

So, that's where we end up at the end of all of that. Before we get to that place, we are likely to have to take – well, not have to, but choose because it's the right thing to do to make some targeted investments which may drop the margin below that 40% in the near-term. As I said before when Rob asked his question, if we are going to do that and they're going to make a meaningful difference to the margin, we will come out and communicate that to the market, rather than come later on and say, oh, we did this.

We'll make sure that everyone remains well-informed and we're very transparent about that. So, at the moment there's a couple of small-scale things happening that will impact margin, but they're not enough for me to say it's going to move margin significantly. If that changes, we'll let you know. As we discussed I think in February, there are many elements that make up the customer experience. Some of those elements do nest in the margin line and so we will experiment gradually into those over the next one to two years.

Michael Ilczynski: I think the other thing to point out with margins is our gross margin does differ across our products. So, as consumer preferences change and different products take off, it does actually move margins and that's part of the business, so as Emma said, it's not a lever that we have 100% perfect control over because there just are different gross margins across different products and as consumer preferences and consumer demand shifts, that will move gross margin around a bit naturally on its own.

Emma Clark: Yes, on a quarterly basis. On an annual basis, we're a little more confident, obviously.

Tim Piper: (RBC Capital Market, Analyst) I understand. Thanks for taking the questions.

Operator: Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. We'll now pause a short moment to allow time to register your questions.

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

Michael Ilczynski: Thanks everyone, I want to thank you for joining us on the call. We hope that both the trading update and the information we've provided around our direction and medium-term aspirations has helped to inform the market and we look forward to your ongoing support and discussions moving forward. Thanks for joining us today.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

End of Transcript