



FY2021 Full Year Results - Investor Update

Conference call transcript

19 August 2021

Start of Transcript

Operator: Thank you for standing by and welcome to the Redbubble Limited Group FY results 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 Ms Louise Lambeth, Head of IR. Please go ahead.

Louise Lambeth: Thank you. Good morning everyone here in Australia and good afternoon for our US investors. This is Louise Lambeth, Head of Investor Relations for Redbubble Group. Welcome to this investor call following the release of Redbubble's FY2021 full year results and reports earlier today. With me on the line, I have Redbubble's CEO, Michael Ilczynski and CFO, Emma Clark. As well as the full 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. The Company strategic and operational metrics are from internal management reports and have not been subject to audit.

Mike and Emma will now speak and then we will open up the line 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 on to Mike.

Michael Ilczynski: Thank you, Louise. Hello everyone and welcome to Redbubble's financial year 2021 full year results. I'm really delighted to be here with Emma presenting our results, which produced a record year for the company and have demonstrated the power of the business when it is operating at scale. In summary, at the Group level, gross transaction value across the platforms was \$701 million for the year, up 48% versus pcp and up 60% on a constant currency basis. Marketplace revenue was \$553 million, up 58% year on year and 71% on a constant currency basis.

We're very proud of the \$104 million in artist revenue that was earned by artists on the platform. This is an incredibly important milestone as it took Redbubble 11 years to achieve more than \$100 million in total cumulative artist earnings, whereas over the course of the financial year, this was achieved in just under 12 months, a testament to the strong growth experienced by the business and the artists that we serve. These record top line results translated into equally strong growth in gross profit, EBITDA and cash flow and Emma will go into more detail on the financial outcomes in a few moments.

I'd like to take a moment to step back, reinforce and elaborate on our medium-term aspirations and strategy which we articulated in April in our letter to shareholders. I'll then go through a review of our FY21 operational performance against our key strategic themes, before passing to Emma, who will speak to the financial results in more detail and discuss the business' outlook.

So moving to slide 4 for those of you following along, FY21 showed that we are well and truly on our way to creating the world's largest marketplace for independent artists. This remains our mission, it drives our ambition and we are passionately committed to it. On slide 5, to continue towards this mission, our medium-term aspiration is to drive top line growth to enable a step change in our business scale and artist impact. As many of you will be familiar with, Redbubble operates a unique three-sided marketplace with genuine flywheel effects where improving one side creates a positive reinforcing impact on the other side.

In simple terms, the content that artists sell attracts customers and as more customers purchase, that enables the fulfilment network to scale, lowering costs and thus attracting additional customers. This increase in customers further creates more artist revenue, encouraging new artists to the platform, they add more content, thus attracting more customers and the cycle continues. Given the centrality of customer sales to this process, you'll see a focus on driving customer growth and loyalty in our medium-term aspirations and strategy.

Slide 6 - If we pursue these aspirations, the key high-level outcome metrics by which we'll measure our progress are gross transaction value, artists' revenue and marketplace revenue. Our medium-term aspiration is to grow GTV to more than \$1.5 billion per annum, to grow artists' revenue to \$250 million per annum and to produce marketplace revenue of \$1.25 billion per annum. It's through these metrics that we hope to demonstrate our success in delivering a step change in artists' impact in directing consumers to the marketplace, enabling them to purchase, turning them into loyal customers and continuing to grow and scale the third party fulfilment network.

On slide 7, we really do believe that Redbubble is uniquely positioned to capitalise on this opportunity and emerge a significant winner in what are very large, addressable markets. Not only are we uniquely positioned within markets that are growing towards spends in excess of US\$400 billion, we are also continuing to benefit from ongoing structural shifts in some key macro trends that will continue to be in our favour for the foreseeable future.

On slide 8, our willingness to openly set and share these aspirations and our confidence in our ability to achieve these in the years ahead, is also reinforced by the Group's track record of top line growth. From FY17 to FY21, marketplace revenue grew from \$141 million to \$553 million, a cumulative average annual growth rate or CAGR of more than 40% per annum over that period. If we take our FY21 underlying marketplace revenue of \$497 million, which excludes mask sales in FY21, the CAGR is still 37%. This track record enables us to look ahead with confidence as we aspire towards a CAGR of 20% to 30% over the next four to five years in order to achieve our top line aspirations.

Slide 9, to achieve this aspiration, we shared our high-level plans in April of making investments that will be phased and evolved over the years ahead. These investments can be directly mapped to the four strategic themes which we have outlined on several occasions now and which continue to underpin the foundational work the business is progressing through the year. We've provided this slide to give you a visual representation of key areas of focus against these strategic themes and how they will evolve and develop over time.

In the interest of time, I'm not going to go through every detail of this chart, but I will highlight how this strategy demonstrates the number of growth levers that we have and how our focus in investment will change over time. For example, this shows the OpEx investments that we're making right now in the coming year, particularly in

our product and engineering teams, is to improve the digital experience for both artists and customers. It shows how we expect it to be another year or so before we will see an increase in brand marketing and the growth that that will drive and how geographic expansion also forms a core part of our growth strategy, but that's likely to be a few years away from now.

I'll now run through what the business achieved operationally during FY21. So on slide 11, many of you who've been following us over the last 12 months will be familiar with this page. As I mentioned earlier, these four strategic themes embody the foundational work that we're undertaking to enable continued growth. And we've made some exciting progress against each of these themes, which I'll run through on the following pages.

So starting with the theme of artist activation and engagement on slide 12, from an outcome perspective, FY21 saw a record \$104 million earned by 728,000 artists across the RB Group marketplaces. As I said earlier, this was the highest annual amount earned by the artist community - an incredible milestone for the business. In addition to the total dollars earned, we're also very pleased to see such strong growth in the number of selling artists during the period.

On slide 13, this is a really important chart for us as a business, as it demonstrates the ongoing compounding value of artist cohorts each year. The chart shows how marketplace revenue is not only generated from new artists, but also primarily from existing artists on an ongoing basis, which demonstrates the long-term value that artists and their content bring to the marketplace. Operationally, our Group level artists function was established in the second half of the year and this group will take a more proactive and segmented approach to artist acquisition and engagement across both the Redbubble and TeePublic marketplaces in the years ahead.

On slide 14, onto the second theme of user acquisition and transaction optimisation, we had 9.5 million unique customers that made purchases on the Redbubble marketplace during FY21, up 40% year on year. Across our various customer acquisition channels, organic was strong, it remains a key source of competitive advantage for the Group, while we saw growth in Google Ads, affiliates and PR and we continue to experiment with new channels to diversify our acquisition sources and find new areas of opportunity.

On slide 15, the mobile experience continues to be increasingly important; 55%, so more than half of all sales on the platform occur via a mobile device. Within the mobile environment, our apps are an important part of our long-term strategy, so as such, it was really great to see marketplace revenue on our apps grow 77% year on year during FY21, outpacing the strong overall growth and now 14% of the Redbubble marketplace sales are coming via its iOS and Android apps. We continue to see stronger engagement and retention from customers who use our apps and as such, we will continue to invest in improving and attracting customers to these platforms.

On slide 16, as I flagged in April, developing a culture and process of targeted experimentation across the business is a key aspect of enabling us to achieve our medium-term aspirations. An initial and certainly an ongoing area where we'll be taking this approach is across the customer funnel. I'm happy to share some examples of our experimentation, which is starting to provide some insights into our future growth opportunities. We've been experimenting with new social channels in order to expand our audience reach, as well as improving audience targeting to drive ad efficiency. This includes trialling podcasts ads that I highlighted earlier, which reaches new audiences of over 3.5 million.

We also trialled free or reduced shipping costs and delivery date experiments, which is showing the potential for conversion gains. For example, one of our free shipping experiments showed results of up to 40% gain in conversion, however this does need to be balanced against the decrease in margin from reduced shipping revenue, so more work is needed here on the best way to take these findings forward. Finally, we recently

launched our second buy-now-pay-later provider experiment and the early signs show up to 50% increase in average order value for customers using the buy-now-pay-later option in one of the experiment variations. So we'll continue with these particular experiments, as well as more importantly, this overall philosophy of targeted experimentation to drive improvement.

Finally, I also want to reinforce that this view of the customer funnel has very much evolved beyond being a single transaction view, so also include driving repeat rates as we improve customer loyalty, which I'll touch on in the next section and as we've talked before, will be an ongoing focus in the years ahead.

So on to slide 17 and customer understanding, loyalty and brand building, it was really pleasing to see that even with the record number of customers and record sales results, purchases by repeating customers made up 42% of marketplace revenue, with the greatest rate of revenue from customers making a repeat purchase outpacing that of first-time purchases. In particular, I wanted to highlight that the number of new customers who came to the site in the first half of FY21, so this was the COVID holiday period, the real surge that came at that period of time, those customers are demonstrating the same repeat rate, which is a key loyalty metric, as the equivalent of much smaller cohort from the prior year pre-COVID.

So specifically, in the first half of 2021, the new customer cohort was 62% larger than the same cohort in the first half of 2020, yet it's showing the same rate of repeat purchase behaviour after three and six months. This is important, as it shows that those customers who were arguably forced to do their shopping online during the shutdowns last year, have stayed with us at the same rate as those who acquired pre-COVID.

Moving to slide 18, as we discussed in April, one of the critical pieces of work that we've been investing in is our new customer data platform. This lays the foundations for deeper understanding and engagement with customers, as well as enabling us to gain insights into the lifetime value and acquisition costs of customers acquired through different channels at different times. For example, the cohort repeat data that I mentioned on the previous slide was generated through this platform. So it's still early days in our implementation of the CDP and doing our internal capability, but we wanted to share some initial examples of the opportunities that this will bring.

So for example, in a recent Facebook experiment, comparing audiences created through the CDP to a pixel-based re-marketing audience, we saw a 33% increase in the click-through rate and a 17% uptick on return on ad spend. In addition, using the CDP, both Redbubble and TeePublic marketplaces are investing to create and structure more first-party data to ensure continuity in our marketing effectiveness as ATT, which is Apple's App Tracking Transparency program and other privacy changes that are particularly impacting the effectiveness and attribution of marketing on third-party platforms. So it's helping us to maintain our marketing effectiveness despite these changes.

On to slide 19, we've flagged that increasing brand marketing to drive awareness engagement will be a large part of the next phase of investments and growth, likely a year plus away from now. However, our Redbubble and TeePublic marketing teams are already making progress with early experiments on our brand positioning and these are resonating with media and target audiences. This includes a 31% increase in click-through rate for our recent Redbubble brand commercials relative to other video campaigns. The focus on growing our PR channel, started about 18 months ago, is going really well and we're very much encouraged by these early results, which indicate that they're laying the right foundations for launching future successful brand campaigns.

Then finally, on slide 20, let me turn to the third-party fulfilment network and improving our physical product range. This is an area where the business has made significant investments previously to diversify the network, to build in redundancies and reduce the time it would take to add new fulfillers or new products to the

marketplace. It is here that the value of prior year investment into the network was really demonstrated and the business was able to respond to the increased demand due to COVID and deliver the largest holiday season in the company's history.

During FY21, there were 11.6 million packages shipped, up 47% year on year. The third-party fulfilment network model enabled and maintained continuity of operations and supply in the face of surging demand, record volumes and constrained shipping conditions due to COVID. I'm really proud of what was achieved without compromising the customer experience.

On slide 21, Redbubble added new products including jigsaw puzzles, aprons and magnets. We've also started to have a particular focus on improving and refreshing existing product ranges and we saw this deliver acquisition and conversion gains, along with a quality uplift to improve repeat purchasing. So this is something that will remain an ongoing focus now, alongside selectively adding completely new products. So for example, there was a 30% increase in marketplace revenue from tri-blend tees by adding four new colours. We're also undertaking work to improve the physical product experience, with experiments running right now, looking at the impact of changes to blank quality, packaging inserts and delivery day changes.

On to slide 22, finally I'm really excited to share with you that Redbubble has become the first at-scale print-on-demand marketplace to launch caps. These are now available from local sellers in the US market, so for those of you who are in the US, we'd love you to order some and tell us what you think. We've launched two types of hats, the structured baseball cap and the softer, unstructured dad or polo cap.

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

Emma Clark: Thanks Mike and hello to everyone. I will now cover our financial performance in more detail and provide our near-term outlook. Please be aware that unless otherwise stated, the financial results discussed are on a delivered basis as per our statutory requirement and all have been subject to audit. As Mike covered at the start of the call, Redbubble delivered a record year of results in financial year 2021. When looking at the year, it is pleasing to see that all of our financial metrics experience exceptional growth. In particular, I would like to call out the \$553 million in marketplace revenue, up 58% and 71% on a constant currency basis.

Customer demand has been sustained throughout the entire year, even as offline retail has started to re-emerge from COVID impacted trading. From the start of the fourth quarter, the business began to cycle very strong prior year comparatives. Global macro conditions, particularly in the US, which is our largest market, have changed noticeably. The situation is still evolving, however in most of our geographies, people are able to move around more freely, dine out and travel and as such, we are seeing a return to more normalised, seasonal patterns. We are very satisfied with the fourth quarter's performance, where if one adjusted out mask volumes from both years, we grew 1.8% year on year on a floating basis.

As the prior year is such an unusual period, it is useful to measure the growth of Redbubble over a longer period of time. For example, if we look at the growth rate over a two-year period for the fourth quarter, underlying performance is a compound annual growth rate of 32% since financial year 2019 on a constant currency basis. This demonstrates that the business has kept the majority of its pandemic-driven gains.

Moving down this year's profit and loss, we maintained and improved unit economics. Gross profit margins were higher in the financial year primarily due to the strong contribution of higher-margin products such as facemasks. This resulted in gross profits of \$223 million, up 66% and 79% on a constant currency basis,

outpacing what were already impressive revenue growth rates. We are pleased with the fourth quarter margins which stabilised at 40.2% and provide a solid foundation for both continued experimentation and optimisation.

Redbubble's full-year EBITDA was \$53 million, up \$48 million from the prior year. The ramp-up has been significantly accelerated due to the record revenue growth with most of the uplift dropping directly to EBITDA. Financial year 2021 certainly demonstrated the powerful effects of our marketplace model and how quickly profitability can scale with additional revenue.

It is worth pointing out that FX continued to have a notable impact on the year-on-year comparable as the AUD-USD pair was a headwind in the second half of last financial year. We provide growth rates on a constant currency basis to take out the noise that can occur in our quarterly results.

As these three charts show, when viewed over the medium term, strong growth has been consistent and is continuing to underpin key profit and loss lines. The business was able to pivot and respond to macro events to achieve record financial results during the last year. However, leading into this period, this was already a business delivering long-term year-on-year growth as demonstrated by our five-year-old historical compound annual growth rates of more than 40% across marketplace revenue, gross profits, and gross profits after paid acquisition. Even if one adjusted out last year's mask sales, the growth rates would still all be in the high 30s. It is certainly a strong long-term track record and we are confident in our ability to drive continued growth into the future.

Although ASX-listed, Redbubble is a truly global business and our multiregional footprint is a key strength with growth continuing across all of the core geographies. There is a combined population of almost 1 billion consumers in those key markets and you heard Mike earlier talk about the large total addressable market that we have set our sights on. As such, there is no risk that we will hit a hard constraint on the number of customers available to us in those geographies in the medium term.

There are a diverse range of physical product offerings available on the marketplaces and each category has grown during the last year. We have added data showing transactional volumes to each of the categories over all years and this was done to highlight the fact that absolute dollar growth has occurred across each and every product category over multiple years. Homewares and artwork, including wall art, were popular categories during the pandemic and T-shirts and other apparel also saw good growth over the last 12 months. Even stationery and stickers managed to grow 11% year-on-year despite most students being confined to remote learning. Finally, facemasks unsurprisingly were a significant contributor during the year, boosting accessories growth to 119% year-on-year. I will go into more detail on this in the next slide.

As we start to cycle the COVID comparatives it is pleasing to see categories that had more muted growth rates during the last financial year, such as apparel and stickers, start to accelerate again. In total, masks contributed \$57 million to financial year 2021 marketplace revenue. If we take this out, the underlying marketplace revenue was therefore \$497 million. Underlying marketplace revenue growth was still strong at 47% and represents substantial growth over the prior year marketplace revenue of \$350 million.

As we have shared over the last 12 months, the benefit of masks we've seen predominantly in the first half during which facemasks were contributing as much as 27% at their peak. We have provided the split of mask contribution by half which highlights that of the \$57 million of marketplace revenue that came from facemasks, \$47 million of this occurred in the first half of financial year 2021. This exacerbated our normal seasonal split with 64% of marketplace revenue occurring in the first half versus 36% in the second half. The more normalised seasonal split is closer to 58-42.

Last year's record financial results from a profitability perspective has also provided many other benefits, not the least of which is the substantial cash balance that the business is now holding. For the first time in our history we can sustainably invest into our future growth. If, for example, one of our experiments shows promising early results we can use our own cash reserves to rapidly accelerate the experiment to generate the most material impact upon both revenue and ultimately more profit in future periods.

It also gives Management and the Board considerable strategic flexibility around a range of capital management strategies, from M&A at one end of the spectrum to share buybacks at the other end. All of these options are under active consideration by the Board. Redbubble currently operates with no debt facilities and due to its positive working capital dynamic has only accessed equity funding once, in 2018 for the purchase of TeePublic.

There are also a couple of other balance sheet related items that are worth mentioning. As some of you would be aware, we have \$37 million of off-balance-sheet tax losses. As the business becomes profitable from a taxation perspective, these losses are available to be utilised to offset tax payable at that time, and as we discussed at some length in our last full-year results call, Redbubble is required to recognise revenue upon delivery of goods rather than when the customer has paid for the order. This results in revenue being deferred to the balance sheet. As at 30 June 2021 this was \$8.7 million.

Let me now explain our near-term outlook for financial year 2022 and provide our views on the medium-term financial parameters. As you are aware, we don't normally provide any form of guidance but given the ongoing uncertainties in the macro environment, this can result in those modelling the business generating widely varying outcomes. We would like our shareholders to be as aligned as possible with our own current internal views on near-term performance which take into account business for the current year to date in July and August.

The last 12 months saw phenomenal growth across the business. This means that in the near term, Redbubble will cycle strong prior period comparatives. As we have flagged, masks were a significant contributor, adding \$57 million to last year's marketplace revenue, and as you saw on the previous slide, the underlying financial year 2021 marketplace revenue was \$497 million. Looking forward, Redbubble expects financial year 2022 marketplace revenue to be slightly above financial year 2021's underlying marketplace revenue. This will still represent solid growth on the \$357 million achieved in financial year 2020.

The first half of financial year 2022 marketplace revenue growth will likely be negative year-on-year as the business cycles a particularly strong period due to both COVID lockdowns and including masks. From the second half, we expect a steady return to year-on-year growth rates consistent with meeting our medium-term aspirations. Targeted investments will continue to be made and will affect growth margin, marketing, and OpEx lines.

Investments in financial year 2022 will focus on key aspects of the customer experience, both digital and physical. These are aimed at driving cumulative increases in users, order rate, average order value, and repeat rate. As noted in the April release, EBITDA margin as a per cent of marketplace revenue is expected to be in the mid-single-digit range for financial year 2022 with EBITDA margin expected to expand over the medium term with top-line growth.

Looking into the near to medium term, I would like to reiterate the potential for Redbubble to build margin and bottom-line improvement as the business scales. As we shared in April, our medium-term aspirations are to continue growing the business to \$1.5 billion in gross transaction value, artist revenue of \$250 million, and marketplace revenue of \$1.25 billion in calendar year '24 plus. We shared this slide in April and most of these numbers will be familiar to you.

One of the nuances of being a long-term, high-growth business rather than a stable low-growth business is that there will continue to be volatility in margins from year to year. Long-term above-system revenue growth requires investment and as such, the EBITDA margin in any given year will depend both on the overall scale of the business at that time combined with whether we are in an investment phase, as we are currently, versus a consolidation phase. We've expressed all major profit-and-loss lines with a range to attempt to illustrate this dynamic but had left OpEx as a single data point, which in hindsight is not the best representation.

Accordingly, we have updated this to a range of 12% to 15%. The flow-on effect at the EBITDA level is that the range has increased from 10% to 15%, to 13% to 18%. This change better illustrates the economic potential of the business when it is operating at scale and its ability to generate EBITDA and cash flows at that point. Like all great marketplaces, we operate with discipline and maintain an agile and appropriate balance between revenue growth and margin generation. We are focused on building towards our midterm aspirations and looking at our historical performance, continue to believe that this is an achievable goal.

I will now pass back to Mike.

Michael Ilczynski: Thanks, Emma. Just before we open up to questions, I would really like to reinforce how optimistic we feel about the future for Redbubble. It's a business with some truly unique assets and a competitive position with compelling opportunities and many growth leaders. I'm just over six months in the role myself and I feel more confident about the opportunity than when I started.

I would also like to publicly thank all of the team across Redbubble and TeePublic for their efforts through the year, for their dedication, and their ability to adapt to these trying times. We believe in continued and consistent focus on investing in order to scale and grow the marketplace is the optimal path for the business right now and the best way to generate maximal long-term shareholders value. I would like to thank all of our shareholders for your continued support on this path. I will now open up the lines to questions.

Operator: Thank you. If you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star 2. If you are on a speakerphone please pick up the handset to ask your question.

Your first question comes from Anthony Porto from Morgans Financial. Please go ahead.

Anthony Porto: (Morgans Financial, Analyst) Hi, guys. Thanks for taking the questions. I guess the first one just with cycling the COVID tailwinds, Emma, you mentioned in the second half you think revenue growth is going to be picking up there. I guess we had all assumed the next couple of quarters were the hardest ones to cycle but I know Etsy came out a couple of weeks ago and just spoke about the impact of US stimulus and how the first quarter and next calendar year would be the hardest for them to cycle. So, if you could just maybe provide a commentary on that and just your ability to cycle that kind of US stimulus. I do note you grew less than Etsy in that quarter.

The second question, just on the Brandy Melville case, I can't see it anywhere in the numbers at all where you've provisioned for that. I assume that's because it happened after the financial year. The US\$520,000 in damages, if you can provide how many other cases have you got in litigation. There's said to be a number in the Californian District Courts, and I guess reading through the announcement there, it was more the repeated refusal to take off the infringing products there that really got you caught in contributory negligence there, and

just some commentary around that. I know it was before your time but just some commentary around that. Then going forward, how much non-authentic - is how it used to be referred - content is still on the site.

Then just lastly, around marketing efficiency going forward. I guess numerous ecommerce players are talking about the impact of Apple's IDFA changes and on marketing efficiency. Have you guys seen any impact there, and then just general cost escalation in digital advertising, how do you think your paid payback holds in for the next couple of years? Not really putting that much more above-the-line marketing seems at odds with a lot of the other ecommerce players in the market. Sorry, they were three reasonably in-depth questions.

Emma Clark: Yes. Anthony, I think you've just won an award for managing to jam the most pieces of information into a single question ever. I'll start and answer some components of it then I'll hand over to Mike for some others, and if we miss a piece just remind us, okay.

Anthony Porto: (Morgans Financial, Analyst) That's okay, I will remind myself.

Emma Clark: In terms of the commentary that you made regarding Etsy, stimulus, and what's happening in the US and the near-term comparative, we certainly would see similar dynamics to that particular business in terms of how those prior year comparatives are either the hardest or the easiest at certain points in time. As I discussed in the call earlier, primarily we see the difficult comparatives through the first half of the year and certainly within that, the first quarter is the hardest. The first quarter is the hardest comparative period for us to cycle. Then as we also said, we would then start to see a normalised return to the growth rates that we really need to see in order to be able to achieve our midterm aspirations, so I would concur with the statements made by that. We can certainly...

Anthony Porto: (Morgans Financial, Analyst) So Emma, that's kind of at odds with Etsy. Etsy's statement is your third quarter is the hardest to cycle, given the US stimulus in that kind of March period.

Emma Clark: Yes, okay, so apologies for any confusion caused, they obviously deal with calendar quarters instead of financial year quarters as we do. So for us, it's the first quarter of the financial year, which is the July to September period. After that, the comparatives do start to get easier, because for us then based on what we're seeing at the moment, the difficulty in the comparatives is actually primarily caused by the impact that masks had on the marketplace at certain times, because obviously they moved quite quickly, peaked quite high and then fell off.

And so as we go through that cycle, which for us is in the July to September period primarily, that we see the most difficult comparatives, if you're just looking at a headline year on year basis and then they start to get a bit easier for us. So that's the answer on the YoY comparative.

On the Brandy Melville, in terms of provisioning, we do have it provisioned. I'll let Mike talk in more detail, more generally about the cases, but there was a change in the damages awarded that happened soon after year end, reducing it to US\$220K. We do have that amount provisioned in our accounts, but we also have an offsetting receivable because we do have insurance that covers situations like this and there is an insurance receivable that effectively matches and offsets that, though they appear in two different places in the balance sheet. So the net P&L impact is not there, but they are recorded in the balance sheet.

Then the third piece I'll quickly pick up in, I think in your third question about marketing spend before I hand to Mike, is in terms of digital channels, I mean as we said last quarter, we've definitely seen a return to more normalised competitive conditions in the online marketing space. Most players are back, they're bidding for

inventory the same as us and you can see in the fourth quarter our marketing as a percentage of sales, was 13.2%, which is probably a little higher than what we would ideally like to see, but is driven by those market dynamics and the competitors that are out there at the moment.

We would consider that to be – I mean obviously looking at marketing quarter to quarter is tricky because there are times when we will actively invest in more marketing, so for example, around now around back to school and obviously in the traditional holiday period, so it can bounce around a little bit. But I think underlying our view would be that where we're sitting at the moment, we don't see any shifts at the moment in that landscape that would mean that we would drastically have to change the amount that we're spending in paid marketing as a percentage. So I think what you're seeing at the moment in our financials is what you could reasonably expect to continue to see in the near to midterm.

So I think that's mainly the financial ones. I'll hand over to Mike for some of the other elements of some of your questions.

Michael Ilczynski: Yes, thanks Emma. Just on marketing Anthony, definitely there are different times of cost escalation in different marketing channels and some of that has absolutely been impacted by ATT, it just makes it a lot harder to see conversion on different channels that we use.

But our marketing spend, our paid acquisition spend, as we talked about, is really spread across a lot of our channels, a lot of different channels. Our team's pretty nimble, so they've got an ability to monitor what's been effective, what isn't and shift spend across channels, which is why we're sort of confident in the total spend, but absolutely it moves around and things are moving around, it's quite a dynamic environment at the moment.

Just on the litigation, it's really challenging for us to comment on individual cases. What I would point out within the public domain is that the Brandy Melville damages were reduced by more than 60% straight off the mark by the judge, some refining and we continue to file motions and we continue to disagree with the premise of the findings by the jury in that case. I disagree with the premise that there was any repeated refusal to take down infringing content. That's just not an accurate statement.

We take the rights of rights holders very, very seriously. Whenever anything is raised, it's instant, it's a 24-hour or less turnaround by our team on looking into any potential right infringement and if there is any infringing content, it's removed and we continue to monitor for infringing content on an ongoing basis. The challenge is any technology or human based system is not foolproof. It's not foolproof. Image detection is not foolproof, tagging detection is not foolproof and sometimes unfortunately, bad actors, content gets through by bad actors.

Every single site that deals with UTC has to deal with these issues. We take it very seriously and as soon as we're made aware of infringing content, it's taken down. So I'd just point out - that concept that the repeated refusal to take down is just not accurate at all and we feel really strongly about it, really strongly about that.

Then finally on the comps, it is important to point out, if you look back on last year, there are a few things going on and as well as mask sales, this kind of COVID surge that happened that was driven by firstly an inability to shop offline because of lockdowns or shutdown of retail, coupled with stimulus that happened at the same time, really did increase overall demand in the marketplace. That hit during really three-quarters of last year, but particularly for us in the first half, then a little bit into late Q3.

What's really encouraging for us is we look at where the business is now and I can't emphasise enough that in the US and the UK, from a consumer spend perspective, we're in a post-COVID world. Every single offline retail outlet is open. Every single bar and restaurant is open. The US are travelling domestically and internationally.

So we might be hearing a lot about the Delta variant, but from a consumer spend perspective, in the US and in the UK, it is back to – we're in a post-COVID world.

And in that post-COVID world, we're seeing our demand hold up. Even in Q4, if you adjust out masks where we're flat, we're really encouraged by it, because it means we're holding those COVID surge numbers almost completely, which is the big question, is how much will we hold. That means we're 50% up on where we were two years ago. So we're really encouraged by the position we're in.

Anthony Porto: (Morgans Financial, Analyst) Great, thanks for that guys.

Operator: Thank you. The next question is from Martin Tran, a private investor. Please go ahead.

Martin Tran: (Shareholder) Hi guys, thanks for taking my question. First question I had was around artists. Some artists have said that they post their work on what's called print-on-demand sites to increase their profit. Where do you guys see Redbubble's competitive advantage, given that consumers can access the same art on multiple websites?

Michael Ilczynski: Thanks Martin. I think primarily for us, what we hear from our artists is even those that do multi post effectively, the great thing about Redbubble is it's the one that generates by far the majority of their sales. So we are the go-to place and what we see with our artists is when they come on, they very, very rarely leave. We have almost no issue at all with artist attrition or with content going off the site.

But what we know from an artist's perspective is the number one thing that they want is they want to generate sales. They want to generate sales. And so that's why our job, the job of our platform, is to bring that demand to their content, to their product and help them generate sales. That's our big competitive advantage. There's no other site, there's no other marketplace in the world that has the scale of consumer interest that we do and that really is self-reinforcing. As we get more artists, our SEO gets better, our marketing gets better.

And particularly while we talk a lot about our paid marketing, it's really important to remember the huge driver that SEO and organic traffic is for Redbubble. It's one of our core competitive advantages and it really does generate its own little flywheel. So the number one proposition we have for artists is that you will generate more sales at a lower cost than any other platform out there, particularly even compared to doing it themselves, where they've got to spend all of their own money on marketing, they don't need to put a single dollar down to operate on Redbubble. That's a huge advantage. It's completely free for the artists unless they make sales. There's absolutely no risk and we're very, very confident that for almost every artist they'll make more sales on our platform than they will on every other. So that's our core competitive advantage.

Martin Tran: (Shareholder) Thanks for that. Just another question that I had, what are you guys doing around improving existing product quality and the prices around that as well? How do you guys think about that?

Michael Ilczynski: As in physical product quality, Martin?

Martin Tran: (Shareholder) Yeah, product quality.

Michael Ilczynski: Yes, absolutely. So physical product quality is really important and I think we've been open to saying there are mixed levels. Some of our physical products we are extremely proud of, they're high-quality

products, they're high-quality blanks that produce a great image that's printed on them and they're fantastic and they get wonderful reviews for the consumer. We do have some of our other products that we're looking at refreshing, that's why I spoke very specifically about refreshing some of our existing product ranges.

What that means is looking firstly at the quality of the blank, the underlying product and can that be improved and then secondly, looking at the way that we print on it, because sometimes we can have a really nice image, but that image doesn't fit on the product properly, it's not the right resolution or it's not the right shape and it ends up in a poor outcome for the customer. So there's a number of ways we can tackle improving physical product. It's right on our list of one of the core improvement initiatives across both product and supply chain, because it takes a combination of both and we're doing a number of different investments to improve that. We track our NPS, we track our cost of quality, a number of customer tickets, we link all that back to a particular product and a particular fulfiller and it's an important area of ongoing improvement for us.

Martin Tran: (Shareholder) Awesome, thanks so much.

Michael Ilczynski: Thanks Martin.

Operator: Thank you. The next question is from Owen Humphries from Canaccord. Please go ahead.

Owen Humphries: (Canaccord, Analyst) Hey guys and well done for managing the scale or the growth in the last 12 months, lots of moving parts. So just a couple of questions, I might just start off with you talked about the caps, obviously CAGR expansion is a large opportunity for you guys, can you just talk through what some of the initiatives are for the next 12 months or is that competitive in nature?

Michael Ilczynski: Yes, so sorry, Owen, I don't like to be blunt, but we don't want to signal early on new products. As we talked about, new products remain important, we've got some focused areas that we want to add over the next 12 months, but it's probably equally weighted with the number of range refreshes and improvements that we want to do to existing categories.

Owen Humphries: (Canaccord, Analyst) Okay, good one. I just noticed the word capital management initiatives in one of our slide decks there, can you just talk through what your look-through cash balance is, what you consider yours and what you mean by capital management initiatives?

Emma Clark: So that's a great question, Owen. So in a business like ours, as you're aware, as long as we continue to generate growth and it doesn't have to be month to month, but certainly if you think about an annual basis generating growth, we actually continue to generate more cash than obviously what we have to pay out for the expenses for the period prior. So in terms of how much cash we actually need to hold as like our own, that we need to keep in reserve for working capital requirements, it's actually relatively small. So we could choose to be quite aggressive on what that cash balance that we really need to hold in reserve actually is.

Obviously the cash balance has been something that has been a hot topic for people over the last nine months as it's built up. As I said, in the call, the Board and management are actively discussing what to do with that cash balance. I mean certainly we very much are fans of having the strategic flexibility to have that firepower, to do things with it. There's effectively three main options. One is inorganic M&A, second one is accelerate our own internal investments, third one is potentially return some back to shareholders as part of a share buyback. We specifically said we're not doing dividends and we maintain that position. All of those options are on the table, being actively discussed by the Board.

I think it's fair to say that as a growing business, we do have a preference to be able to use our cash reserves to be able to invest in further growth, whether it be organic or inorganic. So there's obviously lots of opportunities out there at the moment, so we're looking at those.

Owen Humphries: (Canaccord, Analyst) Good one. Maybe just lastly, obviously the world went online the last 12 months, a lot of money has been raised and going to the space, can you just talk about where you see the change in competitive dynamics, what's happening in the marketplace or how it's changed in the last six, 12 months?

Michael Ilczynski: Yes, thanks Owen. And Emma, you should jump in. What's interesting, we feel great about where our business is positioned at the moment and we particularly feel great, as I mentioned before to Anthony, that even though in our core markets in the US and UK and Europe, it is actually, if you're in Australia in lockdown like we are, it's kind of hard to understand how different life is if you're in the US right now in terms of yes people are wearing masks and yes they're worried about Delta but they are out shopping. They are out going to restaurants. They are out going to nightclubs. They are travelling et cetera.

So the fact that we're in this post-COVID world now in those markets and we're holding where we are, feels really good to us. The competitive market for us, where we see that show up the most, really is our marketing channels, because you still do have all of those are offline players that were forced online by COVID.

They may have pulled back a little bit, but they still see now online is a key growth area for them. So they're in there. Obviously a number of individuals flopped online during lockdown. To be honest, a lot of that has died away. That was always going to happen because there's just some scale and they can't compete against platforms.

So the competition for us is probably more in individual marketing channels, as we see different players move in and out of those channels. In our core business we feel really solid about the really unique place and the unique scale that Redbubble is in right now. Emma?

Emma Clark: Yes, I would just simply say, even with their capital floating around and competitors doing different things, I think our competitive position is super strong at the moment. I mean, one of the questions that we've discussed on prior calls particularly for the last nine months is really the big question on everyone's mind was how much of the pandemic driven games is the business going to get to hold once trading conditions return to normal in the world.

And as Mike is saying, in very large - I mean, Australia is a bit of an outlier on this one. In all of our other geographies normal is largely back. And so the answer is we've held onto most of it, which puts us in a really solid position, both competitively, but also just looking at our own business and what we can do with it in the future.

So like Mike, I'm feeling super comfortable about where the business is from a competitive perspective at the moment.

Owen Humphries: (Canaccord, Analyst) Good one, thanks guys.

Operator: Thank you. The next question is from Paul Mason from E&P. Please go ahead.

Paul Mason: (Evans and Partners, Analyst) Hi, just three from me. So the first one, I was just wondering if you could make some comments around what you think your non-COVID seasonality might look like from half to half.

Second is maybe some commentary on why you're not just starting more brand advertising and brand building this year, given your cash levels. And then thirdly if you could just maybe give us some colour on the concentration of your artist revenues in say your top 10% of artists or something like that.

Just interested to get a feel for how spread the revenue goes among your artists population or whether there's a category of much higher value artists that you might be able to invest in specifically to drive growth or something like that. But yes those are the three for me.

Emma Clark: They're great questions, Paul I'll talk about the non-COVID seasonality. I did actually sneak it in when I spoke earlier, but I'll explicitly state it again. So normal seasonality for Redbubble ex-COVID is 58% turnover in the first half, 42% in the second half.

And as I said earlier on in the call, what we are seeing with a return to normalised conditions in most of our geographies is we're starting to see what we would consider to be normal seasonal patterns play out. And so that's more like the split that you would expect to see moving forward.

Michael Ilczynski: Thanks, Paul, appreciate the questions. Just on that on the brand, because it's a great question. To be honest, we continue to challenge ourselves internally about when the right time is. I think what we've been flagging is before we put the lever down on brand spend, we want to make sure a few things are lined up and those things are lined up perfectly.

We've really honed in on what our value proposition is. The marketing messages that will effectively convey that brand positioning. And that's when I talked about the experimenting and the marketing teams are already doing that bit of work.

Secondly, we want to be really clear that our customer data platform is completely integrated and implemented and our internal capability really understands which of our cohorts, which of our channels is driving the best cohort so that when we put that brand spend in we know exactly which channels to put it into.

That's worked. We've spoken about that still being done. That's still ongoing. And then thirdly, we would like to see a bit more improvement in our customer funnel, in our transaction funnel and our repeat rates.

Again, as you know, that brand spend generates the awareness and brings people to the site. We want to make sure that we're getting the right percentage of people who visit our site through that first transaction and then repeating. So hence why we want to get those ducks really lined up so that when we put the spend in, we know that it's going to hit the mark in terms of the creative.

It's going to bring people to the site because it's going through the right channels and then when they get to the site, they're going to transact and repeat. And so we're doing work on all three of those elements now and over this 12 months and some of these changes are pretty significant that we want to put in over this 12 months.

And hence why we're saying, we think that brand spend is more like next financial year, rather than this one, because we think if we go early, then there's a risk that we don't spend that money as effectively as we otherwise could.

And then just on your third question on the spread, we haven't given exact numbers, but probably like most platforms the spread across artists is a pretty standard sort of Pareto sort of spread where there's a nice curve. There's kind of an 80/20 rule.

That's probably about as much detail as we go into, but when you're talking hundreds of thousands for us, when we talk about our top tier artists we're talking about still tens of thousands. There's no artist that's anywhere near 1% of our revenue.

There are points - even our biggest artists would be points of a per cent. In terms of content, it's one of the real things that gets lost in Redbubble. And one of our real strengths is that the content spread on our site is quite dramatic and across a whole lot of topics, but in particular we talk about three big styles of content.

There's evergreen artwork that sells just consistently through every year, because it's very much like art you put on the wall.

Secondly, there's pop culture, cultural trend driven art that tends to have a medium term shelf life and these are around major pop culture trends. They might have a selling time of one to three years.

And then there's very meme based content and more textual based or just in the moment. That can sell from a week to five, six, seven weeks. And all three of those things are really important because it demonstrates the spread of content. The evergreen and the pop culture puts a floor underneath and then the meme style content brings a new lot of audience to the site on a really ongoing basis.

They provide that really ongoing refresh to the content. So it's three big, different categories before we even get into trends like with gaming. Is it music? Is it whatever else?

Paul Mason: (Evans and Partners, Analyst) Great, thank you.

Operator: Thank you. That does conclude the question and answer session. I'll now hand back to Michael for closing remarks.

Michael Ilczynski: Thanks very much. I'd just like to say, thanks again for joining us today. We really look forward to connecting with many of you over the coming few days. Thank you again for your support and we'll now close the call.

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

End of Transcript