Investor call transcript

REDBUBBLE LIMITED (ASX:RBL)

STRONG GROWTH CONTINUES AND PROFITABILITY IMPROVING

FULL YEAR RESULTS, APPENDIX 4E AND STRATEGY UPDATE

24 August 2017

Start of Transcript

Operator: Ladies and gentlemen, your conference for today is due to begin shortly. Please continue to stand by and we thank you for your patience.

Paul Gordon: Good afternoon. This is Paul Gordon, Company Secretary for Redbubble. I would like to welcome you to our teleconference for Redbubble's Full Year Results for Financial Year 2017. We released our audited results with Appendix 4E to the market in an ASX Announcement this morning. We also released a Full Year Results Presentation Pack. With me here are Redbubble CEO, Martin Hosking, CFO, Chris Nunn and Chief Operating Officer, Barry Newstead who will all present before we open up the call to questions. Both the presentation and Q&A session today are being recorded. Before we start I would like to call your attention to our safe harbour statement regarding forward-looking information in the 4E materials and in today's discussion. Over to you Martin.

Martin Hosking: Thank you Paul. I am delighted to be here releasing Redbubble's annual results for the financial year ended 30 June 2017. I am joined by Redbubble's CFO, Chris Nunn who will be commenting on the financial performance. Also with me is Redbubble's COO, Barry Newstead who will be providing commentary on the strategy and operating performance for the company. The now audited financial results confirm the information released in the 4C Release a month ago. Our ability to provide high quality information prior to the normal reporting season is indicative of the strong systems that underpin Redbubble.

As I remarked at the time of the 4C, the Redbubble marketplace is performing strongly across all dimensions with solid growth in artists, customers and fulfillment capacity. In the last year, almost three million customers bought from 233,000 artists. There are 65 products available in the marketplace coming from 15 different third party fulfillers. Our focus is on enhancing the network and this is delivering the operating leverage that we had expected and is the consequence of the healthy marketplace dynamics. Solid financial outcomes follow from the operational achievements, gross transaction value, revenue and gross profit after paid acquisitions are all up in excess of 30% in a constant currency basis while operating expenses are up over 17.3%. The net impact of this is a net loss after tax of $7.6 million lower by 61.9% from the loss of $19.8 million in the previous year.

The financial results reflect the underlying metric outlined on page 6 of the Full Year Results Presentation released this morning. With growth in visits of 27% and conversion of 4.6% offsetting a modest decline in average order value caused primarily by strengthening in Australian dollar. We also see the business is increasingly mobile and growth in customers and artists at 32% and 51% reflect healthy marketplace dynamics. Repeat GTV indicative of more loyalty is up by 31% over Financial Year 2016. While I am on metrics, we have for a while when thinking the metrics of visits, conversion rate and average order value are somewhat simplistic and need to be revised to better reflect the major drivers of the Redbubble business.

The shift in mobile as the principal source of traffic and the loyalty of the Redbubble app globally are meaning that measures of loyalty such as active users and auditor active user will become increasingly more important. We will provide more clarity on this over the coming quarters. Looking ahead, we expect we will move into EBITDA profitability late in Financial Year 2018. We expect top line growth through FY2018 to be comparable to that achieved on a constant currency basis during FY2017 with operating expenses growth also expected to follow current trend. With $27.8 million cash on hand we are in a strong financial position. I will now hand over to Chris to talk about the finances.

Chris Nunn: Thank you Martin. I am moving to Slide 10 of the Full Year Results Presentation attached to the 4E, the Income Statement. I should point out that some of the financial line items such as GTV, gross profit and EBITDA are non-IFRS recognised terms and as such are unaudited but are extracted from the audited results accompanying the Release.

As we said at the time of our 4C Release, the result for 2017 met or exceeded previous guidance at all levels. Elaborating further on Martin's opening comments, Redbubble generated gross transaction value of $175.4 million, up 22.8% on FY2016 and reported accounting revenues of $141 million, up 23% on FY16. Importantly, both over 30% on a constant currency basis. Gross profit in fact grew at the greater rate of 36.8% thanks to the marked improvement in the gross profit margin.

Moving quicker to Slide 11 of the presentation, the gross profit margin waterfall shows the elements that comprise the overall improvement in gross margin from 34% last year to 35.6% in FY17. I have repeatedly expressed confidence in our ability to at least maintain gross margin even as we continue regular promotional offers on a weekly basis. This slide shows how that has been possible. The excellent work done by our logistics and supply chain team to harness the benefits from greater scale has enabled significant improvement in manufacturing margin whilst we choose to re-invest that in ongoing growth through pricing and promotion strategies. We continue to expect benefit from scale in both product and shipping margin contribution and we constantly evaluate opportunities to use supply chain efficiency gains to support pricing and promotion strategies that provide for absolute gross profit growth. At the year end, underlying margin was around 35.8%.

Back to Slide 10 and taking us down from gross profit to gross profit after paid acquisition, GPAPA, our paid marking spend has become more efficient even as we have grown our spend. Referring for a minute to Slide 12 in the presentation, it can be seen that Redbubble's average cost of generating a dollar of GTV, or $0.286 of gross profit through the pay channels were $0.164 in FY17 which compares to $0.273 of gross profit at a cost of $0.171 in FY2016. In FY2017 that is, we spent $12.2 million on paid marketing to generate $21.3 million in gross profit. We expect the efficiency of our paid marketing expenditure to continue to improve as the initiatives on the effectiveness of the spend by search term and personalisation enable us to better pinpoint profitable terms and relevant content to users. Barry will say a bit more about this in a moment.

While Google succeeded in generating more paid clicks as consumers shift to mobile, Redbubble has taken advantage of this to grow our paid business effectively. As we win more paid business, we have experienced only moderate increases in our average cost of acquisition. Importantly, we have managed to maintain positive growth in free sources through this transition and the split of GTV between paid and free channels has stabilised since December at around 43% from paid and 57% from free sources.

Returning to the Income Statement commentary, I'm particularly pleased with our management of operating expenses. At this time last year, I indicated there would be a slowing of growth in operating expenses relative to revenue and we've held that increase to 17.3% on a constant currency basis whilst growing the revenue line at a little under double that rate. One area of particular focus has been the increasing automation of our customer services activities which is an example of how we can successfully yield scale benefits whilst also enhancing the customer experience.

I have been asked by a couple of investors in the last few weeks to explain what we have referred to as operating EBITDA in our announcements and how that differs from EBITDA as reported now. As I said, EBITDA is not an IFRS recognised term despite its common usage but it is a certainly important number reflecting how we see our business performing on a cash basis. Hence the major difference between EBITDA on Slide 10 of our deck and the operating EBITDA we have referred to previously is the non-cash expenses associated with employee share base payments. The audited result incorporates an EBITDA loss of $8.1 million slightly better than the $8.3 million reported with the 4C last month following a small adjustment at the operating expenses level.

Below the EBITDA line, amortisation charges of $5.7 million within the DNA line of $6.5 million reflecting investment in growth initiatives taken to the balance sheet where the future economic benefit can be demonstrated.

Slide 13 in the investor pack shows the stability and consistency in the way our investment in growth is added to the balance sheet. The average amortisation period for capitalised projects is 2.2 years.

Back to slide 10. I just want to spend a moment on the tax expense line. At the time of the IPO Redbubble took the conservative view that $27 million of tax losses and research and development offsets incurred prior to IPO would not be recognised for accounting purposes as they are dependent for recovery not only on future profitability of course but in particular on the same business test, typically an onerous hurdle for recovery.

Tax losses and R&D offsets of $25.5 million accrued since IPO have however been recognised as their recovery depends on those future taxable profits and the continuity of ownership test, the baseline for which was largely reset when we listed.

Finally, the reported after tax result shows a loss of $7.6 million in FY2017 versus a loss of $19.8 million last year. As Martin said a 61.9% improvement.

Briefly turning to cash flow, the waterfall chart at slide 14 shows the source and use of cash between our opening and closing cash positions. A standout number because it is smaller than we would otherwise expect is the positive benefit of negative working capital. In FY2017 Redbubble decided to improve the terms relating to payment to artists. As we reported at the half year this had a one-off effect on cash flow of $1.7 million. We also experienced a change in the payment terms for Australian PAYG and needed to provide a security deposit for our new lease in San Francisco which combined effected working capital by another $800,000. A more realistic representation of the working capital generated by the business in FY2017 is over $3 million.

Martin has reaffirmed our expectations as to top line growth on a constant currency basis. I felt the analysts amongst you would value the raw currency split of our GDV in FY17 which was as follows; US$85.3 million, GBP14.9 million, EUR13 million, A$11.6 million and C$6.6 million.

Before I hand you over to Barry can I draw your attention to the key financial highlights section of the appendix 4E on pages ii to v. Firstly, comparison of the full financial years 2016 and 2017 and the three most recent financial halves. Please note the half by half comparison reflects the seasonality of Redbubble's business.

Over to you, Barry.

Barry Newstead: Thank you, Chris.

I'd like to talk about three things today. First, I'd like to refresh the marketplace virtuous circle or flywheel that drive's Redbubble's growth and informs our strategic priorities. Second, I'd like to update you on the progress of our work over the past six months and finally I will extend out to our priorities looking forward.

Redbubble is a marketplace business. We benefit from a virtuous circle or flywheel that is unique to marketplaces. I'm going to talk you through the marketplace flywheel that forms our strategic framework. I'd like you to refer to page 17 of the FY2017 full year results presentation.

Marketplaces are a bit different from other consumer businesses as they have the benefits of the supply side of the market that supports demand that classic retailers do not have. You see this in the artist community on Redbubble and their near limitless capacity to generate new content. The content base on Redbubble is large, diverse and ever-changing to meet the new consumer interest in the world. Redbubble enables this by providing a series of products on which the artists can create user generated designs. These designs are automatically provisioned as content for sale on the Redbubble marketplace.

This is the first phase of the flywheel. The content that is available on the marketplace sets out the second phase of the flywheel. This content provides an amazingly rich and broad base that is easily discoverable for consumers looking for personal products. This happens through an internet search and increasingly has expanded to a wider array of social channels as well as direct search on Redbubble. The discovery of personal content drives a purchase which given Redbubble's content size, growth and maturity generates significant volumes compared to other players.

This sets out the third phase of the flywheel, economies of scale. As Redbubble gets bigger the business is able to generate economies of scale. We are starting to show this as Chris discussed in a cost of fulfilment and areas of operating expenses such as customer support. The scalable operations not only generate better margins they enable improvements to customer experience that are only viable for businesses that have achieved critical mass.

This is phase four of the flywheel and can be seen in the work to build our global third party supply chain that requires a critical mass of volume to distribute amongst more partners. By having a critical mass investment supply chain Redbubble has reduced average delivery times by a day over the past 12 months and no incremental operating costs. It is also seen in our investment in the online experience and in our pricing and promotion strategy.

This fourth phase which enriches the service experience for customers recombines with the phase two discovery experience, to drive increased customer loyalty and improve new customer acquisition. Both result in more customer volume and once we close the circle as the growing customer activity serves to inspire artists to create more content which then gives the flywheel more momentum and we start the cycle again.

This has been the basis for Redbubble's success to date and our strategy is very focused on areas that accelerate the flywheel. Over the past year the team has focused on four areas. First, find your thing. This team represents about 25% of our growth investing. When I refer to growth investing I'm referring to people that we allocate to initiatives focused on future growth. The find your thing team focus on the critical phase two activity of discovery. The simple goal is to present a customer with the best possible content discovery experience, both the content itself and the enjoyment of the process of looking for that special personal thing. Hence find your thing.

Over the past year the team has continued to deliver value through enhanced data science work to refine the algorithms that drive the content a user sees. They have reworked how content is presented and organised on Redbubble often in subtle but high value ways. In addition, this team has worked on strengthening our anti-piracy tools to protect Redbubble and help us meet our obligation to intellectual property owners. Finally the team has built the capabilities that will enable Redbubble to work more closely with third party intellectual property owners in the future. We will keep you informed of the initiatives in this space as they develop.

Second is deeper relationships. This team represents 30% of our growth investing. They focus on building a personalised mobile experience for members. Redbubble has for a long time grown on the strength of the content in the marketplace, being a powerful acquisition tool. While this continues to be a core strength we obviously want to deepen relationships with existing customers and provide them with a personalised experience. This is a major area of work in the business with efforts over the past year focused on building important foundational technology to create a customer focused membership platform. The team is progressing well moving from foundation building to direct customer impact which we will develop in the coming months and years.

The development of an iOS mobile app continues to be a major opportunity for serving members. The app launched globally in May and is now available in four languages. Even though we view the current app as an early stage product it has already gotten a 4.6 out of 5 star rating from about 3000 reviews in the Apple store. We are seeing strong engagement in purchase behaviour from users that validate the direction we are taking.

Third area is global acquisition. This area includes new market development and marketing activities largely paid acquisition via search and social channels. This has been a core strength of Redbubble in recent years and continues to present a lot of growth potential. Our investments in 2016 have been paying off in growth in Europe and the strength of paid channels as Chris alluded to. We have invested 15% of our growth resources in this area.

The success of new markets thus far demonstrates the potential scope for geographic growth of the business and in recent months the team has focused on expanding our Google Shopping into Germany with strong and quick payback on that investment at the end of the last quarter. The team working on paid acquisition has developed new data science work to refine our algorithms that identify which content to feed to Google Shopping and how much to bid. This work has helped keep cost of acquisition down and unlock growth by constantly refreshing and optimising the content development on the paid channels.

Finally, our work on scalability. This team has been focused on both realising the benefits of scale in the business and reinvesting in improved customer experience and enabling new products. A large part of the work of this team will come to market over the next year in the form of a faster platform that will increase the speed of the site by two to three times, a key requirement in a mobile world. Live customer experiments with our prototype have demonstrated the significant impact potential of this work. We will update you in coming months on the developments here.

While one part of the team is focussed on speed the other part of the scalability team has been generating value from scale including negotiating fulfilment costs, further localisation of supply, enabling new products and reducing customer contacts largely through self-service and reductions in delivery address issues as Chris alluded to earlier. These efforts will provide Redbubble with close to $5 million in incremental EBITDA contribution during FY2018.

Now I'd like to look forward. We are staying focused on the work these four teams have started. They are making excellent progress and will continue to enable us to leverage the benefits of our marketplace flywheel that creates competitive advantage and supports our market leadership. Briefly you can expect to see the following over the next year.

From find your thing continued improvements in the discovery process with the important and valuable addition of more user data to better personalise the content we present. We expect to launch innovative new content partnerships that will provide new ways for artists to collaborate with third party intellectual property owners.

From deeper relationships, the emergence of a true member experience in the app and on the web that provides personalised recommendations and services that generate loyalty.

From global acquisition you can expect continued low cost acquisition through a wider range of channels with the continued emergence of the Facebook Instagram platform alongside Google. We are investing behind the strong growth into Germany and Western Europe where we see a lot of upside potential.

From scalability, a much faster core Redbubble user experience, a range of new products, selected price work that takes advantage of price elasticity and finally fulfilment service experience improvements and efficiencies.

On the people side Redbubble continues to retain and attract talented people. As I look at our capability today they far surpass those of a year ago. As a team, we are more focused than ever on realising the potential of our business to create value in the short, medium and long term. I'll now hand it back to Martin to sum up. Thank you.

Martin Hosking: Thank you Chris and Barry. I have recently returned from an investor road show to the United States. While there are many similarities between how investors there and in Australia see Redbubble, there are also some differences. Probably, most importantly, the US is ahead in understanding on demand retail. That is the creation or significant customisation of products for individual customers at the time of order.

This disruption which brings together a number of technologies is the next stage beyond the trend of fast fashion and is changing entire retail categories from shoes to homewares. Redbubble, with over 10 years' experience and with a strong global network, is a leader in the on demand category. The rapid increase in scope of our business in terms of products and geographies, shown in page 25 and 26 of the full year's results presentation, underscores both the achievement and future potential.

At the moment Redbubble offers 65 product types, but our pipeline of possibilities within the print on demand space is well over 200, with considerable expansion in the homewares and apparel space already identified. Redbubble's global leadership division, in bringing together the three sides of the marketplace: artists, customers and third party fulfillers are ideally positions us to seize the opportunity around on demand retail over the next decade.

Our geographic scope means almost three million customers interacted through the marketplace last year in our major geographies of North America and Europe. This is only a fraction of the potential customers we have in those geographies.

As Barry outlined, Redbubble is undertaking a range of investments to add momentum to the marketplace. Unlike many other companies, we are focussed on growth through continued execution within our current proven model. Confidence in growth is based on our previous successes, and it's underpinned by increasing consumer demand for the distinctive and personally relevant enabled by on demand retail.

The marketplace will continue to add more artists, more content and more products when enhancing the consumer experience overall. As we do so the Redbubble marketplace will become an ever more meaningful and distinctive shopping destination for a global consumer base.

As we have said, we expect to be moving to operating EBITDA profitability late in FY2018. While this will be an important milestone, it is not the final objective. Redbubble must continue to build on its leadership position as the world's leading marketplace for independent artists. As we do so the growth prospects over the coming decades for the Company are exceptional. Thank you. That’s the end of the presentation. Over to questions.

Operator: Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question please press star followed by one on your telephone keypad and wait for your name to be announced. If you wish to cancel your request please press the pound or hash key. Our first question today comes from the line of Owen Humphries from Canaccord. Please ask your question.

Owen Humphries: (Canaccord, Analyst) Hey Martin, Barry, Chris. Just a - first of all, thank you for the detailed presentation. I think you guys are one of the best on the market for the amount of detail you provide. Just a question on the first seven weeks of the year. I'm seeing some pretty strong numbers coming out of Google Trends since either last - maybe a month or so. I just wondered if you can touch on how trading has gone in the first six or seven weeks, and also whether the uplift in Google Trends is related to a specific market, a specific initiative, if that's possible.

Martin Hosking: Thank you, Owen. I'll give you first warning - caveat: whatever you see in Google Trends, and also in Alexa - these sources aren't necessarily accurate, but we don't endorse either their accuracy or lack of accuracy. We have reaffirmed our forecast at this point, which is - and that's clearly - in doing so we'll have taken into account the trends through the first part - through this quarter. That said, we're not providing any further update on the quarter at this stage.

Owen Humphries: (Canaccord, Analyst) Ah, right. Okay. No worries. Maybe, I suppose, you've said that it's - the acquisition costs per customer - seen a bit of an inflation over the last couple of years. It's good to see that you guys have said that it seems to have been moderating in the last six to eight months. Is that - the moderation, is that around you finding newer, lower cost channels? Or is it just flat across the board, the way you acquire customers, or have acquired customers in the past?

Martin Hosking: Look, the moderation's really about the organic - work in harmony improving the organic results rather than paid advertising, though we do work very hard on the paid. You can see from the slide in the presentation - which is slide 12 - how we'd be more efficient on that. The upward move in the lower curve was to do with the switch between paid and unpaid, so our effort is to ensure the unpaid - which is free to us - continues to be - continues to grow strongly.

Owen Humphries: (Canaccord, Analyst) Good one. Okay. I just noticed, when you're talking about the way you allocate capital and the last comment around scalability and the potential to deliver up to $5 million in value in earnings in FY18. Is that around margin improvement? Or is that - can you just maybe touch on that? That's a big number that - have you tested various methodologies across a small cohort? Or is that - can you just touch on that point, if that's possible?

Barry Newstead: Yes, happy to. I think it is - it's pretty hard dollar work. As I referred to in our presentation, there's a number of pieces of work that have gone on in that team. The first example - not example. The first thing is we've been able to automate certain activities in customer support, so where customers can self-serve, which reduces contacts. That allows us to run more efficiently in our customer support area in terms of head count on that team.

The second in the similar area is a lot of work which we've been doing on undelivered packages - there's a number of reasons for undelivered packages. Often, that is we get a wrong address from a customer. So we've found new ways to - first of all, before we ship a package, identify that that address is not valid through back end technologies to validate addresses, and also give customers time to update their addresses before we ship the goods.

There's a number of - as Chris alluded to, a number of pretty tactical operational things where we can continue to scale the business at lower costs. That generates hard dollar improvements. Every undelivered package, of course, requires us - likely to send a new package out to a customer, which costs us a lot of money, so that stuff goes straight through to the bottom line.

The third area is new products. As we launch new product we enter a complete new space, and that expands our GTV, but also flows through to our EBITDA. Then, finally, and importantly, is Chris and I both alluded to our abilities to negotiate with our fulfillers for lower costs as we achieve economies of scale; also generates incremental EBITDA that we're able to capture. I think that's also, really, an important part of what I alluded to in a flywheel is. As Redbubble generates continued growth we generate the opportunity to then go back to fulfillers and realise scale benefits and that goes to growth in terms of their - the costs that they're charging us for, printing and shipping those products.

Owen Humphries: (Canaccord, Analyst) Good one. I know, in the past, the new product initiatives were a large growth driver for the business. Can you maybe highlight how many you've churned in the last 12 months and how many you expect to add in the next 12 months and where - obviously, 64 now. Where do you expect it to be in 12 months?

Barry Newstead: I think - so we launched our new products in the last year.

Chris Nunn: Yes, [just over] the last 12 months.

Chris Nunn: And one since June.

Barry Newstead: Yes, one since the beginning of the financial year. It's actually - it's one category it's actually premium t-shirts, but there's actually a men's and a women's part there. Of a note, that's an exciting new area for us to be exploring a little bit more on the premium end of that - of the apparel category. Through this year, I think you can expect to see regular product launches. I don't want to over-commit to a specific number. I think that actually - what I said before around how we are looking at multiple areas in which to generate EBITDA, we're making those judgements on a quarter-by-quarter basis, about which areas are going to get up and generate the most value.

The real power of that scalability team is it gives us resources that we can apply to the highest ROI projects on a pretty short term basis. As we generate new opportunities we then reprioritise. New products are a core part of that, and will be. I think you'll see - leading up to Christmas - certain - I can probably safely commit to one very important product launch in the next few months, which is the iPhone 8 device cases, which we expect to be useful. Beyond that, I'd like to hold off.

Chris Nunn: It's worth just expanding on that a little bit, in as much as a lot of the stuff Barry talks about in relation to the platform being scaled is enabling the launch of products. We've had to slow the product launch down in order to allow the scalability of platform. It's an unfortunate trade-off, but we see that as being the short term pain for a long term gain.

Barry Newstead: Indeed.

Owen Humphries: (Canaccord, Analyst) Good one. Thanks guys. Well done.

Barry Newstead: Thank you Owen.

Operator: Our next question today comes from the line of Ivor Ries from Morgans Financial. Please ask your question.

Ivor Ries: (Morgans Financial, Analyst) Good afternoon gentlemen. I might ask a few questions, if that’s okay. Just the first one is in relation to the speed for the page downloads. Where do you think you are now in terms of the average page download speed, and where do you need to get to?

Barry Newstead: We - that’s a - I'll give you a rough estimate. This is a surprisingly complex question to answer, but I'll give you how we're thinking about it on average. The core page we're working on - our product page - on a 3G mobile device loads at about - loads to what's called visually complete at about 11 to 12 seconds, depending on where you are in the world. There's a whole bunch of dynamics to that. That’s where we are today for that core page. Our goal is to reduce that by two to three [X]. Our goal is to reduce that to somewhere in the neighbourhood of four to six seconds. That would put us into best practice territory for similar marketplaces, similar businesses around the world. That’s where we're headed.

Ivor Ries: (Morgans Financial, Analyst) Is that all stuff that you can do internally? You don’t need to work with the telcos to achieve that. That’s just stuff you need to do at your end.

Barry Newstead: Yes.

Ivor Ries: (Morgans Financial, Analyst) If I can ask another question. Just you mentioned in the presentation new content partner there. Does that mean that you're going to start offering branded merchandise on your site?

Barry Newstead: Do you want to clarify what you mean by branded merchandise?

Ivor Ries: (Morgans Financial, Analyst) Well, I just - I'm just a little bit vague about it. You mentioned during the presentation that you're going to bring on some new content partners. I assume that’s not - that we're not talking about single artists. I'm just wondering what - if you're going to give us a bit more flavour for what you mean.

Barry Newstead: Sure. What we would like to be able to do - we've - we're building a team internally - we'd like to be able to enable Redbubble artists - existing and new Redbubble artists - to work with content that third parties around the world own. There's a whole bunch of - as you might recall branded content, or licensable content in the world. The nature of these - the idea of trying to devolve these partnerships is to take our - to enable our artists to create content using the general intellectual property of the additional players in a partnership together, and then make that - our content - available in the Redbubble marketplace as a direct partnership.

Ivor Ries: (Morgans Financial, Analyst) Have you found any global brands that are willing to talk about that at the moment?

Barry Newstead: We're in discussions. That’s all I can say at this stage.

Ivor Ries: (Morgans Financial, Analyst) Right.

Martin Hosking: It's just worthwhile noting that it underscores the - what the brand and the licence holders want is engagement with their fans. This is not about creating just new - it's not about branded content per se; it's about fan engagement. Great brands over time have shown that with their engagement with their fans and this is via the Redbubble artists that they strengthen their brands. So that's where the - that's where the whole message gets traction, because the fans can create more - often more interesting or relevant or diverse content than the - any individual brand they'll be able to create on their own.

Ivor Ries: (Morgans Financial, Analyst) Yes. Yes. Okay. In - if I can ask a question about - I assume there's not a huge line of people in the queue, so I'll just go ahead until you tell me to stop. Paid acquisition costs last year, just a bit under 7% of your GTV. How should we think about this going into FY18? Should we think that paid acquisition costs will be sort of roughly the same in terms of a percentage of GTV?

Chris Nunn: Yes. I - in my little spiel, I did mention the fact that the balancing between the paid and the unpaid is a critical factor in that and that is the thing that's stabilised in the last six to eight months.

Ivor Ries: (Morgans Financial, Analyst) Yes.

Chris Nunn: That's our best guide at this point.

Ivor Ries: (Morgans Financial, Analyst) So given it's stabilised, then we should expect to see it stay around about 7% of GTV.

Chris Nunn: Yes. I would expect it not to increase as fast as it did last year; that's the point.

Ivor Ries: (Morgans Financial, Analyst) Yes. Okay. That's very clear. This year, $7.2 million capitalised in terms of development costs. What should we expect for FY18?

Martin Hosking: Well, the basis - I don't even know the number and I don't know what to tell you, because I'll just give you something to work it out. The basis of those charges is a fairly consistent percentage of our operating expenses, as slide 13 shows, Ivor, so I think that's your kind of guide. Martin indicated that our operating expenses would grow at a similar kind of rate to you saw last year.

Ivor Ries: (Morgans Financial, Analyst) Yes. Are there any new geographies - is - will the Company be targeting any new geographies in FY18?

Martin Hosking: Most likely not, Ivor. There's - we're - the focus is really still on Germany, France and Spain. We're just seeing so much opportunity in those core geographies, the answer is most likely not.

Ivor Ries: (Morgans Financial, Analyst) Yes.

Martin Hosking: There's 500 million rich people in those parts of the world.

Ivor Ries: (Morgans Financial, Analyst) Yes. Yes. If I just might ask just the one last one in terms of the - in terms of your apps, have you got a full suite of iOS and Android apps available in all markets yet or is that still to happen over the year?

Barry Newstead: The current focus has been on - so our current app is an iOS app only. It's worth noting that historically mobile engagement and mobile revenue for Redbubble is predominately in the iOS environment. So that's the first answer. The second thing you asked about in which markets. I mentioned it's in four languages.

we look forward, I think the conversation about Android app is probably a when question, not an if question for us. I think we have lots of potential to make the iOS app fantastic, continue to develop the mobile web experience alongside, so Android users are well served and then as we progress through our mobile strategy, the Android app will come at a logical time.

Ivor Ries: (Morgans Financial, Analyst) My final question is in relation to the manufacturing margin benefits that you got in FY17. That looks like an absolutely massive change in margin to me. Have you squeezed most out of the system or is there more that you can squeeze out of the manufacturing margin in FY18?

Barry Newstead: I think we're making good progress on that question. I would say as I referred to in the strategy on the slide, well, as we generate economies of scale, I think we will generate additional ability to both build this to retain the strong relations that we have with the third-party supply chain, but also improve the margins associated with it.

Ivor Ries: (Morgans Financial, Analyst) Fantastic. That ends my questions. Thanks, guys.

Martin Hosking: Thanks very much, Ivor.

Operator: Once again, ladies and gentlemen, if you wish to ask a question today, it's star-1 on your telephone. Hi. It seems that we have no further questions on the line today. I would now like to hand the conference back to Mr Hosking for closing remarks.

Martin Hosking: Thank you very much. No closing remarks. So we're done. Thank you very much, everybody.

Chris Nunn: Thank you.

Operator: Ladies and gentlemen, that concludes our call for today. We thank you for your participation. You may now disconnect.

End of Transcript