FY2020 Full Year Results - Investor Update

Conference call transcript

21 August 2020

Start of Transcript

Operator: Thank you for standing by and welcome to the Redbubble Limited Full Year 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 Mr Paul Gordon, Company Secretary. Please go ahead.

Paul Gordon: Good morning everyone here in Australia and good afternoon for our US investors. This is Paul Gordon, Company Secretary for Redbubble Group. Welcome to this investor call following the release of Redbubble Group's FY2020 full year results and reports earlier today. With me on the line I have Redbubble Group CEO, Martin Hosking, 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 release and investor presentation also released to the market this morning. Please note that the FY20 financials have now been subject to audit unless otherwise noted. Strategic and operational metrics are from internal management reports and have not been subject to audit.

Martin and Emma will now speak and then we will open the floor for questions and this session and the Q&A session is being recorded. Now, before we start, I would like to pull 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 onto Martin.

Martin Hosking: Thank you Paul. Hello. I am delighted to share with you the full year results for the Redbubble Group for FY2020. Clearly it has been a year of extraordinary change and the Group has benefited from this. But there is an even more important story, namely that what we are seeing is bringing forward structural changes that were already underway. The trajectory of the Company has not changed, it has just accelerated. We have caught a wave and are well positioned to ride out of it as the structural factors endure.

Over the next few minutes, I want to look at the immediate phenomena, but more importantly, at the fundamental disruptions. These disruptions point to the future of the Company. I would note that unless I say otherwise when I say Redbubble I am talking about the Group, that is both TeePublic and Redbubble marketplaces. This is possible as the forces driving both marketplaces are similar.

By way of agenda, I want to draw your attention to the investor presentation released to the market this morning. I will be walking through the first three sections of this presentation talking about the Redbubble business model and then Emma will conclude with the financial results for FY2020. I know that many of you longer term investors would like to just hear from Emma, but we have a lot of new and prospective investors on this call who have asked for the full story to be told, so please indulge me.

The outline of what I will be talking about comes down to three fundamental trends. These trends combine with the effect that Redbubble Group is realising our ambition of "creating the world's largest marketplace for independent artists". I want to reflect here for a moment because the actual and inherent value of the Group resides in the marketplace model. The CEO of Etsy, a US$15 billion marketplace for handmade goods said, "two-sided marketplaces like Etsy are lightning in a bottle. You can probably count on two hands the number of two-sided marketplaces you can think of at scale. In any given year venture capitalists fund thousands of companies who aspire to become a two-sided marketplace and statistically speaking, roughly zero succeed, but once they're vibrant, once you've got the flywheel going, they take on a life of their own and they're very durable. They're wonderful businesses. As hard as they are to create, they are incredibly valuable once they are built". End of quote.

The reason marketplaces are hard to create is that there is a wicked two-sided problem, as without sellers there are no buyers and without buyers there are no sellers. In Australia we understand how valuable marketplaces can be once they get going, Seek and REA are providing the best examples. Redbubble is one of a tiny number of truly global marketplaces to have come out of Australia and indeed one of the few in the world. It is quite common with marketplaces for them to move through an acceleration point at some stage as they become mainstream.

I was in the US when eBay went from niche to fully accepted and we have all seen this with REA and Seek. Etsy has also moved through this point over the last few years. I believe this is now the case with Redbubble and it is so for the three reasons I will cover. One, we are an emerging winner in a rapidly shifting landscape. Two, this is reinforcing the inherent flywheel effects, effects that have been in place for some years. Finally, the on-demand business model enables us to match the demand created efficiently and highly profitably.

I will now take each point in turn before turning over to Emma. Firstly, the Redbubble Group is an emerging winner. It is easy to think about the last five months as a passing phenomenon. Increasingly, this is not plausible. We all hope that the COVID-19 crisis will come to an end, but when it does, the landscape will be changed. Specifically, more consumers that have adopted online shopping will continue to shop in this way. The underlying trend has been accelerated, it has not changed. Bricks and mortar were already struggling. That is not going to reverse. All the analysts are coming to the same conclusion and we are seeing that post lockdown. While offline retail does come back, online remains strong. Millions of new consumers have been exposed to online. Many of them will continue to shop in this way. This is particularly true in the case of Redbubble and TeePublic as the experience and the products we provide do not exist in traditional retail.

The advantage of the Group's model over traditional retail has allowed both marketplaces to gain traction over many years. The current situation is playing to these advantages, specifically; customers are seeking more differentiated and personalised offerings. Pre-COVID the drab sameness of most malls and shopping experiences was already wearing on consumers. In the current environment people want even more to put their discretionary spending to more relevant and differentiated offerings. The millions of designs on Redbubble and TeePublic allow this desire to be met.

Secondly, because the content is created by hundreds and thousands of independent artists it is ever moving and always relevant. The long lead times and bulk ordering for traditional retail suited the world of brick and mortar, but even pre-COVID a disconnect was forming with the changing needs of customers. At Redbubble and TeePublic we do not need to concern ourselves with the next trend, theme or meme as the artists have got there first and already created something that meets the immediacy of the moment.

Finally, this is all made possible by an on-demand business model. Products are not created until they are ordered. Redbubble's lead time for a new product is not months but minutes as orders are manufactured on demand at one of the Group's fulfilment partners. For the Company this dramatically improves economics, not only against bricks and mortar, but against traditional online retailers. We have minimal capital expenses as they are borne by third party fulfillers. We carry no inventory. We have no wastage or overstock. We always have the most relevant content, whether it be a meme, a movement or an obscure interest. These advantages manifest themselves in the financial results with increasing profitability. Emma will talk to this.

Pre-COVID Redbubble was already winning. The COVID crisis has accelerated these underlying trends. That we were winning and are now just winning more is illustrated on this slide. Growth rates pre-COVID were already enviable, as is shown in both this slide and in the subsequent slide. In the second half of FY2020 they were 48% year on year. They have accelerated through the ongoing situation increasing to 107% in the last quarter and stepping up again in the last month to 132% year on year. In August sales volumes have continued at about the same level.

Importantly, we have seen that the growth is strong across all markets. Unlike other Australian online retailers less than 6% of Redbubble Group sales are in Australia. We are targeting a global market including almost a billion consumers in North America and Europe. In the last quarter growth has been from all geographies, with a particularly impressive performance in the United States at 121%. This is where the TeePublic marketplace is strongest.

I will turn now to talk about flywheel dynamics. I talked earlier about the Group's Marketplace effects, but as we've seen, Redbubble is a three-sided, not two-sided Marketplace. This creates a reinforcing growth cycle, which we refer to as the flywheel and is now operating at significant scale. In the last year we had 511,000 selling artists. They attracted 6.8 million customers that bought $474 million from these artists with products created from 41 fulfilment locations all over the world.

It is a flywheel, because the more artists in the marketplace, the more relevant content, so more reasons for customers to come. The more customers the better the fulfilment network becomes and this in turn brings back more customers. With more customers, more artists are attracted, and so it goes. For over a decade, this flywheel has been moving at some speed. It has accelerated in the last few months.

Looking now at the artists. This slide shows the breakdown of sales by artists from when the joined. What we see is that each cohort of artists continues to sell at the same or an increasing rate in subsequent years. This illustrates the point that more artists equals more sales and that is cumulative. No other company on the internet has so many artists, making so many sales, to so many customers.

As we look to 2021, we'll be doubling down on artist sales, in particular by utilising the knowhow that TeePublic has to both market-to-artist and manage them to ensure their sales increase in subsequent years. The acquisition of TeePublic in 2019 partly explains the increased sales with our later cohort in 2020 and we want to build on this by creating a single artist sales and marketing pipeline across the Group.

The number of selling artists across the Group goes up every year. Last year it increased by just over 50%, especially as the COVID-19 crisis drove more people to find alternative sources of income. As we have seen above, once on the site, they will continue to sell. It is worth noting that with artists earnings of $67 million last year, there is no other Australian organisation, public or private, that has contributed as much to earnings of visual artists. Needless to say, the artists love what we do for them and are prepared to say so. Artists' sales and marketing costs have been historically negligible, as word-of-mouth has driven acquisition.

As the artists have come, so too have customers with 6.8 million customers last year, growing at 33% per annum over the last five years. Customer growth has come with very low customer acquisition costs. Marketing spend is 11.4% of marketplace revenue, versus 11% to 26% for peers. The low spend reflects the dynamics of the marketplace, with customers being attracted to the differentiated content through unpaid search or social channels.

Our vast content library and diverse product types means we are not trying to sell the same common products as everyone else. This keeps customer acquisition costs low and is an ongoing area of differentiated development. For example, we feed Google Shopping over 200 million SKUs; few if any other companies would top this.

In 2020, content management systems and SEO improvements were areas of focus. As we look towards 2021, we will be putting in place more fundamental tools for a consumer product marketplace, in particular a customer data platform for the Redbubble Marketplace that will allow for full lifestyle tracking. This will enable us to identify customer lifetime value and provide for more customised experiences.

We'll be continuing the work on SEO at the Redbubble Marketplace, leveraging learnings from TeePublic and we'll continue the work at both marketplaces on low-cost customer acquisitions, by expanding channels and optimising data feeds.

While repeat customer growth has been at or above the growth of first purchases, 36% versus 30% per annum growth over the last five years, we see a significant opportunity in improving loyalty and brand awareness. We particularly want to see as many of the millions of recent new customers coming back in the holiday season and beyond. In 2021, we will be working to build and differentiate the two brands in the marketplace and improve customer experiences and loyalty at both brands.

In relation to loyalty, the apps of Redbubble are proving a winner. Currently 13% of sales on the Redbubble Marketplace are via the apps and steadily increasing. Both marketplaces have succeeded in the mobile game. As illustrated, mobile growth is very strong and over 50% of sales come from mobile devices.

I put this slide in, because as we've increased in scale, we got more press attention. This creates a nice new mini-wheel, with more exposure driving more customers and artists and in turn, more coverage. Increasingly the marketplaces are where the mainstream media go to find interesting products that reflect the zeitgeist.

The third arm of the Marketplace is its fulfillment network. It is this network which enables an artist in Pretoria to sell a facemask to someone in Berlin. Without the network, the Group would be just another collection of images. It is only when that final product arrives that the artist's and consumer objectives are realised.

The network has taken 13 years to build and is without parallel in any other company. At the current time, 96% of all products sold are fulfilled by a partner local to the same geographic region as the customer who bought them. This gives robustness to the network and means customers generally enjoy quick delivery times and lower shipping costs. It is worth noting that Redbubble also utilised 24 shipping partners globally, again providing for resilience and redundancy.

Over the COVID crisis, the diversity in the network has meant we have been able to continue to serve all markets. Continuing to build out and localise the network remain the focus area. Just this week, mask production has been localised in Australia, reducing delivery times from two weeks to a few days.

The fulfilment network not only accelerates the flywheel by improving the customer experience, but by creating the platform for product scope expansion. As you can see on the left of this slide, each new product we add creates immediate value but then this value continues to grow over time. With our diversity and depth, no other company can add as many products as efficiently on a global basis.

Further, the existence of the image library means we can immediately compete in new product categories. When the Group launched facemasks in early April, we did not do so with a few designs, but with millions of designs. Some were created specifically for facemasks, but many more images already existed on the site. This is shown on the right-hand side of the chart. Last year 4.1 million unique images were sold on 9.4 million product types.

In effect our image library increases in value the more product types we add. Typically, when the Group enters any new category, whether that be facemasks, jigsaw puzzles or aprons, we immediately become the largest provider of products on the internet with those images. Thus, our scale begets ever greater scale. The wonder of the flywheel.

And as I noted at the start, the fulfillment network comes at no capital cost and with the on-demand model, we hold no inventory and have no wastage. The Redbubble Group is fundamentally disrupting traditional retail, with economics and product types they cannot match. This existed pre-COVID and will endure post-COVID.

How far can it go? Well, at 117 products, we're just beginning to scrape the surface. Sixteen new products were added last year. The Group currently utilises 11 different printing technologies to print on the current range of products. When we started, only a few technologies existed, as print-on-demand was in its infancy. New technology and new applications for existing technologies are being created every year. They have enabled very large products, such as doona covers and small complex projects such as socks and satchels. The tech has moved from just printing on blanks such as t-shirts, to print-cut-sew techniques that allow for more fashion and pattern product, such as dresses.

The areas of expansion for the Group extend in all our category areas; apparel, accessories, home and wall art and electronics, as well as into new categories such as home office, nursery and baby and even pets. This is a virtual cycle, because we have the demand and the content, which means that all the fulfillers want to work with us to create the best, newest and most interesting products.

As the new products are added, reliance on any given product line or category has diminished. Thus, the marketplace get ever more resilient. It is particularly pleasing to me to see that the very strong recent growth in some of our older categories, homewares and artwork, as more customers are realising Redbubble provides a compelling home decoration solution.

Clearly, the standout winner in recent times has been facemasks. The Redbubble Group was able to rapidly enter this new market because of the content we have and our relationships with fulfillers and blank providers. The masks have provided material sales to the Group during the historically weaker fourth quarter. Many of the customers who have come for masks will be targets for our full product set as we enter the holiday season and beyond. I will now pass over to Emma to take you through the FY2020 results in more detail.

Emma Clark: Thank you, Martin. We are very proud of the full year results that Redbubble Group has delivered, including the Group's first EBITDA profit and first positive free cashflow since our IPO in 2016. Even during the global pandemic, with our teams continuing to work from home, the business has shown both its resilience and longer-term potential.

As Martin has just spoken about, our strong financial results for the year also underpinned by growth in core operational metrics. The full-year marketplace revenue was $349 million, up 36%. Revenue growth accelerated during the last quarter, where marketplace revenue grew 73%. Strong growth rates have been experienced at both Redbubble and TeePublic Marketplaces and also across all core geographies and product categories.

The launch of new products has been embedded as a core business-as-usual function and as a result, the Group launched 16 new products during the last financial year, including adult facemasks in late April. I think it is important to expand upon facemasks for a moment, as undoubtably they have been a significant contributor to recent performance.

We mentioned in our last business update that they brought in $26 million of Marketplace revenue since their launch until 31 July. They accounted for 11% of Group sales in the fourth quarter, increasing to 27% in July.

Whilst they have been a tremendous addition since launching in late April, it is also worth noting that other product categories are also performing exceptionally well, such as home décor and wall art.

Excluding masks, the Group's growth rates would still have been 85% in the fourth quarter and 68% in July. This is a testament to the diversity of our products portfolio and demonstrates wide-spread strength across the Marketplace. We will, of course, continue to closely monitor consumer behaviour and macroeconomic factors in our larger markets.

As Martin has already mentioned, the strength of the financial year's top line results is also reflected in growth across the flywheel, as we recorded approximately 511,000 selling artists, up 51% year on year, who sold to 6.8 million unique customers, up 30% year on year. Repeat sales accounted for 40% of the total.

In fact, the Group has demonstrated a strong track record of growth since our IPO. This is been reflected across all lines of the P&L with Marketplace revenue growing at a compound annual growth rate of 32% over the past five years. This has been generated, whilst increasing productivity within the Group, which is reflected in our increasing revenue generation per employee.

More recently, the macro conditions and a shift in consumer behaviour during the pandemic has generated accelerated growth momentum in the fourth quarter. Post the end of the financial year, this strong growth has continued and as disclosed on 7 August, we saw marketplace revenue growth of 132% in July. This was the second highest monthly revenue generated in the Group's history, only the month of December 2019 was higher. We are also encouraged to see that the business continues to perform strongly, and we have seen a similar level of sales in the first two weeks of August.

As these are intra-quarter numbers, I do want to remind everyone that it is measured on a paid basis and it is also important to reiterate that given the ongoing uncertainty around COVID-19 and the ongoing shifts in the macro environment that the Group will not be providing forward-looking guidance.

Consistently over the last five years, growth at the top line has flowed through to the rest of the profit and loss, with both gross profit and gross profit after paid acquisition growing in line with top-line CAGRs. The most recent financial year and particularly in the fourth quarter, gross profit and gross profit after paid acquisition margins have improved further from prior years.

The full year gross profit margins were 38.5% and the fourth quarter gross profit margins were 41.6%. This increase has been driven by a combination of lessened promotions and improved underlying product and shipping margins as volumes have increased. In addition, masks have a product margin that is higher than the average. I have previously said that we want to maintain gross profit margins at around 40% and we are doing work currently to understand how best to reinvest some of this back into the business to further propel the flywheel.

Gross profit after paid acquisition margins have also exhibited a similar dynamic and were 27.1% for the full year and 30.3% in the fourth quarter, the recent improvement driven by slightly more efficient paid marketing spend in that quarter.

The Group's profitability has increased along with top-line momentum as during the year we expanded margins whilst controlling OpEx growth. Operating expenses were $79.3 million for the full year, including a one-off $2.2 million provision as a result of the organisational restructure announced in June. The reorganisation exercise has structurally reset our cost base to a lower level which sets us up well to continue to generate profitable growth.

Speaking of profitable growth, the Group has demonstrated its profitability with a full year operating EBITDA of $15.3 million. Compared to the 2019 result of $6.3 million, this represented a 141% improvement. It is also pleasing to report that we delivered our first positive EBITDA profit of $5.1 million. Moving forward, we will be moving away from reporting on operating EBITDA and towards EBITDA as our key earnings metric.

The cash generative power of the Group's capital-light business model is also quite apparent. Our strong earnings combined with high levels of working capital advantage meant that the full year generated a positive cash flow result of $38 million and we ended the year with $58 million of cash providing a very solid balance sheet position. Our take rate continues to be higher than many other global marketplaces.

It is an exciting time for the Group, and we are making the most of it. Thank you, and I will now pass back to Martin.

Martin Hosking: Thank you, Emma. I appreciate this has been a longer presentation than norm but the story needs telling. It is not the story of the passing phenomenon of COVID, but of the trends that pre-existed, and which have accelerated. 2021 is a year of promise. The flywheel for the Group is turning faster as we become more mainstream. Other marketplaces have shown that when this occurs, you need to step on the gas to seize the opportunity. We will do so in four areas.

Firstly, artist activation and retention at a Group level. This is to ensure that we are the natural home for all artists on the internet. We need to attract, retain and develop them as they are the foundation for the differentiated consumer experience.

Secondly, user acquisition and transaction optimisation. We have unique assets in the vast content library and diverse product types. This allows us to attract customers in a low-cost way that requires ongoing development activity as we are doing something that is genuinely unique.

Thirdly, customer understanding, loyalty and brand-building. This is probably the biggest single opportunity for the Company. The improvements in loyalty we are seeing are encouraging. Both the Redbubble and TeePublic have very loyal customers and the brands are being built. We need to focus on this and are bringing in newer expertise into the Company to do so. The scale of the opportunity is vast, as we are not talking about 25 million Australians but something like a billion in our core geographies.

Finally, new physical products and network expansion. We can add hundreds of products and many more fulfilment partners. The technology is ever-expanding and what seemed fanciful only a few years ago is now everyday. Adding new products and partners will increase the scale and scope of the marketplace attracting and satisfying more customers.

Thank you, and over 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 Tim Piper from RBC. Please go ahead.

Tim Piper: (RBC, Analyst) Good morning, Martin and Emma. Great result. Just the first question as a high-level one, just around your fulfilment network. Looking at your results, you've obviously had really strong growth in your core geographies. That rest of world, how are you thinking about your fulfilment network now from localisation point of view? Are you going to be focusing on continuing to fill out EU, UK, Europe to grow sales there are you now starting to look at fulfilment in some of that rest of world category?

Martin Hosking: Thank you, Tim. The answer is the former. It does make sense for us to continue to double down on our existing geographies, so at least over the next immediate period we are not thinking of going beyond that. There are some particular things which we would be looking at, for example, we have no fulfilment in New Zealand; New Zealand is beginning to become a scale market and so that would fit within that. Being more and more local in the United States, we've been able to break down the geographies there rather than seeing that as a single geography, but multiple geographies, similarly in Europe but there's no particular plans to go beyond that. We may have reasons for particular product types to want to do some things in Asia. There may be just some reason to take that on but it would primarily - it's not an area of focus and so you can think of existing geographies, certainly the billion customers within the existing geographies, that is the primary area of attention.

Tim Piper: (RBC, Analyst) Yes, got it. Thanks. Just second question on your seasonality. Typically, second quarter is a big quarter seasonally for you guys. You're already run-rating big level of sales for Q1 but it often steps up 40% to 50% Q-on-Q into second quarter. While it might be a bit of crystal ball-gazing here but what are you thinking about in terms of that seasonality running into second quarter now?

Martin Hosking: Tim, we're not providing forecasts and like other companies, the trends lines are going to be complex with how COVID plays out and with what would happen from a risk in terms of potential recessionary environments. While I'm not providing forecasts, we do think, as I said in my notes, that the underlying strengths positions us well for however that moves forward. We are certainly preparing to continue to be well-positioned however the holiday season plays out and beyond but we're not specifically providing quarterly forecasts at this point.

Emma Clark: I think the important thing also to note, Tim, is given there is so much unpredictability in the future at the moment, the important thing for us, and I think what we've done well over the past few months and will hopefully continue to do well is plan for all scenarios. As Martin says, knowing that the range of externally generated outcomes could be diverse, making sure that we have the best position in wherever those outcomes actually fall, so that's a very large area of focus and effort internally within the business at the moment, making sure we're well set up for the first half of this current financial year.

Tim Piper: (RBC, Analyst) Okay, got it. Just one last one on your gross margins, which were very strong. That step up to 41%, over 41% in Q4, can you break down the dynamics there? How much of that has been driven by masks coming on, which are high margin I think, versus promotional activity in some of those other dynamics?

Emma Clark: It's probably more weighted towards promotional activity, so the lack of promotional activity in the marketplace over the fourth quarter. I would say that is the number one reason, followed by masks being at a higher margin followed by volume benefits would be the rank ordering of those three impacts.

Tim Piper: (RBC, Analyst) Thanks, that's helpful. Just to follow on from that, then your paid acquisition costs have come down as a percentage of revenue but I assume those paid acquisition costs were all carried in the 4Q but you've pushed, what was it, $20 million of revenue into 1Q. Does that effectively mean that your paid acquisition costs as a percentage of your volume, so to speak, is actually lower than that percentage in the Q4?

Emma Clark: Tim, would you like to come and work for Redbubble given you understand the dynamics of our profit and loss so well? Yes, that is exactly what has happened. We've deferred $19.1 million worth of revenue, so obviously we've reported $349 million of marketplace revenue. That's on a delivered basis. On a paid basis, the number is $19.1 million higher than that. That's been deferred into future period. The cost of goods associated with that has also been deferred but to exactly your question, the paid acquisition costs are not deferred. So, effectively, the paid acquisition costs that we incurred in June were reflective of the entire revenue that was generated from a paid perspective in that period. That does overinflate the cost in that fourth quarter.

Tim Piper: (RBC, Analyst) Okay, thanks. So, a material, even more material step down there. I'll leave it there and jump back into the queue. Thanks for taking the question.

Operator: Thank you. Your next question comes from Ash Chandra from Goldman Sachs.

Ash Chandra: (Goldman Sachs, Analyst) Hi, guys. Thanks for taking the questions. Just on the underlying EBITDA margin, we'll just talk through the paid acquisition costs that arguably are somewhat overstated, at least relative to the revenues you've recognised, and then that fourth quarter EBITDA margin you give in the slide deck on page 29 also includes I guess that $2.2 million in restructuring. It looks like your margins are at least 9.5% exiting fiscal '20. Would you mind just talking us through then how you are thinking about that kind of OpEx profile into '21, noting that on the one hand you've got the benefits of the restructuring to come through but also take into account your comments, for example, Emma, that you are thinking about how to reinvest some of this leverage?

Emma Clark: Not a problem, Ash. Good question. Yes, obviously, as you point out, the EBITDA margins are currently quite strong and as we've just spent 30 minutes talking about that's demonstrating what the flywheel does at scale with good cost control, which is very pleasing to see. We're not going to give guidance on OpEx moving forward as per Martin's comments before about not giving guidance on other lines of the P&L, but certainly the dynamics as the external trends continue, as we continue to be well placed, there's no reason to think they'll be substantially different in that near term. I think in terms of the reinvestment piece, we're very focused at the moment with the volumes that we're currently seeing and the artists that are currently joining us in making sure that we maximise operationally our business.

So, are we going to go off any time in the next six months and spend an enormous amount of additional OpEx anywhere as an investment? Probably not. I suspect we will be very much having our hands full with keeping our flywheel running through the next couple of seasons. Where we do choose to invest some of that goodness back, if it is material, I mean there's always incremental small investments going on as we test and learn and then continually modify how we do our business, but in terms of big investments, that's likely to be after the holiday season and obviously we would come out to market and talk to you about those as we were choosing to make them.

Ash Chandra: (Goldman Sachs, Analyst) Got it. Can I ask, this year you capitalised in development costs $9.2 million or so, not dissimilar to the number you did last year, broadly speaking now do you think that's a number that stays there or thereabouts?

Emma Clark: Once again we're getting pretty dangerously close to guidance. I would just simply say that as a percentage for the overall OpEx space I am not expecting it to change materially over the coming period.

Ash Chandra: (Goldman Sachs, Analyst) Okay, just one last question. You said you mentioned 40% of sales have come from repeat users this year, can you talk to what that number was last year and any trends on frequency of use that are coming through?

Emma Clark: It has maintained relatively consistently. I don't have the exact number for last year in front of me at the moment, so I can come back to you offline with that exact number Ash, but it's very - it's similar, very similar.

Ash Chandra: (Goldman Sachs, Analyst) Okay, terrific. I will jump back in the queue. Thank you.

Emma Clark: Thank you.

Martin Hosking: You can actually see it on that chart. I think it was chart - which number was it. It's in the charts which I showed. About 13, I think.

Emma Clark: Yes, near the middle of the pack.

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

Richard Cawsey: (Denali Ventures Partner, Analyst) Guys, congratulations. What a great outcome. It's wonderful to see the unlocking or the unblocking of the flywheel and getting that working. I note through the last two presentations that you have given you have talked about eliminating fairly significant cost lines and you have been able to deliver growth up. I am wondering if that suggestion is meaning the focus has narrowed and I would like to understand what has been discarded and where the increased focus has come on. Then the second question is, if I heard correctly, is that there's about $19 million in unearned revenue which would have been singularly attributed to the last quarter that will then effectively flow through into the next quarter and that degree of holdback on revenue, can we expect that at the half year as well?

Martin Hosking: Thank you Richard. I will take the first question and I will leave Emma to take the second question. So, I will give some examples. The restructuring was primarily about driving tighter alignment and making sure that people working on things which had the highest potential for commercial outcomes. In particular what we have done is created a more coherent product management framework and more visibility into what is going on and making sure that it is more tightly aligned with commercial outcomes. So, over the last period of time, for some time, we have seen a lot of activity which didn't necessarily generate strong commercial outcomes, so the increased focus is making sure that people are doing things which have the most potential to have that higher commercial impact.

One area which is probably worth noting because it was - we had flagged with investors - it's clear that there's a natural rate at which we can get new products into the marketplace. It's probably in the order of one a month or a bit more than one a month. After that you actually tend to get a clogging. We don't put enough marketing behind them. We don't unlock the potential of the new product and they tend to clog the marketplace a little bit. It's a little bit like a little bit of ice cream is good, a lot of ice cream is not good and so when we unlock the potential for 200 products we will be doing so in a pretty consistent way.

The other part of that is that the additional products do require effort from us and that is much better if it's sequenced rather that occurring in parallel because it does require a lot of people to get a product out, both in our teams, but also with the fulfillers and indeed even with the artists. So, doing that in a more consistent way and making sure we keep the highest value products and put the research up front is meaning that we are able to achieve more with less.

Those are the two particular examples. I think when I look at it though it's primarily in the former area of making sure that the activities align to a tighter strategy. That strategy is what I set out here which is just about us getting better at what we do and not trying to go beyond that. There certainly were some activities which had been considered which were beyond the immediate focus of us as a business and so we have found that just by doubling down on where the flywheel works and making sure the consumer marketplace is ever more effective is the best use of our time and resources.

I will say as well, some of that can be done at very low risk because TeePublic over the last year had some very good examples of where we could deploy resources very efficiently with very high chance of impact. Referring in particular to the work which is going on in SEO but also the work which is going on with artist sales and marketing and that was noted then charted. If we can get each cohort of artists selling at a higher level in subsequent years, that moves from being a cumulative impact to exponential impact and so that's the focus. Over to Emma.

Emma Clark: On the deferral of revenue, the two things that impact how much revenue you would defer in any reporting period is the combination of the absolute sales volume running through and the gap between the customer paying us for the purchase and when that purchase is actually being delivered to them. The reason that we are talking about it so much at the moment is at 30 June deferring $19 million is a substantially higher amount than what was deferred in the prior period. So, we net moved revenue into future periods.

Obviously, if the sales level remains consistent across periods and the delivery days remains consistent across periods, you just squash that out every quarter or every half and it actually doesn't make any material difference to your numbers. So, we are carrying $19.1 million into FY21. We will then make another delivery date adjustment for our next quarterly at 30 September. If the sales for the month of September are very similar volume levels to the sales in June and the delivery days remain the same, we will still defer another $19 million and so the net impact on the quarter results will be zero.

It will depend on what level of sales we are carrying through at that point in time and what the delivery dates are at that point in time. One thing I think it probably is important to pull out of that conversation is that for the 30 June far and away the primary cause of deferring so much revenue was the absolute step up in the volume of sales in the last quarter of the year. The delivery days as at 30 June were not materially longer than the delivery days were at the 31 December. It's just the difference in the sales volume between the two periods that has largely driven the increase in the deferral. Hopefully that makes sense.

Richard Cawsey: (Denali Ventures Partner, Analyst) It does. Congratulations folks. Well done. Thank you.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Anthony Porto from Morgans Financial. Please go ahead.

Anthony Porto: (Morgans Financial, Analyst) Hi guys, how are you? Just three from me. I guess you previously called out a pretty audacious goal of $1 billion revenue into the future and talked about a TAM in the range of US$280 billion, which was less than a 1% share obviously, but with Etsy coming out a couple of weeks ago and talking about their TAM now being in the trillions, should we be looking at that $1 billion target as increasing fourfold? Just some comments around that.

Secondly, I guess without making this the Etsy show, but Etsy has gone to free shipping on orders over US$35 and they appear to be getting good traction on that. Is there any competitive pressure for you guys to go there? Are you seeing conversion rates drop at all based on delivery? Then if you had to match that what would be the impact on the gross margin? I don't know how much you could increase pricing to subsume some of that.

Then just finally, the Google algorithm has reared its head again in obviously an article in The Australian a week ago or so. I know it comes up a lot but could you just I guess allay fears regarding the Google algorithm changes given what happened previously. Thanks guys.

Martin Hosking: Thanks Anthony. I will take the first and second question and let Emma talk about the shipping question. I'll take the last question first, the Google algorithm. We are good at Google. It is just worth noting, the only period in the entire history of Redbubble where it was really complex was in that October 2018 and I have previously talked about that. What Google is always looking for is the most relevant result for a customer. We have got that content and they are wanting to find the original source of that content, so where is the place where that actually exists? It exists on Redbubble or on TeePublic.

The most recent change we may see some noise, but the signal remains strong that we have the most relevant content. So it wasn't materially impacted and I think while we have this differentiated content that will remain, so if you are looking for any of the highly differentiated content which we have, that's why the focus is, yes SEO is an important part of it, but the foundation is the relationship with the artist, the highly individualised content and making sure that Google knows that we are the initial source of that at either Redbubble or TeePublic marketplace.

In relation to the total addressable market, as I have said in my comments, there are two challenges which market, or two pivot points for marketplaces. The first one is when you get enough buyers and you get enough sellers and the things start to move. That happened about three years after Redbubble got going when we started to get some traction. The second pivot point which is a tiny fraction of marketplaces get through that, that very narrow window. Less than 1% of them get going. Even fewer than that. For a very small number of companies you then have a second opportunity, is where you go from niche to mainstream. We are moving through that second aperture. That is what Etsy moved through over the last period of time and which we are moving through now.

As we go from an art and design marketplace to a consumer product marketplace which has highly individualised offerings which are relevant to most people, I guarantee you, if I meet somebody and talk to them long enough I will find something for them on the Redbubble marketplace that they could not find anywhere else which is relevant to them. That is the opportunity which we are opening. Yes, it is a billion customers in our core geographies. I think it's not realistic to talk about in many senses what the total addressable market is because it's so far from where, you know, it's so high in the sky that we're not going to bump up against it any time soon. Until we get an awful lot closer, which will probably be many years from now, it's not really expected to even talk about where it is.

Emma Clark: On the free shipping Anthony, it's an interesting and quite specific question. Just for a second for everybody on the call who may not be aware of the differences and similarities between our model and Etsy's, the free shipping Etsy offers does actually highlight a difference between our models. In the Etsy model with free shipping it's effectively the creator that bears the burden of that free shipping, not Etsy themselves. They're encouraging a certain set of behaviour and effectively shifting that burden to the creator to participate in that and to soak up the cost of the shipping.

In the Redbubble model, obviously, Redbubble incurs the cost of the shipping because of the way that we run our fulfilment network. So that's quite different. So we doing exactly the same thing as Etsy would not make sense in this particular scenario. That being said, more broadly on the move globally to free shipping and customer's expectations and does that pose a longer term risk or threat to the business. It is something we are cognisant of. We did run some free shipping tests in the past year. Interestingly enough, those tests told us that what customers say and what customers do is sometimes quite different.

So all customers will tell you that they value free shipping. But actually, we didn't find when we did our tests that that was necessarily borne out in the quantity of data that we got back from those experiments. Hypothesis for that would be that to Martin's point about talking to someone and finding a thing they could get on the Redbubble marketplace. Our content and the unique nature of our content and the volume of it makes us not commodity to the customer. So I think customers have a different view on shipping when it's a commodity product versus a non-commodity product.

That being said, if I go back to the point I made earlier around the margin has obviously bumped up above 40%. I think the marketplace does splendidly well at about 40%. Looking at opportunities to reinvest that margin, certainly creating a better shipping proposition and potentially tying that to a loyalty proposition more generally is something that we're currently thinking about and exploring and may well be one of the things that we decide to reinvest that margin back into.

Martin Hosking: Thank you Emma. I think the critical point we're making there is that we have optionality because of our strong economics.

Anthony Porto: (Morgans Financial, Analyst) Okay. Thanks for that guys.

Operator: Thank you. Your next question comes from John Lewis, from Osmium Partners. Please go ahead.

John Lewis: (Osmium Partners, Analyst) Hi guys. How are you today?

Martin Hosking: Well thank you John.

John Lewis: (Osmium Partners, Analyst) Good, good. Well I guess just a couple of questions just to unpack some of the growth trends and I'm not in front of a computer. But it looks like out of the gate your annualising in facemask about $100 million a year. In the first 90 days, I think you're at $26 million. I realised that's mainly adult masks before you've added teens and kids. Is that right?

Emma Clark: Yes. That's correct.

John Lewis: (Osmium Partners, Analyst) Can you give a little colour on what the opportunity of facemasks is for adults relative to kids and teens? Is it a third, a half, any thought there on what that could do to your business?

Emma Clark: Yeah. Look, it's a really interesting question John. Because I think there is a broader question even in that, which is how long is the facemask the trending product that's going to peek and then drop back down? It is something that's going to peak and then die? Or is it something that's going to peak and just keep on powering along? So once they've bought their initial facemasks, will they buy more? How frequently will they buy more? Are they going to go out in public with facemasks forever? Or only for a period of time.

Obviously, we don't know the answers to any of those things, which does make answering your question a little difficult. That being said, we only launched children's facemasks about three weeks ago. We launched youth facemasks about two weeks before that. So they are both super new in terms of their product life cycle. Obviously, the trend continues with facemasks. The trend also continues potentially for facemasks to match other apparel. There is also the trend of families having matching facemasks. So I feel like Redbubble is well positioned to play in all of those trends. That's what we've set ourselves up for.

I think the other thing to note about facemasks is obviously, it's a very rapidly shifting landscape. I don't know about everyone on this call, but certainly all of my feeds are clogged up with people trying to sell me facemasks at the moment. There is now many, many different variants of facemasks for different use cases coming out in the marketplace. So I think it will also be very important for Redbubble to continue modifying its offerings to keep in line with current trends with that particular product set. It's - and obviously, it's the fastest moving product category and set of subproducts that we've seen.

John Lewis: (Osmium Partners, Analyst) Okay. But I mean it's almost rivalling t-shirts. It's almost your largest category in the first - out of the gates here, at least on that front.

Emma Clark: Absolutely.

John Lewis: (Osmium Partners, Analyst) And then I guess the next question I would have. I think that if you look at your top three categories for growing over 200%. Is that right? You have about $75 million in revenue, growing over 200% today and I think - again, I don't have it up. But it's like - I think it's home décor. What were the other areas that were really driving…

Emma Clark: Home décor, wall art and accessories, which is where masks nest in the category structure, are the three.

John Lewis: (Osmium Partners, Analyst) Okay and then the other 68% of your business is growing around 50%, somewhere in that range, right?

Emma Clark: Correct.

John Lewis: (Osmium Partners, Analyst) I guess the other thing I was going to ask is you're annualising, I think, revenue per head around $1.1 million in the fourth quarter. But given the trends in annualised, what - I mean any range on what you think you can do on revenue per head?

Emma Clark: I think we would say that you just have to look at the trends over the past five years and there is a clear trend there and there is no reason to expect that that trend won't continue. It's going to keep going up.

Martin Hosking: Yeah. I think John, part of the point of the restructuring was to make sure that we were doing more with less and having more impact. So the restructuring, while its overwhelming focus is cost control, it does actually achieve that outcome.

Emma Clark: Yeah.

John Lewis: (Osmium Partners, Analyst) Got it, got it. Okay. I guess my last question is when you look in the categories you're not in that you should be in, like hats, footwear, pets and others, do you have any - I mean, from the technical complexity, is hats fairly straightforward or what? I mean, that seems like that could be a $100-million category, as well as footwear and some of these others. Can you give us some thoughts on these categories and what it could mean to Redbubble?

Martin Hosking: Yeah, they're all huge categories, John. You're completely correct, they're all huge categories. Some of them are more or less technically complex, but a hat's not more complex than a satchel, I don't think, and you haven't even talked about the categories in a more print-cut-sew high-fashion end, which we would like to be in. So, I think that you're quite right, there are multiple $100-million categories which we can and should be in and will be in over the new few years.

John Lewis: (Osmium Partners, Analyst) Any of these or I mean, do you think you could get into any of these in the next year? What's the gating factor? I know there's the holiday season and you don't like to bring any…

Martin Hosking: Yes, gating factor is - and that is one of it - but it's also that we have discovered we're much better off coming into a category strongly. I'd rather be entering a smaller number of categories really well, than a larger number of categories anaemically. We have seen the fact that we do enter them well with a good cut product experience, with good delivery time and do so on a global basis, I'd much rather us be in a smaller number of categories with strong growing consumer loyalty, than a large number of categories and not doing it nearly as well. That was part of the structural change which I made which I referred to the conversation with Richard, is making sure that we do this very well.

Emma Clark: You do raise an interesting point around the timing. So, it is worth noting that we think about our product launches. Even though we report them every quarter and on a financial year basis, actually think about that as a calendar year activity. You are correct that we generally do not do product launches in the holiday quarter, because we obviously don't want to accidently affect our site performance, or site availability. So, that's going to be the case in this upcoming holiday quarter. So, the next batch of products will be in the start of calendar year next year.

John Lewis: (Osmium Partners, Analyst) Thank you. I guess, just lastly, what could come out of pets, the pet's category?

Martin Hosking: John, I'm going to pass on that one. We need to go over to other calls but there's a lot of pets products. People love their animals and are prepared to spend on them.

John Lewis: (Osmium Partners, Analyst) All good, fair enough. Yeah. Okay, thanks. One more. Last one, promise. So, you guys are piling up a lot of cash. I mean, are there things that - have you thought about radio, TV, other things to accelerate the discovery of Redbubble?

Martin Hosking: Yes, I think we will be trialling more marketing effort. Certainly, so we're going to be trialling direct mail, which we've not done before, in the lead up to Christmas. So, the cash does give us opportunities to trial there. You're right, as the market goes from niche to mainstream, those sorts of things make sense to trial. So, yes.

John Lewis: (Osmium Partners, Analyst) Thank you.

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

Owen Humphries: (Canaccord Genuity Group Inc, Analyst) Good day, guys. I'll try to be quick. There's a bit of a Q&A fatigue. But maybe I just want to just talk about the run rate unit economics if that's possible. If I - just piecing together the June, July and August announcements, it looks like you've added about $3.4 EBITDA for the month of June. But just looking at the number of $122 million paid versus $103 million reported, we talked that that $19 million deferral, does that mean that there was an $8 million kick to EBITDA for June? So, was June running at around that - between that $10 million and $12 million EBITDA? Have I done the maths right there, or have I missed something here?

Emma Clark: There's nothing wrong with your maths, Owen. [Redbubble note: Redbubble notes that the look-through Operating EBITDA for June is between $6-7m of Operating EBITDA. This is based on $3.4m of Operating EBITDA for June and the addition of $2.2m of one-off reorganisation costs plus paid acquisition costs related to the deferred revenue.]

Owen Humphries: (Canaccord Genuity Group Inc, Analyst) Okay. Second question is, just around the restructure costs and the annual report of that $2.5 million, if I look at the OpEx in that fourth quarter of $22.8 million I think it was from memory, was that $2.5 million absorbed above the line?

Emma Clark: No. So, it was $2.2 million and it came in as other expenses. [Redbubble note: The $2.2m is related to one-off reorganisation costs that is in operating expenses, absorbed above the line, and included in the $15.3m of Operating EBITDA for FY20 and $8.4m of Operating EBITDA for 4Q20.]

Owen Humphries: (Canaccord Genuity Group Inc, Analyst) Other expenses. So, other expenses in the fourth quarter were $1 million?

Emma Clark: Hang on, I'm just looking where you are. Yes, because there were other adjusting entries in the fourth quarter in that other OpEx line related share-based payments, that offset the $2.2 million, Owen.

Owen Humphries: (Canaccord Genuity Group Inc, Analyst) The $2.2 million was negative share-based payments, I imagine, is negative. What's the material positive that I've missed in that other income/expense line?

Emma Clark: So, in that other income/expense line, there's cost for share-based payments, there's foreign currency gains and losses in there and some other small things - eg the rental leasing standard, rental charges come through there. In the fourth quarter, there was a positive adjustment to share-based payment and then there was also a take up of the restructure of $2.2 million. I can give you the breakdown of that offline.

Owen Humphries: (Canaccord Genuity Group Inc, Analyst) No, that's good, that's all the questions. I'll take my further questions offline. But well done, guys, on a phenomenal result and yes, punching out some serious cash. Catch you then.

Operator: Thank you. There are no further questions at this time. I will now hand back to Martin for closing remarks.

Martin Hosking: Thank you very much. I think you've all heard enough from me, so no closing remarks. Good to be speaking with you and good to be sharing with you. Thank you for all your support over the years to the older shareholders and for the newer ones, welcome.

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

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