Investor Update - Half FY2022
Conference Call Transcript

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The transcript of the Investor Update Half FY2022 conference call on 16 February 2022 is attached.

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This announcement was authorised for release to the ASX by the Redbubble Limited Board Chair.

INVESTOR UPDATE HALF FY2022

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16 February 2022

Louise Lambeth: This session is also being recorded. Before we start, I would like to call your attention to the safe harbour statement regarding forward looking information in our ASX announcement. That safe harbour statement also applies to this investor call. I will now pass on to Mike.

Michael Ilczynski: Thank you Louise. Hello everyone, thank you for joining us today where we'll go through the Redbubble Group first half FY22 results.

We shared a preview of these numbers in our January update and we can now confirm that they have not changed post audit review. We are proud of the $54 million that was earned by a record number of selling artists during the half. We ended the half with a significant cash balance, which gives us the ability and confidence to invest for future growth.

As we have mentioned, COVID was an awful time for many people around the globe but it was a tremendous boon for Redbubble. While we have come off those highs, when the Group is viewed over a two, three or four year basis, it is clear to see that the Group is substantially larger and significantly better placed than it was pre-COVID.

On slide 3, over the last six months as we have cycled the peak of the prior period comparables, combined with ongoing shifts in many elements of the external environment, we're in no doubt that it has been a challenging period for the business. None of that however changes the incredible opportunity that lies ahead of us. I remain highly confident that Redbubble Group is a great business that can deliver long term value to all stakeholders.

I'd like to take a few moments to run through the Redbubble Group investment opportunities and why I'm so excited about what we're building. I'll then discuss our first half operational achievements across two of the four strategic themes before passing to Emma who will speak to the remaining two as well as our financial performance and outlook.

On slide 4, I believe Redbubble Group offers a compelling investment opportunity. We are the owner/operator of the world's largest marketplaces for independent artists. The platforms utilise on-demand technology which is more efficient and scalable than traditional retail and drives strong unit economics.

As we saw during the pandemic, the business model can drive exceptional returns at scale when profit maximising. We play in massive addressable markets, which means there's no foreseeable caps on the potential upside. Within the business there are multiple high potential growth levers that can enable us to achieve a meaningful step up in scale.

The team and I are energised and have our sights firmly focused on driving sustainable growth. Let me go through each of these in a bit more detail.

Slide 5, is the core business model on a page. Redbubble and TeePublic are large scale, difficult to replicate three sided marketplaces. They offer a simple, no upfront cost selling model for artists, which is uniquely positioned in the way we serve the creator economy, helping artists to monetise their creativity and sell to millions of customers globally at very little risk to them.

The marketplaces connect artists and creators to a third party on demand fulfillment network that requires neither artist nor the marketplaces to carry inventory or warehousing costs and risks, as well as being highly scalable and capital light for the Group.

These millions of artists provide a large scale and highly dynamic source of content. They create a massive, constantly evolving catalogue of content and product listings. Redbubble Group's core role is to aggregate and enable this consumer demand for artists by utilising this enormous product content library across organic and paid channels.

When an artist sells an item to a customer, it is fulfilled and shipped on demand, directly from the third-party network. This model enables infinite product listings with positive unit economics for the marketplaces. The artists and their content, their customers, and the third-party fulfillment network form three sided marketplaces with flywheel effects that drive improvements and efficiencies as they each scale.

So, in slide 6, breaking this down a bit more. The marketplaces are powered by one of the largest online communities of independent artists. At the core of the marketplace are the artists and their content that they bring to the platforms. As more artists continue to join and sell on Redbubble and TeePublic more content is created and added to the platforms.

This is not only highly scalable. It is extremely dynamic and constantly evolving as artists react to memes, trends and cultural changes. There is no upfront cost for artists and relatively little cost to the marketplaces. The vast array of unique content is then combined with a variety of physical products that artists can choose to sell, featuring their designs. With more content and more products this growing variety of listings increases the potential appeal to a wider and wider audience, attracting more customers to the marketplaces.

The more customers, the more scale benefits accrue in the fulfillment network, enabling customers to be serviced more efficiently. Nearly all customers are now receiving their orders from fulfillers in the same broad geographic region as them. This means faster delivery times, better shipping economics and a lower carbon footprint. All of which helps improve the overall customer experience.

As you can see from the metrics on this page, all aspects of the marketplaces have shown increases in improvements over the medium term, demonstrating these flywheel effects can and do positively impact the marketplace.

On slide 7, our dedication to our mission of bringing more creativity into the world has helped us to successfully build an incredible community that uniquely positions us in this growing creator economy. As I said, the model offers a simple, low risk, no upfront cost way for them to sell across the globe. The strength of this position means artist acquisition is very low cost for the Group.

The number of selling artists on the platform has been growing at a CAGR of 37% over the past five years with a record 634,000 artists selling an item in the first half. The success of current artists encourages new artists to join and existing artists to continue adding new works.

The total library currently encompasses some 60 million different designs across the two marketplaces, a significant portion of which can be considered evergreen and has long lasting recurring value. This library constitutes a large and growing asset with competitive advantages and strong defensive attributes given how difficult it would be to try to replicate this at this level of scale.

On slide 8, each artist's design can then be made available for purchase on up to 126 different physical products. This tremendous leverage is highly valuable for each artist and also for the marketplaces, as it means there's now some 5.7 billion listings across the two businesses.

As a result, the Group is host to one of the largest catalogues of content and product listings on the internet that can continue to grow as new content is uploaded by artists and as new products are made available through the fulfillment network for them to sell. This large variety means increasing diversity and relevance to a growing pool of potential customers.

On slide 9, this long tail of content and product listings provide significant advantages for attracting customers. On a last click basis, organic channels remain the source of the majority of marketplace revenue at 60% in the first half. The marketplaces are aggregators of demand and have helped artists to sell to millions of customers with 5.3 million unique customers in the first half of the year.

Looking ahead, there is a real opportunity to turn first time customers, particularly those acquired by highly specific long tail searches into loyal customers who keep coming back to the marketplaces.

On slide 10, now moving to the third side of the marketplace, Redbubble Group provides artists access to a global network of third-party fulfillment and logistics partners who help them service their customers once an order is placed. This on-demand model is exceptionally efficient when compared to the traditional retail supply chain process. It offers no lead time on content, no inventory risk, less waste and no direct warehousing costs to the marketplace or artists.

The third-party nature of the fulfillment network means minimal capital investments are required by the Redbubble Group to scale and expand the network. The network currently has some 44 fulfillment locations around the world enabling 98% of orders to be shipped from the same broad geographic region as the customer or intended recipient.

On slide 11, from a financial perspective, the marketplaces have demonstrated their ability to generate strong economics and deliver attractive returns to scale. These numbers represent the average across the Group over the last two years. Cash from customers is received upfront and on hand for at least four weeks on average, and then gradually distributed to various parties.

For every $100 of marketplace revenue, artists on average earn $19, while the Redbubble Group earns on average $26 as gross profit after paid acquisition, which is effectively the Group's contribution margin that is then offset against fixed costs.

These positive unit economics are why we are so focused on investing for scale and growth in order to get our GPAPA, or total contribution margin, consistently well above our underlying ongoing cost base.

On slide 12, when we look at the markets we operate in, we know that market size is no barrier to the growth of the business. Given the broad range of physical products available to consumers via the marketplace, these total addressable markets are estimated to grow to over $1 trillion by 2024 with at least 35% to 40% of all customers seeking something unique or meaningful.

On slide 13, the Redbubble Group continues to be positioned at the intersection of a number of positive macroeconomic tailwinds. We've spoken about these at length before. These have driven continued and sustained growth, and we believe they will continue to benefit the business moving forward. This gives us confidence that the growth opportunity into the longer term remains highly intact, and it's therefore firmly our job to deliver on this potential.

On slide 14, to that end we've shared a clear overview of our medium-term strategic plan based upon our high potential growth levers. These initiatives will be phased over the next three to five years and have been ordered to give us the best chance of maximising our returns on this investment.

As I spoke to in January, there is more platform work that we need to undertake in order to unlock future value. So, during calendar year ‘22, we will continue to build on the foundational work for the next phase, as well as commencing some of the investments required to deliver ongoing earned growth.

On slide 15, in terms of these opportunities for earned growth, two of the areas we've spoken about have been the opportunity to improve our brand awareness and increase customer loyalty and purchase frequency. As shown by these graphs when compared to our peers, there is plenty of headroom in both areas. For us, we're excited about the very real opportunity that this presents.

Loyalty or repeat purchase along with brand awareness are important areas to both businesses that will require sustained disciplined investment over the near term. These are just two examples of the many high potential growth levers that we have in the Group. The more and more I get to know the business, the more excited I am about the opportunity that lies ahead of us and the levers that we have to grow while also being very realistic about the work that we need to do to go after them.

On slide 16, across both Redbubble and TeePublic, our success is entirely dependent on the quality and energy of our people. I'm just over 12 months into my time here and, given the very ambitious medium-term aspirations we've set, I'm really pleased by the team that I'm now surrounded by.

We've been able to bring in some really experienced senior leaders over the past 12 months to build and compliment the executive team and existing people. Together we are energised, focused and excited about the future of building this Group into something really special.

So, I'm going to turn now to the review of the first half performance. On slide 18, we are continuing to execute against our four key strategic themes. For those of you who have been following us for some time, you'll recognise these as the foundational pillars upon which we can build and scale to our next phase of growth.

So, first on 19, on artist activation engagement, we continue to see more artists join the platforms and existing artists sell more work. This is a really important chart for us as a business, as it demonstrates the ongoing compounding value of artist cohorts each year.

In calendar year ‘21, 60% of marketplace revenue was generated by artists who had been on the platform for over a year. This metric has been pretty steady and demonstrates the long-term value, recurring value, that artists and their content earn and bring to the marketplace.

Operationally, our Group level artist function has been taking a more proactive and segmented approach to artist acquisition and engagement primarily within the TeePublic marketplace and that will increase for the Redbubble business over the coming 12 months.

On slide 20, we've spoken quite a bit about the strong increase we've seen in content uploaded over the past couple of years. As such to ensure marketplace integrity, a key area of investment for us has been into content operations.

We have scaled the number of people in this area by 6x in the last few years, which has enabled a 15x increase in the number of works reviewed.

To enable us to efficiently scale moving forward, right now we have a significant investment occurring in automating and improving our systems and processes across this very important area.

On slide 21, developing a culture and process of targeted experiment across the business continues to be a key aspect of enabling us to achieve our longer-term potential. As we laid out in August, an initial and certainly ongoing area where we are taking this approach is across the customer transaction funnel, as well as in the areas of loyalty and repeat purchasing.

We are just getting started in this area and some examples of experiments are included here. Whether they be expanding audience reach or increasing purchase rate or basket size, we are testing across a variety of methods to attract more customers to the marketplace and increase their transaction value.

As it has been an area of interest for a number of stakeholders, the roll out of Afterpay across the Redbubble site has been a positive one. We saw buy now pay later customer averaging a significantly higher average order value relative to other customers.

We still have a lot of work and a lot of opportunity right through the transaction funnel and the teams will be continuing to experiment and improve moving forward. I will now pass over to Redbubble Group, CFO, Emma Clark. Emma.

Emma Clark: Thanks, Mike and hello to everyone. I will continue with the first half operational highlights and we're in the strategic theme of customer understanding, loyalty and brand building. I just want to remind everyone listening that we're on slide 22.

We acknowledge that the mobile experience is increasingly important given more than half of sales on the platform now occur on a mobile device. We have spoken consistently about our apps and they continue to be an important element in our long-term strategy, being both the user acquisition and a loyalty play.

As such, it was great to have 15% of Redbubble marketplace’s sales now coming from its iOS and Android apps. The iOS app has a very high rating of 4.8 stars out of a possible five and we continue to see stronger engagement and retention from customers who use our apps.

Redbubble's membership base is substantial, and there were 8.1 million active members on Redbubble in the six months that made up the first half. This is down 12% versus the first half of the prior year. However, up 53% versus the first half of financial year 2020.

At the present time being a member simply means that the customer has a Redbubble account and uses this to log in, browse and ultimately purchase on the marketplace. There is also a one-off incentive to join. We define a subsection of these as active members who are unique members who visited either the web or app platform while logged in at least once during the period.

Of the 8.1 million active members in the half, 14% went on to make a purchase during that period. Once a member does purchase, they are much more likely to make subsequent purchases than non-members. This increased frequency leads to a higher annual average order value.

There is ample opportunity for us to build a more comprehensive membership program over time, which will result in more users becoming active members, more active members purchasing as well as continued increases in member purchase frequency.

As we disclosed in January, purchases by repeat customers made up 45% of marketplace revenue in the first half. This is up from 42% at the full year results and up from 40% in the prior corresponding period. This is an area where we will continue to mature our level of detail and reporting.

We have broken down the repeat purchases into existing and reactivated customers. Existing customers contributed $90 million to the half’s revenue. These are customers who made a previous purchase within the prior 12-month period.

Reactivated customers contributed $40 million of revenue, and these are customers who made a previous purchase, but more than 12 months ago, who came back to then purchase again during the half.

When we spoke in January, we had said that the increased competition we experienced impacted organic demand, which is primarily the acquisition of new customers through unpaid channels. This can be seen by the contraction of new customers on this chart, with revenue contribution from this group of $158 million for the half down from $211 million in the prior period.

This chart does demonstrate that we have been able to hold onto most of the existing and reactivated customers from the prior period. The growth rate of revenue from customers making a repeat purchase is outpacing that of first-time purchases. It's a strong validation that our focus on better customer understanding and loyalty is of high potential. We started to experiment in this area in the past year and will continue to do so in this calendar year.

Next, I will talk about the product range and third-party fulfillment network. Thus far, we have been able to remain relatively insulated against the well-publicised global supply chain pressures that escalated during the half. As we flagged previously, the team was able to extend last order by dates for the US, the Group's largest region, by an average of four to six days during the 2021 holidays compared to the 2020 holiday period.

There were over 21 million units filled and shipped in the first half of the financial year. This was down 18% from COVID peaks in the prior year, yet still up 32% versus two years ago. The Group also continued its focus on localising products at existing locations during the half, particularly in the TeePublic marketplace where 18 products were localised into existing third party Australian and Canadian fulfiller sites.

As Mike mentioned earlier, increased localisation has multiple benefits, from reduced shipping cost to customers and lower transit times, as well as strengthening the resilience of the entire network by adding optionality and redundancy.

Our teams also work hard to deliver new product launches, line extensions and visual merchandising improvements. These drove tangible commercial outcomes, including incremental sales and conversion gains. New products outperformed expectations and had a run rate of contributing 2.2% to marketplace revenue in November and December.

This is meaningful given that they are still ramping up to steady state. Product line extensions on iPhone cases and hoodies added a further 1.4% to marketplace revenue in November and December. So, the combined impact in this area was 3.6%.

Finally, I'm very excited to share our plans to launch a new pets category in this calendar year. This will help the Group gain access to new addressable markets by expanding the existing product portfolio into new areas of rising consumer demand.

I will now speak to the financial performance and our outlook. Please be aware that unless otherwise stated the financial results discussed are on a delivered basis and have been subject to audit review.

On slide 29, the key call out here is that we are confirming the first half financial metrics that were provided at our market update on 18 January. Nothing has changed subsequent to audit review. As you can see across all metrics, we are now a substantially larger business than we were two years ago.

On slide 30, this is a business that needs to be assessed over the longer term as whilst there has been volatility quarter to quarter, the longer-term growth rate since the business commenced in 2007 has been consistently high. Marketplace revenue has grown at a CAGR of 30% since first half financial year 2018 with a corresponding CAGR of 32% at the gross profit line and a CAGR of 25% for gross profit after paid acquisitions.

Focusing specifically on the first half GPAPA result, when we spoke in January we detailed how one of the factors impacting the results was increased competition that impacted organic, largely unpaid demand. We responded to these changes in the landscape by increasing total paid acquisition spend. These actions across both marketplaces positively impacted our revenue result, but at a lower contribution margin.

This in combination with our decision to absorb increased shipping costs over the holiday period negatively impacted both gross profit and GPAPA margins on a short-term basis. As Mike highlighted earlier, increasing scale will help to drive further gross profit and GPAPA improvements.

During COVID, we have already shown the ability to deliver exceptional returns when the business step changes its scale and we are not in an active investment phase. Redbubble is a truly global business and our multi-regional footprint is a key strength.

North America continues to be our largest region at 69% of total platform sales and on a two-year basis, this has grown 64%. Australia and New Zealand provided a source of positive year on year growth in the half as lockdowns continued to occur intermittently.

There is a combined population of almost one billion consumers in these core regions and you heard Mike speak earlier about the large total addressable market that we have set our sights on. As such the upside is untapped given the enormous number of customers available to us in those geographies in the medium term.

On slide 32, there are a diverse range of physical products available on the marketplaces and this broad mix of lifestyle categories has enabled artists to maximise their selling opportunities as consumer needs and preferences have continuously shifted over the last two years.

During the pandemic categories, such as accessories, which incorporated face masks and wall art, performed exceptionally well, however, have faced a stronger year on year decline as they cycle the COVID slide.

During the first half, we were pleased to see other apparel and t-shirts, which is the Group's largest product category contribute positive year on year growth.

On slide 33, given the quantum of mask contributions and delivery date adjustments recorded in the prior corresponding periods, we have been transparently bridging the reported figures to the underlying numbers. The delivery date adjustment added $10 million in the prior half and masks also contributed $46 million of marketplace revenue.

In the current half, the delivery date adjustment went the other way and took $3 million off the reported numbers and masks contributed $8 million. Adjusting for these two factors, the first half financial year ‘22 underlying marketplace revenue growth was down 5% year on year and also 5% on a constant currency basis.

Looking over the longer term, first half financial year ‘22 marketplace revenue was 60% higher than first half financial year ’20.

As we shared in January, the businesses accumulated a substantial cash balance, which was at an all-time peak of $133 million at the end of the first half. Some of that was due to the seasonality of cash flows associated with peak holiday sales and cash as at 31 January 2022 was $106 million, having now made these payments to the other marketplace participants.

This still provides us with flexibility to invest into our future business growth. It also continues to give management and the Board considerable strategic flexibility around a range of capital options and all of these remain under active consideration by the Board.

There are also a couple of other balance sheet related items that are worth mentioning. As some of you would be aware, we have $41 million of off balance sheet tax losses. These losses are available to offset future taxes payable and as we have discussed, Redbubble is required to recognise revenue upon delivery of goods rather than when the customer has paid for the order. This results in revenue being deferred to the balance sheet. As at 31 December 2021, this was $17 million.

On slide 35, Redbubble provided updated outlook statements in its market announcement on 18 January 2022. To reiterate these statements, Redbubble now expects financial year 2022 marketplace revenue to be slightly below financial year 2021 underlying marketplace revenue of $497 million.

This will still represent solid growth on the $350 million achieved in financial year 2020. We remain committed to our midterm aspirations and the investment that will be required to deliver upon our growth objectives. We are confident and excited about the medium to longer term opportunity to grow strongly and extend Redbubble’s global market leadership.

As such in the second half, we will be continuing to invest into the business, which will increase our operating expense run rate. We will be funding these investments out of our existing cash reserve. Financial year 2022 EBITDA margin as a percentage of marketplace revenue is now expected to be negative low single digits. With that, I will now hand back to Mike.

Michael Ilczynski: Thanks, Emma. Just to finish off on slide 36 and 37, our aspirations of helping artists earn $250 million per year and reaching $1.5 billion plus in gross transaction value in the medium term will deliver a step change in the scale for the business.

Since we shared these, we have been clear that it would be over the next three to five years that we were targeting. So that would be calendar year ‘24 plus with the plus being the important part. Clearly from where we are, achieving the shorter end of this time range will be challenging. However, that does not take away from this scale being our ambition and opportunity over the medium term and what we continue to be focused on achieving.

Then on 37, to reiterate, when we achieve this level of scale, we remain confident that this level of profitability is also achievable. Our aspirations for the Group is to be 2.5x larger from a GTV and marketplace revenue perspective than we are today. At that scale, we are confident in the operating leverage achievable and that this will enable us to reduce EBITDA margins in the range previously put forward.

With that, I'd really like to thank you for listening, and we will open up the lines for questions.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speaker phone, please pick up the handset to ask your question. Today's first question comes from Sophie Carran with Goldman Sachs. Please go ahead.

Sophie Carran: (Goldman Sachs, Analyst) Hi, Mike and Emma. Thanks for taking my questions. Just a couple from me. Maybe first on category expansion. You've mentioned that you'll be launching into the pet category this calendar year. I mean, how material do you see this as a category going forward? Maybe if you can talk to your category expansion pipeline going forward and just thinking about the growth that you expect to come from new versus existing categories.

Michael Ilczynski: Yes sure, I'll talk to that at a high level. Pets is a really exciting one, particularly for the Redbubble business, given the core Redbubble audience is very much that family unit with teenagers, Gen Z teenagers Gen X parents.

So, we think that we know that the spend of those family units on their pets is quite significant. It's been an area where we've had both artists and customers inbound to us asking whether items like that are going to be available. It’s an area that we’re excited about launching – that we’ll be committed to. Starting with a relatively small product range and expanding that over time. As we’ve seen with all of the products on both marketplaces, they do tend to take a while to ramp up to full scale. Part of that is because getting a significant number of artists to customise their works, their designs, to those particular products, does take some time.

Given that we’ve been broad with our timing, when we’ve just talked about calendar year ’22, we don’t want to go further than that and detail a particular materiality. It’s too early for us to do that. But we do see – if you look at the spend of pets, particularly in the US, particularly in family units - it’s a significant category that we’re excited about entering.

Emma Clark: I would just simply add, Sophie, on your broader question about other product expansion, we did – I can’t remember specifically which release presentation it was, but I think about a year and a half ago, we did have a slide that showed in our existing categories, we’re really only in some products within those categories. So, there’s not just going into new categories, there’s also continuing to build out the existing categories that we have with further products in those. We did detail a bunch of different options in that particular slide.

Sophie Carran: (Goldman Sachs, Analyst) That’s great, thank you. Then maybe another one just looking at the consumer behaviour trends and that increase in repeat rates looks quite encouraging. Can you talk about some of things you’re doing to drive repeat purchasing higher, and then looking at Slide 15, what do you need to do to start to move the frequency of purchases up towards what the other large creator marketplaces are seeing?

Michael Ilczynski: Yes, thanks Sophie. Those two things are related in terms of increasing your repeat rate period on period, as well as increasing transaction frequency within a period. For us, these are areas that are – we've been clear with our numbers. We see a big opportunity to improve. But we've also been clear when we've been talking about these areas, at least over the last 12 months since I've been here, but there's no one silver bullet that's dramatically going to lift these overnight.

This is very much an area where there are multiple levers, and we need to experiment and grind out those improvements. That's what both the teams across both businesses have been doing. Looking firstly at how do we start to increase knowledge of customers in terms of understanding the value proposition on the marketplaces. We have a number of customers that come through and purchase and are not really aware of the breadth of designs and products that are available on the site.

So, they might have bought a t-shirt themselves, but not realised that there's an opportunity to buy a throw cushion for their parent, because they're not exposed to those products or designs at any part through their journey. They land in deep; they transact and they're out again. Building the customers' understanding of the value proposition and the breadth and depth on the side is a key opportunity. There's a number of levers you can imagine across marketing and remarketing, as well as onsite experience to improve that.

The other big lever that we see here is building our overall brand awareness. We've talked about that being an area that we'll be starting to experiment into over this financial year and really looking at that in FY23 as an area that we're looking to ramp up hopefully across both brands. We do see that building our brand awareness will be a key aspect of building loyalty and the repeat rate. Then thirdly, an area that we're increasingly focused on is just making sure that that final lived experience of the customer – so when the customer receives that final good - they get the good that they're expecting. They get it on time or ahead of time and the unboxing experience is great.

They love the physical quality of the product they get, relative to the price they paid and their expectations. That we're meeting and exceeding that expectation every time. I think that we've been clear that while overall our customer satisfaction is quite high, there are some areas that we can really work on to make sure that moving away from the average, every experience is at the quality that a customer would expect. That's a very broad answer because there's a lot of opportunities for us to work on, the experience onsite, knowledge and understanding of our brand and then making sure that the quality of the received product is consistently where we want it.

Sophie Carran: (Goldman Sachs, Analyst) Great, thanks Mike. Then maybe one more from me, just thinking about the digital marketing environment, at the previous update you had mentioned that you were starting to see that improve. Just wondering if you had any further updates as we move a little bit further through the second half and what you're seeing there?

Emma Clark: Thanks Sophie. You'll notice that we didn't provide any trading update for the current quarter within this set of results and that's been deliberate. Because we have guidance out and we updated that guidance in January, that was based on what we were seeing to that point in January. The fact that we've come out today and reiterated that same guidance in January is all we're going to say about the current trading performance at the moment because it's all encapsulated within that guidance.

Sophie Carran: (Goldman Sachs, Analyst) Excellent. Thank you both. That's all from me.

Operator: Our next question today comes from Aryan Norozi with Barrenjoey. Please go ahead.

Aryan: (Barrenjoey, Analyst) I think previously you mentioned in your outlook or targets table that the mid-single digits EBITDA margin range for the short term. You've obviously removed that comment now and your FY22 will be negative. Do we take that as you've got less confidence around that mid-single digits for FY23, '24? Because that short term is not just '22. I suspect it was '23 as well.

Emma Clark: Yes, thanks for the question, Aryan. We only have provided guidance for the FY22 year so even when we had prior guidance in place, it was for the FY22 year and then obviously we have the midterm aspirations which are in the deck as well. They're the only two pieces of guidance. We do not have guidance out in the market for FY23 and beyond and we're not intending on providing that at this point in time.

Aryan: (Barrenjoey, Analyst) Perfect, that's great. In terms of customer acquisition cost, obviously it's well aware – it's a well-known fact across the industry – up materially. The next phase or change in the industry is Google removing their cookies from 2023. How do you guys think about – or when you're planning this from a business perspective, how are you thinking about marketing channels for the next 12, 18 months? The outlook for customer acquisition costs, just given the fact that your churn rate is a bit higher than some of the other online retailers, please?

Michael Ilczynski: Yes, absolutely. Well one of course – with firstly last year's iOS and IDFA changes, everyone knows that the cookie deprecation is coming at some point in the future. Yes, our expectation is those changes – we will continue to see ongoing volatility across the digital marketing landscape. What we've seen in the past six months is as – particularly the IDFA changes have made it harder to attribute on channels – on some of the social channels and so we saw a lot of spend push into the search channels.

Search is good for us but that's where, particularly, we saw CACs go up. I think our expectation is we continue to see similar – even as cookies deprecate, the search intent won't change for us and our response is, really, multiple. One, of course we're aware. Firstly, we've talked a bit about how do we continue to build our brand. We haven't invested in either of our brands previously, so building that broader brand awareness so that we start to become less reliant purely on intent-based searches, we think is important because we expect those CACs over time to continue to float up. Then more broadly, the other way we address it is by working on those areas that we spoke of before.

Around working on how do we increase our loyalty and repeat rates? How do we make sure customers that come to the site are aware of the broader propositions? How do we build things like our membership approach? How do we get more people onto the apps in the Redbubble business because we do see better retention and better engagement going forward?

It really has to be a multi-prong strategy for us where we continue to build those acquisition channels that we think will be less affected by those changes moving forward, we continue to build on our brand, and we continue to work on our loyalty and repeat rates. Once that – and our transaction funnel so when someone does land on our site, we start to move those conversion rates and then when they convert once, then we hook them back in. I know it's a very long answer but there's no one proposition. It will undoubtedly – we are very much expecting there to be continued volatility over the next 24 months in particular in that landscape.

Aryan: (Barrenjoey, Analyst) That's great and last one from me, please. Can you give us an idea around unit economics for the business for this half? Very simplistically, how much does it cost to acquire customers, so what's the CAC? What's the gross profit return on that customer? Just trying to get a sense of what unit economics is there that we've got to fall back on, giving you're obviously investing in your brand?

Emma Clark: Yes, the appendix to the investor deck has got the full breakdown for P&L and there's obviously the Appendix 4D in there. We do not provide CACs, Aryan, so we're not – I'm not going to disclose them on the call. Unit economics need to be derived from the set of financial statements that we've provided.

Michael Ilczynski: We deliberately – we've been asked a bit about it. It is – when – the challenge that we've been clear about is that when you look at our GPAPA, it does depend on the mix between organic and paid and then within paid then it depends on what do the CACs look like within paid. There's a reasonable degree of complexity that flows through that number, but hopefully what you can see by breaking it down, you've got the half results and you see by the numbers, you can see what the average looks like across the business as we bring those channels forward.

Even on CACs, as we've talked about, it does depend on your attribution beliefs. As we talked about last click basis, however some of those customers who on a last click basis would be considered organic, have been exposed to various marketing messages prior to coming in through another channel.

Aryan: (Barrenjoey, Analyst) Sorry, if I can squeeze one very quick one – accounting one. Just turning to the receivables balance, I think it's about quadrupled during the half or year on year. What's driving that, please?

Emma Clark: It's still quite a low number in the overall scheme of things but it's largely driven by some legal receivables for some insurances that we have in place. So, nothing necessarily to do with the operational results of the business and obviously they have an almost certain level of recoverability, given the accounting standards that get applied to that balance.

Operator: Thank you. Our next question today comes from Chami Ratnapala with RBC. Please go ahead.

Chami Ratnapala: (RBC, Analyst) Thanks for taking my question Michael and Emma. So, the growth in artists looks pleasing and I'm just keen to understand with that artist acquisition related work that you commenced in FY21, on the recruitment and account management side, have you seen any incremental benefits so far? Any early signs you can talk to, thank you?

Michael Ilczynski: Yes, thanks. It's a good question. We don't do a lot of breakdowns between the TeePublic and the Redbubble business, so I'll talk a little more anecdotally. What the artist acquisition team helps us do is really work on as new artists come in, not only helping them onboard, but helping to assess effectively the opportunities for those artists. That then creates a real focus in both businesses on making sure that new artists and new works are getting promoted and getting the chance to be seen by customers.

As you can imagine, a lot of our business is driven by search and if your search results are completely focused on what has sold previously, that makes it very hard for new artists and new works to break in. So having a view on the way in about what artists – and giving new artists and giving new works an opportunity to be seen by customers, potential customers, and be purchased, is important. One of the key internal metrics we focus on is new artist works sold as a percent of new works uploaded.

We've definitely seen that percentage, particularly in the TeePublic business, growing well. This work has been more focused and it's also an ongoing area of focus for the Redbubble team on how we take those signals from new artists and make sure that they're getting promoted. I think when we see the difference in results internally across the two businesses, it gives us confidence that it's absolutely the right strategy and it's as much around surface – making sure new artists' works are being surfaced and being exposed, as it is on making sure they're being brought in.

Chami Ratnapala: (RBC, Analyst) Thanks for that. Maybe if I could squeeze in one more question? Just on average order values, have you seen – what movement have you seen over the first half just on PCP, thank you?

Emma Clark: Yes, thanks for the question, Chami. Average order value is up slightly, versus the same half in the prior year. I'll also squeeze in, the conversion rate is up slightly as well, so the decline is user-driven, not conversional AOV.

Chami Ratnapala: (RBC, Analyst) Thanks for that, Emma.

Operator: The next question today comes from Per Asmussen, a private investor. Please go ahead.

Per Asmussen: (Shareholder) Thank you and thank you very much for your presentation. In your presentation, you emphasise issues like customer loyalty and repeat sales, but from your information it appears that you actually do have very high customer loyalty and high repeat sales. On the other hand, the vast majority of potential customers in Europe, and possibly elsewhere, have never heard of Redbubble. Can you elaborate a little bit about exactly what Redbubble is doing to make these people aware of the company?

Michael Ilczynski: Thank you very much for the question. Really appreciate it. A couple of things to unpack in there. So, yes, repeat sales as a percent of our overall revenue has been going in the right direction and represents, as we said, 45%. I think why – where we see there is still such a great opportunity, is when we look at the percent of customers that purchase more than once in a period or the percent of customers that come back from one period to the next. Those numbers – we think there is significant room for improvement when we look at other companies with similar customer bases or selling similar products.

We do think that there is a significant opportunity. In terms of your question about our lack of awareness, yes, we completely agree. You can see in the presentation we shared with you of our brand awareness and those brand awareness metrics were only in North America. If you were to repeat those studies in areas like Europe, you would see even lower numbers. So yes, that's absolutely correct. We've talked before about there hasn't been any real investment in what you would consider absolute top-of-funnel brand awareness. That's something that we're looking to rectify over the coming 12, 18, 24 months.

We've been clear that we really wouldn't be starting that brand investment until at least the next financial year, so at least until FY23. We'll have more of an update on that in August with our full year results and as I said, it won't be kicking off any earlier than that. But yes, you're right and you can see from the data we showed regionally, that while we have a good-sized business in Europe, that is primarily in three countries, in Germany, France and Spain, where we've localised language, localised payment opportunities, localised customer service in local language.

But even in those markets, our sales as a percent of GDP or sales as a percent of consumer spending, whatever metric you'd use, is well below what we'd see in our major market of North America, indicating that there's an opportunity to increase penetration in those markets and if we can do that successfully, then we believe that opens up a real opportunity for us to move further into Europe. But the starting point is exactly the point you've made, around we've got to increase our brand awareness.

That does take investment. That's why we've been signaling we're in an investment phase over this short to medium term period. But we think that that's absolutely the right investment to make.

Per Asmussen: (Shareholder) So if I understand you correctly, this will not happen this year, but next financial year, say in August?

Michael Ilczynski: Yes. What we're looking at is any significant investment into brand not until the next financial year, remembering our financial year starts from July. Given that the US is our largest market by far, it's likely that our initial investments will focus on the US. That's where our team is, that's where our strongest position is, that's where our strongest starting point is. Focus there and then take our learnings and expand it into our other markets of Europe, UK and Australia, New Zealand.

Per Asmussen: (Shareholder) Yes. In the next financial year, roughly how much of the marketing budget – how many percent of the marketing budget will be allocated to branding campaigns?

Michael Ilczynski: That's not something that we've talked about openly yet. That's something that, one, we're both working through and two, that that will be part of next year. But we haven't given any guidance around next year's financials yet.

Emma Clark: What I will add is that when we do undertake material brand investment, we will break that out in the financials as a separate line so everyone will be able to clearly see how much we're spending on performance marketing versus how much we're spending on brand.

Per Asmussen: (Shareholder) Which methods do you expect to use for these branding campaigns? I guess it's not newspaper advertising, I suppose, but something else. Can you elaborate on that, please?

Michael Ilczynski: Sure, one, that's still being worked through. The team's very much still in planning phases. What I will say is it will be very digitally focused. We do see from other organisations that we look to and we've taken inspiration from, the ability to build a brand using the various digital channels, from OTT and video et cetera, is where our focus will be. That allows us to be more targeted. Our focus will be very much on our core audiences, so it won't be broad-based. You're not going to see us doing Super Bowl ads or anything like that.

It will be primarily digital, and it will be very much focused on hitting our target audiences rather than to a broader audience. Thank you and appreciate the interest.

Per Asmussen: (Shareholder) Ok, so much of it will be on social media.

Operator: Ladies and gentlemen, as a reminder if you would like to ask a question, please press star then one on your touchtone phone. Our next question comes from Tim Piper with UBS. Please go ahead.

Tim Piper: (Analyst, UBS) Morning team. I'll just stick to two questions. I want to understand the growth in the content which has been quite strong and how that relates to the artists' growth on the platform over the past couple of years? Is it possible to give us a bit of a sense in those numbers of content growth? How much of that is growth from older cohorts of artists and how much is being driven by new artists? If we look at 1H22, for example, the proportion of new content compared to new artist growth has stepped up significantly. Is that something specific to newer cohorts of artists or around strategy or anything like that?

Michael Ilczynski: Thanks Tim. I don't have those numbers right at hand so I would probably need to get back to you. I understand the question. In general, there's not a huge change. One of the things that has been something over the past four or five years is you do have what you call content bulk uploaders, who will look to upload a lot of designs that are more text-based and that can contribute to those numbers. To be frank, that's an area that our marketplace integrity team is focused on because some of that adds value to the marketplace and some of it doesn't. In terms of a real separation or a real change, I'd need to get back to you on that one.

Emma Clark: I would add, Tim, that we do and encourage artists to upload more content. Obviously if they come onboard as an artist initially and they get a signal where something sells relatively quickly for them, that acts as a reinforcement to upload more content. We do know from what we can see in our artist cohorts, that simply having one piece of content uploaded on the platform is not optimal from an artist's perspective. So, most artists, particularly ones who are more commercial, understand that and will continue to upload and add new content to Redbubble over time.

Once again, to Mike's earlier point in the speaking notes, capturing more of those meme-y and trending things that are happening out in the world at any point in time.

Tim Piper: (Analyst, UBS) Okay, got it. Just a second one around a bit of a follow-on on the repeat. You've provided a bit more detail in your repeat revenue share with reactivated customers there. For that cohort of revenue, the reactivated ones, can you talk about the channels you're targeting to reactivate those customers? Are they reacquired customers? Are you primarily paying for those customers again or have you worked around direct marketing et cetera so that you're getting a lot of those customers back for free?

Michael Ilczynski: Yes, I wouldn't say it's free but there's different cost channels. Obviously, using email, providing different incentives to specific customers if they have been absent for a while and giving them incentives to come back. There's a slight cost. Things like direct mail which has got a bit of a cost to it but is relatively cheap – relatively, of course – has been a – you saw that we put out a – is one of the experiments. That's one of the experiments that both businesses have been working on quite well and given who our target audience is, particularly that family unit, has worked quite well.

It's a variety of remarketing campaigns, both digital and physical. They tend to have a different cost to the pure new customer acquisition. It's not free, but it tends to be lower cost.

Tim Piper: (Analyst, UBS) Yeah, got it. Sorry and just one more, really quickly, on conversion rate, what's the differential you see in conversion rate for desktop versus mobile web?

Michael Ilczynski: It actually is – it is quite different. It's not an order of magnitude, but there is a significant difference between desktop, mobile web and then app and it goes in that order, getting better. Desktop for a lot of customers is an area that, one, is decreasing as a percent of share, but conversion is an area that's most challenging. There is a significant difference between desktop to mobile web to apps in terms of conversion rate.

Emma Clark: As we continue to have customers use more mobile platforms, which obviously will be disclosed in the report, and apps, that is helpful to the conversion rate.

Tim Piper: (Analyst, UBS) Sorry, so desktop conversion is lower than mobile web conversion? Is that what you said?

Michael Ilczynski: Yes.

Emma Clark: Yes.

Michael Ilczynski: Yes, that's correct. Desktop – go from worst to better, desktop then mobile web then apps.

Emma Clark: Apps, yes.

Tim Piper: (Analyst, UBS) Okay, got it. Great. Thanks for taking the questions.

Emma Clark: Thanks, Tim.

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

Michael Ilczynski: Thank you all. We appreciate the time and your interest today and we look forward to speaking to many of you over the coming days. Thanks again.

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

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