



**FY2022 Results Investor Update
Conference Call Transcript**

Melbourne, Australia; 18 August 2022: Redbubble Limited (ASX: RBL)

The transcript of the FY2022 Results Investor Update conference call on 17 August 2022 is attached.

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

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Start of Transcript

Operator: Thank you for standing by, and welcome to the Redbubble Limited FY22 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 turn the conference over to your speakers. Please go ahead.

Peter Kopanidis: Good morning, everyone, and welcome here in Australia, and good afternoon and evening to our Northern Hemisphere investors. My name is Peter Kopanidis. I'm responsible for investor relations at Redbubble.

Welcome to this investor call, following the release of our FY22 full year results and reports provided earlier today. With me today, I have the Redbubble CEO, Michael Ilczynski, and CFO, Emma Clark. As well as our full year results and reports, the key information for today's update is contained in the ASX announcement and the investor presentation also released to the market this morning.

Please note that unless stated otherwise, the financial results have now been subject to audit review. Strategic and operational metrics are from internal management reports and have not been subject to audit review. Mike and Emma will speak shortly, and will then open up the lines for questions at the conclusion of their presentations. The session is also being recorded.

Before we start, I would like to call your attention to the Safe Harbour statement regarding forward-looking information in our ASX release. That Safe Harbour statement also applies to this investor call. With that, I'll now pass on to Mike.

Michael Ilczynski: Hello, everyone. Thank you for joining us today, where we will go through the Redbubble Group FY22 results. Overall, FY22 has been a year of challenge and transition for the Group. Coming out of Q4, I feel encouraged and excited about how we are performing and positioned. The Group has undoubtedly faced the challenges of a reduction in the sales of masks, homewares and artworks that have all reduced from their COVID-driven FY21 highs.

At the same time, increased competition in digital marketing challenges and the impact of ATT changes have driven up paid customer acquisition costs, and consumers have had to face record-high inflation and the invasion of Ukraine. Within this context, the Group internally has undergone significant transition, with over 140 new team members and five new executives in the past 12 months. We have been clear and committed to our strategy of internal investment to develop the platforms and processes required to improve the artist and customer experience.

This disciplined approach to building internal capacity and capability is required to return the Group to growth and achieve our medium-term aspirations. Despite a much more challenging macro and geopolitical environment over the past six months than we or anyone anticipated, we have delivered FY22 results in line with the guidance we provided back in early January. Encouragingly, the Group delivered positive growth for the year in our core apparel category, which represents almost 60% of gross transaction value. The growth in apparel was particularly strong in quarter four, driven by a strong quarter from the TeePublic business.

We saw the whole Group record positive year on year growth on a floating currency basis in quarter four, as well as quarter four being up almost 2% on Q3, compared to last year, where Q4 was down almost 10% on Q3. These outcomes demonstrate the resilience and on-going appeal of our marketplaces, and importantly, the improving, operating and financial momentum over the Group over the last few months of the year. The Group has invested substantially in our capabilities in order to improve the artist and customer experiences, to drive loyalty and retention, and we are beginning to see the positive impact of this investment. As such, we will continue with our strategy to deliver further improvements in FY23, and excitingly, start investing in our brands to drive additional awareness and sustainably grow our businesses over the medium and long term.

Given our bottom-line outcome, we are not at all satisfied with our results for the year, but we are encouraged by the improvements and momentum we are starting to see, the quality and capability of the people we have added to the Group through the investments we have made, and the genuine uniqueness of the scale and potential of our marketplaces.

I'll turn now to the summary of our FY22 financial results. Our gross transaction value was \$630 million, and we achieved marketplace revenue of \$483 million. Adjusting for the impact of mask sales and delivery date adjustments, our underlying revenue was down 2.6% year on year to \$472 million. Gross profit of \$183 million was down 18% versus FY21. On a two-year view, which looks through the benefit of mask sales in FY21, gross profit was up 36%.

EBITDA was negative \$11.2 million for FY22. This reflects the significant increase in OpEx during the year, as the business invested in building internal capacity and capability. Our cash balance of \$89 million as at 30 June remains strong and continues to provide us with operational and investment flexibility, and Emma will cover our financial results in more detail later in the presentation.

Moving to slide 4, we are continuing to execute against our four key strategic themes. There has been no change to our foundational pillars upon which we can build and scale to our next phase of growth. I'll talk through progress against these four themes over the next few slides.

For this year, we have also included our two enablers, business enablement and risk mitigation. These enablers have been in place since we first shared our four strategic themes. Business enablement is a particular focus on our core technology platforms and processes, modernising and enhancing them to ensure the scalability and reliability of our platforms and to enable more rapid progress against our strategic themes. There is a significant proportion of our engineering capacity currently dedicated to this enabler. Risk mitigation includes areas such as compliance and regulatory testing of products manufactured by the third party fulfilment network, as well as development of our ESG strategy, which we have set out in some detail in our Annual Report, which we also released today.

So slide 5, starting with the artist activation and engagement theme, this slide is a really important chart for us as a business. The slide on artist activation engagement reinforces that we continue to see new artists join the platform and make sales, and existing artists sell more works. In FY22, 68% 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 recurring annuity value that artists and their content earn and bring to the marketplace. This combination of new artists bringing fresh, relevant content to the marketplace and existing artists continuing to make sales many years after joining demonstrates the on-going, compounding nature of sales and growth that our platforms can and do generate.

On slide 6, Redbubble Group is continuing to unlock opportunities for artists by connecting them with customers on a global scale. Our investments enabled initiatives aimed at driving artist engagement this year included expanding the physical product range that products can sell to, sending targeted messages to segmented artists, encouraging them to upload new content to the platform for customers to purchase, and through the Redbubble fan art partnership, legendary entertainment empowered artists around the world to express their unique fandom while reaching a new customer base to sell licenced fan art for the critically acclaimed and Oscar-winning movie Dune.

On slide 7, the Redbubble Marketplace continues to attract new content. This slide demonstrates the strong increase we have seen in content uploaded over the past couple of years. Given this on-going influx of new content, in order to ensure marketplace integrity, a key area of investment for us has been in our content operations and integrity teams. We've scaled the number of people in this area by 11 times in the past few years, enabling a 13 times increase in the number of works reviewed. This investment in content operation clearly comes at a cost. This area represents approximately 8% of our OpEx base for the Redbubble business.

In quarter four, we launched an initial implementation of a new image detection technology. This important investment of both people and technology will enhance our capabilities and enable us to scale in a much more effective and efficient manner, as our marketplace continues to grow.

Moving to slide 8 that covers user acquisition and transaction optimisation. The tens of millions of designs that artists have on our platforms translate into billions of individual product listings for consumers to buy. This extremely long tail of content and product listings provides significant advantages for attracting customers in a digital environment. On a last click basis, organic and unpaid channels remain the source of the majority of marketplace revenue, 60% in FY22, in line with the prior year.

The marketplaces are aggregators of demand on behalf of artists. In FY22, there were 8.3 million unique customers across the Group, with unique customer numbers growing at a CAGR of 20% since FY18.

Moving to slide 9, developing a culture and process of targeted experimentation across the business continues to be a key aspect of enabling us to achieve our longer-term potential. This remains an on-going focus area as we continue to make investments and experiment across the customer transaction funnel. We've included some examples of these experiments on this slide, including leveraging our new customer data platform to drive improvements to audience targeting and creative strategy, both designed to increase users to Redbubble through social channels, and improved promotional experiences in the Redbubble native apps.

Pleasingly, our average order value, AOV, was up 9% in the Q4 and up 5% versus FY21. This was driven by a combination of the May price rise and initiatives which built order value, such as bundling incentives and free shipping tests, which involve a threshold over which shipping is free. We are encouraged by the traction the teams are starting to get in this area. We still have a lot of work to do, and a lot of opportunity right through the transaction funnel, and the teams will continue to experiment and improve.

On slide 10, as I mentioned in the opening, consistent with our strategic priorities, during FY22, we invested significantly in additional people to boost our internal capabilities. In the second half, this was particularly within the product and engineering teams in the Redbubble.com business. They are focussed on improving both our technical foundations and the artist and customer experience. Some examples of how this investment is leading to improvements in the customer experience include the launch of branded dynamic product ads, particularly on social channels, where the products presented are dynamically created depending on the customer's behaviour, improved in-app promotional experience that has increased promotional take-up and therefore overall sales on our native apps and the launch of buy now, pay later options at checkout providing additional payment options for consumers that have helped both checkout conversion and AOV.

Moving to slide 11, the mobile customer experience remains crucial, with 60% of MPR on the platform now occurring on a mobile device. This is up from 58% in the first half. We have spoken consistently about our apps and they continue to be an important element of our long-term strategy, being both a user acquisition and importantly, a loyalty play. 15% of the Redbubble Marketplace's sales were generated by its iOS and Android apps in FY22. The iOS app retains a very high rating of 4.7 stars, and we continue to see stronger engagement and retention from customers who use our apps. Increasing the proportion of customers installing and using the apps will be an increasing focus over the years ahead.

On slide 12, Redbubble's membership base is substantial. During FY22, there were 14.4 million active members, down 7% on FY21, however up 32% versus FY20. Being a member means that the customer has a Redbubble account and uses this to log in, browse and purchase on the Redbubble Marketplace. We define a subsection of these as active members, who are unique members who visited either the web or app platforms while logged in at least once during the period. Of the 14.4 million active members in FY22, 12% went on to make a purchase during the period. Converting more members to active members, and then more active members who are on the platform to purchasing customers, represents a significant opportunity for the business.

Pleasingly, when a member does purchase, they are much more likely to make subsequent purchases relative to non-members, and this increased frequency leads to a higher average annual order value. There is ample opportunity for us to continue to build our membership program over time, which will result in more users becoming active members and more active members purchasing.

Moving to slide 13, purchases by repeat customers made up 46% of marketplace revenue in FY22 across the two businesses. This is up from 45% at the half and 42% in FY21. As we did at the half-year results, we have broken down the repeat purchases into existing and reactivated customers. Existing customers contribute at \$160 million to FY22 revenue. These are customers who made a previous purchase in the prior 12 month period and this period. Reactivated customers contributed \$62 million of revenue, and these are customers who made a previous purchase more than 12 months ago who came back to purchase during the year.

At our first half results, we noted the increased competition in online channels, as both online and traditional retailers increased digital spend, and ATT changes impacted the effectiveness of some channels and further pushed up spending on others. The result was an increasing CACs, customer acquisition costs, and given our focus on profitable acquisition, this impacted the volume of new customers we acquired.

This can be seen in the contraction of new customers, with revenue contribution from this group of \$260 million for the year down from the \$321 million in FY21. We know that FY21 also included a large volume of customer demand for masks. CACs do remain elevated, however, they have stabilised. Our response has been twofold. First, we continue to focus on diversifying both our paid and unpaid customer acquisition channels, and secondly, our focus on retaining new customers through dedicated retention activities and a variety of loyalty experiments.

The chart demonstrates that we are making progress in both businesses in growing revenue from repeat customers, and believe there is still significant upside for us in increasing loyalty over the short and medium term. It's a validation that our focus on better customer understanding and loyalty is of high potential, while we also continue to work to develop new diversified customer acquisition channels.

Moving to slide 14, thus far, we have been able to remain relatively insulated against the well-publicised global supply chain pressures that continued during FY22. This is in large part a specific feature of our business model. The make on demand model, coupled with a diversified third-party network of fulfillers, means that Redbubble does not hold inventory. Goods are only manufactured when a customer order is placed, and product inputs are held in bulk in advance of demand by the fulfillers.

Investments into our supply chain logistics and operations teams during the financial year have enabled us to achieve improvements in the delivery experience and product quality for artists' customers. Some examples of this positive progress are the average days to ship decreased by 28% in the second half compared to the first half. The onsite delivery time estimates were reduced for 91 products by between one to five days, and we reduced the defect rate for stickers by 26% in the first half - in the second half compared to the first half.

The Group also continued to focus on localising products at existing fulfillers during the year, particularly in the TeePublic Marketplace, where 18 products were localised into existing third-party Australian and Canadian fulfiller sites. Increased localisation has multiple benefits, including reduced shipping cost to customers, lower transit times and improved sustainability, as well as strengthening the resilience of the entire network by aiding optionality and redundancy.

On slide 15, our teams have continued to deliver new product launches, line extensions and visual merchandising improvements in FY22. These drove tangible commercial outcomes, including incremental sales and conversion gains. We achieved \$5.3 million of sales in FY22 from product launches, including mousepads and caps, and \$6.1 million from line extensions across apparel, stationary and device cases. During the second half, we also added line extensions to a range of tee shirts, phone cases and mouse pads.

On slide 16, as I flagged we would during our first half results, we launched a new pets category in June. This will help the Group gain access to new addressable markets by expanding the existing product portfolio into new areas of rising demand amongst our core audience. The new products include pet blankets, pet mat shapes for cats and dogs and bandannas, with further extensions to this category to come over time.

In the next section, I'll recap on the Group's unit economics and outline the exciting brand investment program we have planned for FY23.

So moving to slide 18, Redbubble Group unit economics remain compelling, and we took some proactive actions in the second half to further solidify them. Pricing actions were implemented in early May via an average 6% increase to base prices, and this was in recognition of expected higher costs of doing business and to enable a continued focus on lowering shipping margins.

Our experience post price rise has been encouraging, with negligible impact on conversion and higher AOV. For the fourth quarter, we achieved a gross profit margin of 39.7%, which was down 50 basis points versus PCP but up 220 basis points versus the third quarter. Our fourth quarter GPAPA, or contribution margin, was 23%, and this was up 160 basis points versus the third quarter. Our logistics and supply chain teams were able to successfully renegotiate improved shipping agreements in the US, Canada and the UK, and we will continue to see the financial benefits from these approved agreements in FY23.

Moving to slide 19, this slide reiterates the on-going positive unit economics for the Group.

This is a critical point. It is why we have invested in our teams and why we will now begin investing in our brands, to drive growth at the top line. Every dollar of revenue has a positive contribution margin, and that is why our focus now is all about driving efficient scale. In addition to the 6% average base price rise, in early May, the Redbubble business implemented a free shipping trial in the UK for purchases over £50. Our experience from this trial has resulted in a larger shopping basket, with increased marketplace revenue offsetting the shipping cost, and growth in gross profit dollars versus the preceding month.

In July, we also launched a free shipping trial in the US for purchases greater than US\$65 on Redbubble.com. Both of these free shipping trials remain in place today and are aligned with our strategy of reducing shipping costs to customers and replacing shipping margin dollars with product margin dollars.

So moving to slide 20, as per our strategic themes, we have previously flagged the need to build our brands. This is a core strategic priority to build a deeper understanding with customers of our proposition, to increase the effectiveness of both paid and unpaid acquisition channels and to improve customer loyalty and repeat purchases. We believe that that the time is now right to begin investing in the Redbubble brand. As I have mentioned, we have invested in our internal capacity and capability, and we are now improving the artist and customer experiences to drive loyalty and retention and

to ensure sustainable growth. Building awareness of our brands is one of the untapped long-term growth opportunities for both businesses.

With these investments, we are aiming to grow awareness in our unique value proposition and core platform offering, with messaging we have developed through learnings over the last financial year. Redbubble is creatively inspired commerce. Redbubble enables self-expression for customers through a breadth and depth of content powered by the largest independent artist marketplace. Redbubble enables economic empowerment for artists, enabling artists to turn their passions into profits, and Redbubble is confident commerce, through building a trusted experience for all marketplace participants.

On slide 21, our awareness efforts will focus on attracting and retaining the Gen Z audience - that is, people aged 10 to 25 today. For the Redbubble brand, we know and have reaffirmed that Gen Z is the core growth audience who already engaged the most with the brand. We also know that there is ample opportunity for growth with this audience. For FY23, we will evolve our on and off-platform experience to better meet the expectations of Gen Z, which you can start to see through the merchandising experience of this year's product launches on Redbubble, bucket hats being a clear example, and onsite improvements, such as offering buy now, pay later options, of which Gen Z is the largest generation to use.

On slide 22, so for FY22, we did a large amount of work to understand who the customers are and our starting point. We know that it takes time to build a brand, and in FY23, we will commence our investment in building awareness of Redbubble. Our execution plan for the year is grounded in learning what creative and media mix approach grows awareness in key US cities with Gen Z. Successful learnings will be scaled into new types of media and additional US cities. We've selected a strong agency partner to work with us on this, and Emma will outline the quantum of investment we intend to make.

So moving to slide 23, before I hand over to Emma to run through the financials, I just want to take a moment to offer our support to the people of Ukraine, and to thank the Redbubble and TeePublic community for the way they have so brilliantly and significantly demonstrated their support also. This response really highlights the power of our platforms to enable a meaningful response to events that impact our communities and the world. It shows how Redbubble moves at the speed of culture. That is, artists respond immediately when cultural moments happen, uploading content onto the platform, enabling customers to purchase their products and express themselves, express their feelings and express their support.

As a Company, we enacted our global event policy, which means we will not take profits from these works and instead seek to donate them. We selected two charities to donate to to develop landing pages to promote the works by Ukrainian artists and works in support of Ukraine, and we promoted those onsite through email and offsite through both paid and owned channels. To date, we have had over \$1 million in gross sales. We have donated \$170,000 to charities, and artists have generated \$150,000 in earnings. I'm incredibly proud of the Redbubble community and the Redbubble and TeePublic teams for the way that they have rallied to support the people of Ukraine. I now hand over to Emma to run through the financial performance for FY22.

Emma Clark: Thanks, Mike, and hello to everyone. I will now walk you through the income statement on slide 25. I won't go through every line item, but I did want to take the opportunity to call out both the improved Q4 operating performance as well as the full year results. In the fourth quarter versus the prior comparative period, marketplace revenue was up 1% to \$98.2 million, and gross profit of \$39 million was flat. Mask sales were down \$2.5 million to \$500,000. Gross profit margin was down 50 basis points to 39.7%, paid acquisition costs were up \$3.5 million and operating expenses, excluding the \$1.1 million of brand spend, were up \$6.5 million, or 28%, reflecting the investment in internal capacity across the business that Mike has already talked to.

Versus the third quarter, operating performance improved in the fourth quarter. Marketplace revenue and gross profit were up 1.9% and 7.9%, respectively. Gross profit margin was up 220 basis points to 39.7%, and GPAPA margin was up 160 basis points to 23%.

For the full year, reported marketplace revenue was down 13%, or \$70.7 million, versus the prior year. I will step through the bridge to underlying marketplace revenue on the next slide. Gross profit was \$183.1 million, down 18%, GPAPA was \$106.7 million, down 30%. Operating expenses, once again excluding the \$1.1 million of brand spend, were up 23% to \$109.3 million. I will cover this step up in more detail shortly, and finally, the EBITDA outcome for the year was a loss of \$11.2 million.

Moving on to slide 26, given the quantum of mask contributions and delivery date adjustments recorded in the prior year, we have been transparently bridging the reported figures to the underlying numbers. The delivery date adjustment added \$13 million in the prior year, and masks also contributed \$55 million of marketplace revenue in FY21. In the current year, the delivery date adjustment was only 260,000 and masks contributed \$10 million. Adjusting for these two factors, FY22 underlying marketplace revenue growth was down 2.6% or \$13 million, year on year, 4.3% on a constant currency basis. Looking over the longer term, FY22 marketplace revenue was 38% higher than FY20.

On to slide 27, consistent with our previous commentary, 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 rates since the business commenced in 2007 have been consistently high. Marketplace revenue has grown at a compound annual growth rate of 27% since FY18, with a corresponding CAGR of 30% at the gross profit line and a CAGR of 23% for gross profit after paid acquisitions.

I'd like to focus specifically in on the GPAPA result. Back in April at our third quarter result, we detailed how one of the factors impacting the results was increased competition that had a flow-on effect to organic, which is largely unpaid demand. We responded to these changes in the landscape by increasing total paid acquisitions spend and have continued spending at this level. These actions across both marketplaces have positively impacted our revenue result, but at a lower contribution margin, with the fourth quarter GPAPA margin down 390 basis points to 23% versus the prior year.

However, as I referenced earlier, the fourth quarter GPAPA margin was up 160 basis points versus the third quarter, which was driven by a 220 basis point increase in gross margin, which is largely the impact of the May price rise that Mike spoke to earlier. I would also like to reiterate that we maintain our first transaction profitability hurdle, so whilst paid acquisition remains elevated, it also remains profitable. Increasing scale will help to drive further gross profit and GPAPA improvements. During COVID, we have already shown the ability to deliver strong returns when the business step changes its scale and we are not in an investment phase.

Moving to slide 28, Redbubble is a truly global business and our multiregional 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 33%. Australia and New Zealand provided a source of positive year on year growth, up 4%, as lockdowns continued to occur intermittently during FY22. Since FY20, Australia and New Zealand are up 63%.

On slide 29, you can see that 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 past two years. During the peak of the pandemic, categories such as accessories, which includes facemasks, as well as homewares and wall art, performed exceptionally well. However, they have all faced a stronger year on year decline as they cycle both COVID comparatives.

During FY22, we were pleased to see other apparel and tee shirts, which is the Group's largest product category, contribute positive year on year growth. Importantly, tee shirts and other apparel were also up in the fourth quarter versus prior year, up 20% and 5%, respectively. Stationery and stickers were also up by 2% in the fourth quarter.

These results highlight the importance of continuing to have a diversified physical products offering on the marketplaces, and as Mike talked through earlier, we continue to invest in both expanding the products available, as well as improving the lifecycle appeal of existing products.

On to slide 30, our cash position remains strong, as at 30 June, we have \$89 million cash at bank. This continues to provide us with flexibility to invest into our future business growth and for the prudent management of our working capital needs.

There are also a couple of other balance sheet-related items that are worth mentioning. As some of you would be aware, we have \$48 million of off-balance sheet tax losses. These losses are available to offset future taxes payable, and as we have previously 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 year end, this was \$13 million.

Moving to slide 31, given the internal investments we have made, we thought it was important to set out the step up in our OpEx spend in FY22 and also provide a delta forecast range for FY23. Our total OpEx increased by \$22 million in FY22 to \$110 million. This includes \$1.1 million of brand spend that we incurred in the fourth quarter. The largest driver of the OpEx increase was salary and wages, up \$12 million, increasing from \$58 million in FY21 to \$70 million in FY22.

In FY22, we had an increase of 99 approved FTEs to 429. This is a 30% increase versus FY21. For FY23, we expect our FTE growth to slow substantially from the 30% increase in FY22 to approximately 4%. We expect our monthly salary and wages expense to increase to a range of \$7 million to \$7.4 million per month for FY23, noting that the actual number will depend on the timing and start date of the new roles.

This final step up in salary and wages equates to a range of \$14 million to \$18 million for FY23, as the full year run rate of the FY22 hiring is embedded and the remaining 46 vacancies are filled. Our FY23 Redbubble brand investment is a 12-month program, with a range of spend in the order of \$8 million to \$12 million for the year. Thank you, and I will now hand back over to Mike.

Michael Ilczynski: Thanks, Emma.

Moving to slide 33, I presented this slide previously, but I wanted to take an opportunity to revisit the unique aspects of the Redbubble business model and specifically how we create value. 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 their customers globally at very little risk to them. The marketplaces connect artists and creators to a third party on-demand fulfilment, that enables neither the artist nor the marketplaces to need 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, highly dynamic and deep source of content, and they create a massive, constantly evolving catalogue of content and product listings. Redbubble Group's core role is to aggregate and enable consumer demand for artists by utilising this enormous product content library across organic and paid channels. When the artists sell an item to the customer, it is fulfilled and shipped on demand directly from the third-party network.

Our business model therefore enables effectively infinite product listings, each of which, if and when purchased, has a positive contribution model for the marketplaces. Importantly, we have made solid progress to improve the underlying

operational performance of the Group and solidify these strong unit economics. The artists and their content, their customers and the third-party fulfilment network form genuinely unique three-sided marketplaces, and we are focussed on driving their flywheel effects to build scale, efficiency and Group profitability.

On slide 34, we have previously shared our medium-term strategic plans based upon our high-potential growth levers. These initiatives will be phased over the next four to five years, and have been ordered to give us the best chance of maximising our returns on investment. This slide sets out our current and medium-term growth levers for the period of financial year '23 to '25 and then beyond to financial year '25.

While we continue to work on improving our foundations in some areas, in other areas, we are now moving into this second phase of earning growth through disciplined investment. In FY23, this includes commencing investment in the Redbubble brand, as I described earlier, and a continued focus on gaining efficiencies across the fulfilment network as we scale.

For slide 35, we shared our medium-term aspirations to reach \$1.5 billion in gross transaction value and \$250 million in annual artist earnings in April last year. We remain committed to these aspirations, and we continue to believe that the margin profile presented with these aspirations is achievable at that level of scale. In recognition of our current position, the progress we are making against our strategic priorities and the challenges faced by the Group to replace the \$55 million of mask sales in FY21, we have updated and clarified our timeframe for these aspirations to the two-year period from FY26 to FY27.

So moving to slide 36, to reiterate, when we achieve this level of scale, which includes growing marketplace revenue in line with our historic CAGR of between 20% and 30%, we remain confident that this level of profitability is achievable. Our aspirations are for the Group to be 2.5 times larger from a GTV and marketplace revenue perspective than it is today, and at that scale, we are confident in the operating leverage achievable, and that that will enable us to produce EBITDA margins in the medium term of 13% to 18%.

So moving now to our FY23 outlook on slide 37, revenue growth is expected in FY23, with the benefit of one-off mask sales in FY21 of approximately \$55 million now largely fully cycled.

Redbubble unit economics to remain compelling, supported by the 6% average base price rise from early May '22, and with 60% of marketplace revenue from unpaid sources on a last click attribution basis.

Our forecast FY23 OpEx reflects the following, a slowing of new roles in FY23, down to 4%, from 30% growth in FY22, FY23 forecast FTE salaries and wages average run rate of between \$7 million to \$7.4 million per month, an increase of between approximately \$14 million to \$18 million for the year, and FY23 forecast Redbubble brand investment of approximately \$8 million to \$12 million at constant currency to build awareness that reinforces the path to our medium-term aspirations.

That concludes our presentation. Thank you very much for listening, and we will now open up the line for questions.

Operator: Thank you very much, sir. Ladies and gentlemen, 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. We request you to limit to two questions.

We have a first question from the line of Owen Humphries with Canaccord. Please go ahead.

Owen Humphries: (Canaccord, Analyst) Good day, guys. Can you hear me?

Emma Clark: Yes.

Owen Humphries: (Canaccord, Analyst) I assume that's a yes. Can you just highlight what the constant currency growth was for the fourth quarter from the revenue perspective? I just couldn't see it.

Michael Ilczynski: Hi, yes, thanks, Owen. It should be on the first page of the ASX release. The constant currency marketplace revenue was down 4% quarter four versus quarter four last year. Was that the question you're asking?

Owen Humphries: (Canaccord, Analyst) Yes, that's right. Good one. Sorry about that. Just talking through, so price rises of 6% in May, how much of that will fall through to gross profit margins in call it FY23? Were you expecting a 6% uplift in margins? I'm guessing not, but just how much would actually fall through of that 6%?

Emma Clark: So thanks, Owen, great question. So as we called out in our speaking notes just previously, the fourth quarter results had a 220 basis point increase in gross profit margin. That was largely the impact of those 6% price increases falling through, so you can effectively factor that in. Obviously, as Mike said, there will be increased cost of doing business coming through in the future. We don't know to what order of magnitude those will come through, but we will continue to monitor pricing and take action to keep our unit economics at a GPAPA level pretty consistent.

Owen Humphries: (Canaccord, Analyst) Good one, okay. I just noticed last quarter, you guys talked about strategic corporate initiatives to extract value for shareholders. I notice that wasn't reiterated in this release. Could you maybe talk through what was taken, and has that now abated?

Michael Ilczynski: Look, thanks, Owen. Look, there's no change in our focus. Obviously, it's a core responsibility of management and the Board to continue to look at all opportunities to enhance value for shareholders. We have been doing that, and we will continue to do that moving forward. Our core focus, though, is on these internal - is on our internal growth path. We've obviously made significant investments into our people. We're now backing that with investment into the Redbubble brand. That is our core focus, but at the same time, obviously, we'll continue to look at all opportunities that might enhance shareholder value.

Owen Humphries: (Canaccord, Analyst) Good one. One last quick one, I know I'm limited to two, but just basically the GPAPA margin of 23% of that fourth quarter, obviously a bit of tailwinds here around the price rises, potentially into FY23. Given the OpEx base, I know it's been ambiguous around the revenue growth guidance. But what's the revenue growth that's expected to drive an improvement in EBITDA in FY23?

Emma Clark: Yes, so, Owen, we're not giving specific revenue guidance for FY23, because of the uncertainties in the overall environment. We're obviously flagging that we expect to return to growth. That growth will not be linear across the four quarters of the year, so we'll move around a little bit. But we're not actually giving any revenue guidance this time around.

Owen Humphries: (Canaccord, Analyst) I can ask another way - is the GPAPA margin of 23% in the fourth quarter, are you guys thinking that you could get back to the long-term trend of between 25% and 27% in FY23?

Emma Clark: Yes, so once again, if you look at the outlook statement on the last page of the presentation, you'll see that we explicitly state that we expect our unit economics to remain compelling, which has been supported by that price rise, and as Mike said earlier, we're looking forward now into going to that next phase, where we're looking to get further efficiencies out of our fulfilment network.

Obviously, these are all supportive to that GPAPA margin percentage.

Owen Humphries: (Canaccord, Analyst) Good one. I'll step back in the queue. Thanks, guys.

Operator: Thank you. We have next question from the line of Joseph Michael with Morgan Stanley. Please go ahead.

Joseph Michael: (Morgan Stanley, Analyst) Morning, Michael, morning, Emma. Thanks for your time. Just a couple of questions. So obviously the revenue growth trajectory improved through FY22. So just keen to hear what you're seeing in the first quarter of '23. Has that improving trajectory continued?

Emma Clark: Yes, a great question, Joe. So we're not giving any specific commentary about the current period performance, because we are going to be out again in October talking about that, which is going to be very soon. What I will say is July was in line with our expectations, though I would note - and it comes back to the previous comment that I had for one of Owen's questions. We are cycling a strong first quarter '22, because if you think back to that July to September period last year, we had our back to school seasonal uplift, and for that period last year, that was the first year after two years of lockdowns that North Americans actually were able to go back anywhere, so we had the reopening trade.

We've factored that into all of our projections, and obviously what we're looking for is really where we're going to land over the first half, as specifically quarter to quarter I do think those comps will move around a little bit. What I will say is July is in line with expectations, and encouragingly, we have seen the uptick that would reflect that normal back to school seasonal pattern at the end of July.

Joseph Michael: (Morgan Stanley, Analyst) Okay, got it. Then just a second question, just around that OpEx increase, so slide 31, where you highlighted - call that a \$30 million OpEx increase. How is that being funded? Is that being funded from the price increase, or should we view that cost increase as incremental?

Emma Clark: Well, effectively, the net outcome at the EBITDA line level is being funded out of our cash balance, so obviously we're internally investing into that.

Joseph Michael: (Morgan Stanley, Analyst) Okay, got it. Thank you.

Operator: Thank you. We have next question from the line of Tim Piper with UBS. Please go ahead.

Tim Piper: (UBS, Analyst) Hey, morning. Sorry, just unmuting myself. Just a follow on from the last question, maybe asking it a different way, but you put through the price increase. Is it fair to say on the run rate of where do you think it's going to be in '23 at the top line, GPAPA, once that price increase drops through, could be an incremental like \$20 million, so hence you're investing that back into OpEx? You're clearly taking a different tack to some of the other companies we've heard come out, and you talk about uncertainty, but you're certain enough to throw a lot of additional OpEx here. I'm just trying to understand your thought process around balancing what's incremental versus what's additional.

Michael Ilczynski: Yes, thanks, Tim. I might start, and then Emma, feel free to jump in if you need to. There's a couple of things to think about, Tim. Number one, there is absolutely uncertainty moving forward. That said, as we spoke, we do feel that the time is right to start investing in our brands. The cost increases that you're seeing, the majority of the cost increases you're seeing on the salary and wages line, is really full year effect of the people that we've brought in, particularly over the past three, four, five months and seeing that full year effect flow in, plus filling the vacancies that we had year end.

As we talked about, we are significantly slowing down our new FY23 roles down to just a 4% increase, the majority of them into the TeePublic business. So we are obviously conscious of the external environment. At the same time, we're starting to see the benefit of this increase in people and capacity, and we're starting to see that flowing in. We're feeling confident about the trajectory of our business, and given our positive unit economics, it is all about scale for us. It's all about driving scale at that top line.

That obviously doesn't happen overnight. We've got levers we can pull in the short term through product improvements, our paid marketing, but we do believe that growing our brand awareness is fundamentally important to growing that longer-term - our growth over the longer term. We know that stronger brands means better both unpaid and paid acquisition. We know that it leads to stronger retention and loyalty, and we think now the time is right.

Obviously, we do have a degree of discretion amongst our OpEx base, if the world turns more negatively against us than we would hope, and clearly, we'll be assessing on a weekly to monthly basis on how we're tracking versus our plans, because we do have discretion amongst some of those elements of spend. But we actually - we really have some confidence in how the business is starting to move, and we believe that the time is right to continue, obviously assessing to make sure the world's moving how we expect it to move.

Tim Piper: (UBS, Analyst) Okay, and just a second one, on the employee costs, so this year you called out 4% FTE growth in '23. Can you just break down, maybe it's the midpoint of that incremental employee cost line, how much of that is annualisation from the prior period, and then how much annualisation do we expect in FY24 in employee costs? Do we take that plus 4% in FTEs as signalling the end of this hiring cycle, which has been going on for some time? Where are you at in the employee base once you fill those roles?

Emma Clark: Yes, thanks for the question, Tim. Answering the last part of your question first, yes is the answer. We were quite clear that we wanted to step up the capacity to a certain level, and then we're going to run with that level of capacity for a year or two. So this last lot of hiring, FY23, is that final step up, and then we won't have a further large step up in FTE in FY24 and beyond. What I would say, in terms of the dollar increase across FY23, a very large proportion of it is for the roles that we hired in FY22, because most of them came on in the second half and the last four months in a lot of instances of the year. So it's the full year run rate of that.

We go into the year, as at 30 June, with 46 vacancies, and then the new roles that we've approved for FY23 is only 18 roles. So that's the hiring still to come once those two have run through, and we're doing that right now. We actually closed quite a few of the vacancies in July, so we will see most of that effect in the year of FY23, so that we won't be sitting here at the end of next year saying, actually, there's a huge run rate impact of those hires into FY24, because most of those hires will happen in the first half of FY23.

Tim Piper: (UBS, Analyst) Okay, got it. I know we're limited to two, but looking - I just want to point something out to you. Slide 31, where you've got that OpEx chart, just optically looking at that, going from \$110 million, you've got then the three buckets split out there with the ranges. They're the only three buckets, right? Then you've got the grey bar to OpEx in '23, but then you've got this green section and blue section on top of the grey bar there.

Michael Ilczynski: Yes, Tim?

Tim Piper: (UBS, Analyst) Is that wrong? It looks like...

Emma Clark: They're just - yes, so they're just the ranges, Tim. So this is where it gets difficult to pictorially depict, right? So what we're simply saying is when you add up the ranges in each of those increases in the FY23 year, if you go to the bottom, you'll get a number that's 135. If you add up the top of each one of those subranges, you'll get to 145. So all we're doing with the green and the blue is illustrating the range.

Tim Piper: (UBS, Analyst) Okay, I'll jump back in the queue. Thanks.

Operator: Thank you. We have next question from the line of Wilson Wong with Jarden. Please go ahead.

Wilson Wong: (Jarden, Analyst) Hi, guys. Can you just talk to the customer acquisition cost trends you're seeing and you expect this to change over the next year?

Michael Ilczynski: Yes, thanks. Look, obviously, it's an important issue for us as we talked about 40% of our marketplace revenue on a last click basis is generated through paid channels. It's a bit more than that when we use our attribution model, as we've talked about. So customer acquisition costs, if we think back to last year, really stepped up around October, November last year, and multitude of factors, both the increase we saw both online and the traditional retailers come back into the digital advertising environment, at pretty much the same time the first round of ATT changes rolled out. That impacted the effectiveness really of the social channels, pushed a lot of spend onto the intent driven channels, particularly Google, drove up CACs quite strongly, particularly in search.

What we've seen over the last seven, eight months since then is the CACs, they've bounced around, but they've mostly remained elevated. So they've remained elevated without going up further, so they really stepped up October, November, December. They have then bounced around since then, but on average have stayed at about that elevated level. Therefore, our assumption moving forward is that they will remain at that elevated level but not substantially go up and down. That's obviously both a risk and an opportunity for us.

Depending on who you speak to, some will say they're going to go up further. Some will say they're going to go down further. So our assumption is they remain elevated without substantially increasing further, and that's the assumption that we've put into our planning moving forward. Really for us, it does emphasise the importance of continuing to diversify our acquisition channels. The intent channels, which is more the search one, but they're the ones that have really gone up as the visibility into the social channels has been impacted. So we're continuing to experiment across a range of channels and we'll continue on that focus of diversifying both our paid - but also, also continuing our significant investment into our SEOs, so that we're continuing to drive those unpaid and organic channels, as well.

Wilson Wong: (Jarden, Analyst) Okay, thanks for that. Can you just provide some detail around what the brand investment will be comprised of, and do you expect this level of investment to grow over the medium term?

Michael Ilczynski: Yes, thanks. As we tried to say, relative to our OpEx, it's a significant investment. Relative to the US market when you're talking about Gen Z in the US, it's a relatively small investment. So this year for us is very much about learning and testing, so we're not blanketing all of our markets. It's very focussed on US. It's focussed on key US cities, and therefore, the investment is what you would expect. It's a combination of production and mostly media spend, with obviously agency underneath that. That's generally what it comprises.

Our media, as we talked about, will be focussed on digital channels. The \$1.1 million that you saw in FY22 was in the final quarter of this year, mostly, and was really focussed on us starting to test, test some channels, test some messages, just in a couple of cities. We've taken those learnings, refined, and we go out to our next lot of test cities and test markets in the coming weeks and months. So the spend is mostly media and production.

Operator: Thank you. We have next question from the line of Taylor Guyot with Barrenjoey. Please go ahead.

Taylor Guyot: (Barrenjoey, Analyst) Hi, guys. Thanks for taking my questions. You touched on this a bit earlier, but can you provide a basis more detail on if there's anything you're seeing in the business over the last few months that's giving you confidence in stepping up the cost base further? Maybe with regards to marketing costs coming down or revenue?

Michael Ilczynski: Yes, sure. As we talked about, I think the things that are giving us confidence are twofold. One, we're seeing some of our internal key metrics, areas like visits, particularly our organic visits, things like our average order value, have been increasing over the past few months. They are key transaction and funnel metrics for us, and when we put those together, as we talked about, particularly in quarter four, we had really, really solid year on year growth in apparel.

Apparel is core Redbubble and TeePublic. Apparel makes up more than 40% of our total gross sales, so to see year on year growth over the quarter in apparel, particularly driven through the TeePublic business, which is very North American, very apparel focussed, that's given us confidence that the business is moving in the right direction, where we see those core areas.

We also saw stickers, which again, stickers is core Redbubble, to start to get some year on year growth back into the stickers category in Q4, also a really positive area of encouragement for us. So we've still got a lot of work to do, as Emma's mentioned before. The key one for us now is actually a pretty tough comp because of the reopening trade we saw and the back to school trade we saw last year.

But when we look through the quarter and focus more on the half and the year, the momentum that we've seen over the past few months, both in some key categories for us, and against some of our key operating metrics, is what's giving us the confidence - just to be clear, our OpEx now is stabilising. Even though you see the additional OpEx come through in the numbers, just to reemphasise, that is about - that's the full year effect of the roles that we've already brought on or the vacancies that we've got existing.

So we do think that we've got a degree of conservatism in not having another wave of increase in headcount across the business. That's why we emphasised the 4% growth versus the 30%. So we have a lot of work to do. There's clearly some uncertainty in the year ahead, but obviously we feel confident about what we're seeing on a metrics and financial position to give us the confidence to continue on the path we're going and to start investing in our brands.

Taylor Guyot: (Barrenjoey, Analyst) Okay, great, thank you, and then also following on from Owen's question earlier on your previous commentary on enhancing its shareholder value, can you just provide a bit more information on the measures you've considered for that, please?

Michael Ilczynski: Look, we've talked about that previously in terms of making sure that we're looking at a variety of measures, whether that's M&A opportunities, whether that's capital management opportunities. They're things that remain right at the forefront of what we're thinking about, particularly on the M&A front. Given where the industry is, given where we are as a business, there's obviously a pretty high bar on those sort of activities at the moment, but it doesn't mean that we stop looking. It's important in this environment that if there is opportunities, that we're ready to act.

Emma Clark: I would just add to that, and just to reiterate a point that we made earlier, so that's just good management and good Board management to keep looking at those opportunities. I think what we want to make sure is clearly understood is we're highly aligned with achieving our midterm aspirations, and we're investing to achieve those midterm aspirations. That is actually the highest ROI of the pallet that we're looking at at the moment, and that's why we're doing what we're doing.

Taylor Guyot: (Barrenjoey, Analyst) Okay, great. Thank you.

Operator: Thank you. We have next question from the line of Wei-Weng Chen with RBC Capital Markets. Please go ahead.

Wei-Weng Chen: (RBC Capital Markets, Analyst) Hello, are you guys there?

Emma Clark: Yes.

Michael Ilczynski: Yes, we are.

Wei-Weng Chen: (RBC Capital Markets, Analyst) Excellent. All right, cool. Sorry, I just joined the call a little bit late, so I might have missed some stuff, but just wanted to talk about the OpEx firstly. I caught the bit where you said you weren't giving revenue guidance, but is the expectation that in FY23 we see OpEx go up let's say at the midpoint, \$30 million? Is that going to be offset by revenue or are we expecting EBITDA losses to widen in '23?

Emma Clark: So yes, we did get asked this question before, and unfortunately, no, we cannot give you any more revenue guidance other than that we are returning to growth across the year.

Wei-Weng Chen: (RBC Capital Markets, Analyst) Okay, all right, no worries. Then the other question I had was can you maybe give - if I think about, say, slide 36, you go from FY22 and then there's a bit of grey space, and then you go to FY26, '27, with your longer-term targets. Can you maybe fill in the gap a bit in terms of what you're expecting in terms of how we get from FY22 to the longer-term targets?

Emma Clark: Yes, okay. So obviously we're not going to necessarily - we're not giving revenue guidance next year, so we're not certainly going to give revenue guidance out every year to FY26, FY27. How I would answer your question is to say that if you in any model pop in certain revenue growth for next year and then put somewhere between 20% and 30% revenue growth CAGR for the remaining periods, you will get to FY26, FY27. Now, obviously, as we've discussed earlier, it's not necessarily linear quarter to quarter. Certainly, we experience volatility quarter to quarter, but over that long term, really it's our historical growth rates that need to be maintained over a five-year period that get us there.

Michael Ilczynski: So Wei-Weng, you can see when we look back from FY18, we looked through COVID to where we are now, you can see how we've grown at both MPR and gross profit and gross margin. Then obviously, when we're talking about returning to revenue growth over the full year for FY23, without specifying how much, you can see that we've had the bump from COVID, and we've dropped down this year, but you can clearly say that we now expect that to return to growth.

So from our perspective, you look at the historical rate from FY18 to FY22, and then you look at what we're projecting for the years forward, we don't expect it to be linear, but we do expect - we do expect obviously revenue growth over the next three, four, five years to significantly, significantly outpace OpEx growth over those periods. That's what enables us to increase, get ourselves back to EBITDA positive over time and then obviously get us to those margins that we're looking at over a four or five year period.

Operator: Thank you. Ladies and gentlemen, we have reached the end of the question and answer session, and I'd like to hand the call back over to Michael Ilczynski for closing remarks. Over to you, sir.

Michael Ilczynski: Thank you, Bikram. Just want to say thanks to everyone for tuning in. Thanks to your support over the past 12 months, and we look forward to catching up with many of you over the days ahead.

Operator: Thank you very much, sir. Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may now disconnect.

End of Transcript