28 February 2025

1HFY25 results webcast transcript

Articore Group Limited (Articore or the Group) released its financial results for the six months ended 31 December 2024 (1HFY25) on 27 February 2025. The 1HFY25 results webcast transcript is attached.

For further information, please contact:

Virginia Spring
VP, Investor Relations
virginia.spring@articore.com

About Articore Group

Articore owns and operates the leading global online marketplaces, Redbubble.com and TeePublic.com. The Group's community of passionate creatives sell uncommon designs on high-quality, everyday products such as apparel, stationery, housewares, bags and wall art. Through the Redbubble and TeePublic marketplaces, independent artists are able to profit from their creativity and reach a new universe of adoring fans. For the artists' customers, it's the ultimate in self-expression. A simple but meaningful way to show the world who they are and what they care about.

Founded in 2006, Articore Group (ASX: ATG) was previously known as Redbubble Limited (ASX:RBL).

This announcement was authorised for release by Articore Group Limited Board Chair.

Company: **Articore**

Date: **27 February 2025**

Time: **9.30 AEDT**

[START OF TRANSCRIPT]

Virginia Spring: Good morning to our Australian participants, and good afternoon and evening for those joining us from the Northern Hemisphere. My name is Virginia Spring, and I am responsible for Investor Relations at Articore. With me today, I have the Articore Group CEO and Managing Director, Martin Hosking, Group CFO, Rob Doyle, and CEO of Marketplaces, Vivek Kumar, who is joining us remotely. Martin, Rob and Vivek will provide an overview of our 1HFY25 results shortly, and we will then open it up for questions.

The key information for today's call is contained in the ASX announcement and investor presentation released to the market this morning. I would like to call your attention to the Safe Harbour statement in our ASX release, regarding forward-looking information. That Safe Harbour statement also applies to this investor call. This session is being recorded, and a transcript will be released to the ASX. I will now hand over to Martin.

Martin Hosking: Thank you, Virginia, and good morning, everyone. I would like to begin by welcoming Vivek Kumar to this investor call. Many of you will know Vivek as our former CEO of TeePublic. Vivek is a highly experienced ecommerce executive, and a proven leader in the Group.

We implemented a significant organisational change during the half, to combine the operations of the marketplaces. As part of this restructure, Vivek has taken on a new, larger role as CEO in Marketplaces, and is now responsible for both TeePublic and Redbubble. Vivek will be taking us through the marketplace updates today, and will also be available to answer any questions at the end of this presentation. It's great to have you here, Vivek.

I would like to start by providing an update of how we are tracking against our FY25 priorities. Overall, we have made good progress. For the first three priorities on the slide, improvement has been realised by combining the marketplace operations. This has enabled a further uplift in our gross profit margins and a reduction in the Group's cost base, which together mean the Group remains on track to deliver positive underlying cash flow for FY25.

The organisational restructure has been a transformative change, which is already delivering significant results in increased efficiency, effectiveness and delivery, at a low overall cost. We've also made good progress in developing new ways to support creators beyond our existing marketplaces.

Just over a month ago, we launched Dashery, a new product that enables creators to launch their own storefront with their own custom domains, which they can market to their fans. This is an exciting new opportunity for the Group, which I'll provide more detail on later in this presentation.

Turning to the Group's financial highlights, despite our efforts to reverse the decline in MPR, we are yet to deliver a meaningful improvement. The decline continues to be driven by Redbubble

Marketplace, with TeePublic's revenue in line with the same period last year. Combining the marketplace operations is helping us to better understand the divergence in the performance, and address the issues impacting Redbubble.

Due to the reduction in MPR, gross profit, gross profit after paid acquisition, or GPAPA, and operating EBITDA all declined year on year. The decline was partially mitigated by the improvements the Group has delivered in GP margins, and the reduction in operating expenditure. The Group remains focussed on delivering sustainable growth in revenue and profits going forward. With our ongoing focus on unit economics, and the recent reduction in OpEx, we have put in place the necessary framework for the Group to increase returns to shareholders in FY26.

The next slide provides an overview of the marketplaces' individual performance. TeePublic has delivered another sound set of results, with MPR flat year on year, despite a challenging trading environment. Due to its focus on unit economics, gross profit was up 2%. TeePublic's operating EBITDA was lower than the prior period.

This was primarily due to an increase in operating expenditure, which includes approximately $600,000 to develop Dashery, and a one-off sales tax adjustment. Excluding these two items, TeePublic's operating EBITDA is much more closely aligned to the PCP, down approximately $300,000, or 4%.

Redbubble results continued to be weighed down by poor topline performance. There is no shying away from this. Both marketplaces saw a deterioration in revenue from organic sources this half, however as a larger proportion of Redbubble's revenues is derived from organic sources than TeePublic, this has had a larger impact on Redbubble. Redbubble's paid marketing is also not as efficient as TeePublic's.

We've made some good progress improving Redbubble's data tracking and analytics to enable Redbubble to spend more profitably going forward, and we are beginning to see some improvement in the second half. I will now hand over to Vivek to take you through the marketplace operations in more detail.

Vivek Kumar: Thank you, Martin, and hello, everyone on the call. It's great to be here. As Martin touched on, we implemented a significant organisational change in October. Since then, I have undertaken a detailed review of the marketplaces side by side, and I now have a much deeper understanding of the key drivers of the differing performance. Along with my combined executive team, we are beginning to address these issues.

We have already made significant progress improving gross profit margins, and reducing the cost base, as Martin touched on. We are now firmly focussed on how to stabilise the Redbubble Marketplace's revenue declines, and ultimately return both marketplaces to topline growth. This will be accelerated by having one executive team, as we are able to allocate resources to initiatives that are expected to have the greatest impact, irrespective of which marketplaces they will benefit.

These operating changes are still new, but early signs are encouraging, and I'm confident that we now have the right structure in place to maximise the potential of these marketplaces.

Moving on to the marketplace operational highlights, TeePublic continued to upgrade its site navigation this half, which has driven a significant uplift in conversion. I'll provide more detail on this on the following slide. TeePublic has also released a number of other improvements, including a new checkout with speed improvements, and an email capture for retargeting, and a new AI tool for customer service.

Lowering COGS remains a key focus, and the team secured lower costs from third party fulfillers across the fulfilment network. It also reduced shipping costs by increasing volumes directed to a lower cost provider.

We have highlighted the same operational metrics on this slide as in prior periods, as these metrics point to the health of the marketplace's flywheel. As you can see, both selling artists and their customers are up, which is positive, and designs sold are in line with the prior period.

Helping buyers navigate our website has been a big focus for our team, as we know that engaged customers convert at a higher rate. It can be overwhelming for some customers to know where to start. To address this issue, we launched a new navigation experience in March last year, adding the categories below the search bar. This change alone has driven a 16% increase in conversion.

Ensuring the relevance of the content promoted to customers is very important for engagement, and we are continually updating the navigation to keep current with trending and evergreen topics. The screenshot on the left of this slide was taken just before Valentine's Day, and this is the first category. If you were to log onto the site today, the first category is St Patrick's Day.

The example on the right shows how we are creating engaging customer journeys, from the category on the navigation bar, to the, people also search for, and then to the designs which are then surfaced. Primarily driven by the new navigation experience, site conversion was 23% higher in December 2024 compared to December 2023.

We have also rolled out a number of improvements to Redbubble Marketplace during the half. To enable us to spend more on paid marketing, we have enhanced data tracking and analytics to provide real time margin visibility at the order level. This has been a focus for the team, and we are beginning to see the benefit of this investment in the second half. We also improved the site experience by introducing a new navigation bar. We are now looking at how we can build on this upgrade, leveraging our learnings from the recent TeePublic upgrades.

We also launched new physical product types which are popular with our target demographic, including extra small posters, holographic stickers, and new colours for hoodies and sweatshirts. Additionally, we made significant progress in improving unit economics at Redbubble through base pricing, and promotions optimisations.

The number of selling artists on the marketplace continues to increase, which is positive. Unfortunately, the number of customers and designs sold declined. This is in step with the marketplace revenue declines. I will now hand it back to you, Martin.

Martin Hosking: Thanks, Vivek. Last year, the Group announced how we intend to deliver on our vision of being the global leader for connecting digital creators with their customers. We have strong credentials to play in this space, given our existing footprint and strategic assets which we can leverage, including a leading network of creators with commercial content, our scaled and growing fulfilment network, superior unit economics, and a developed technology stack.

We've now launched a new product in this space, Dashery. Before launching Dashery, we spent a considerable amount of time speaking to creators to understand their needs, and identify gaps in the market. With TeePublic and Redbubble, we're already one of the largest players in the $250 billion to $400 billion creator economy. By adding Dashery, we aim to extend this reach to new creative segments, and also support highly successful creators who are ready to graduate from the marketplaces.

Both types of creators have the same need for a simple, low cost solution to sell either their merch or their art. Dashery is designed to be this simple solution. It enables creators to establish their own storefront with their own custom domain, which they can market to their fans, while remaining in the Group ecosystem, all with minimal effort. We are perfectly positioned to provide this by leveraging our Group assets.

We can offer creators attractive margins, we believe higher than any other site, as we are leveraging the scale of our existing print-on-demand network. We are able to reach target creators economically because of the existing footprint of our marketplaces, and by leveraging our existing sales team. We can leverage our tech stacks to provide seamless, low-cost solutions, and rapid feature rollout.

We're seeing the impacts of this, with a good early traction, with hundreds of [unclear] engaged, and with their own storefronts. We're engaging with early users to help us to prioritise future enhancements. We're excited by our progress in this area. I'll now hand over to Rob to take you through the financial results in more detail.

Rob Doyle: Thanks, Martin. Martin started with a summary of our half-year performance, so I'll focus on the Group's performance in the second quarter. This is where you can really start to see the financial benefits of combining the marketplaces, as this change was only implemented in October. Traditionally, the Group's second quarter gross profit margin is significantly less than the first quarter, as discounting is higher through the holiday period.

In FY24, the gross profit margin in the second quarter was 470 basis points lower than the first quarter. This year, the decrease was only 130 basis points. The step up in promotional activity was still there, but was significantly mitigated by the reduction in COGS. The GPAPA margins are also more closely aligned, as we pulled back on Redbubble's paid marketing spend, refocussing on profit, rather than volume.

Operating expenditure was 13% lower in the second quarter, compared to the PCP, due to strong cost discipline. We expect to see another step down in the second half of the financial year, as we begin to realise the benefits of the cost reduction plan we announced in January. Unfortunately, the significant progress which is being made to improve the Group's financial position is being masked by the deterioration in Redbubble's topline performance. As Martin and Vivek stated, addressing this is a key focus for the Group.

The improvements we've driven to gross profit, alongside the reduction in OpEx, provides a foundation for the Group to deliver sustainable profits going forward. The graph on the left highlights the stabilisation in gross profit and GPAPA margins, and we're confident that the changes we have implemented are sustainable.

The chart on the right shows the Group OpEx over the last five years, and an indicative steer of what it could look like in FY26, given the $12 million to $14 million in annualised savings we announced in January. We've now implemented the majority of these savings by reducing the Group's workforce by approximately 17%, and cutting Group overheads. The benefit of these initiatives will be partially realised in the second half of this financial year, with the full benefit expected to be realised in FY26.

We're continuing to look for further opportunities to increase our gross profit margins and reduce OpEx. In particular, we're working on consolidating blank providers, eliminating higher cost fulfillers, and consolidating software contracts. We've not cut costs back to bare bones, and have maintained sufficient resources to continue to invest in our existing marketplaces.

Turning to the Group's cash position, which was $71 million at the end of the half. It was $16 million lower than at 31 December 2023, primarily due to the decline in underlying cash flow and working capital benefits due to lower MPR, increased pre-payments, and the share buyback program. As I highlighted on the previous slide, we've taken steps to reduce the cost base, and we will begin to realise the benefits of these measures in the second half.

The improvement in gross profit margins, coupled with our ongoing cost discipline means we remain on track to deliver positive underlying cash flow in FY25. This is subject to any incremental investment in Dashery in the second half of FY25, which will be decided based on the performance of our MVP. If approved, we expect to be able to absorb this additional cost within our existing OpEx guidance range of $89 million to $92 million. I'll now hand back to Martin for some closing remarks.

Martin Hosking: Thanks, Rob. We've shared this slide in a couple of recent results presentations. It highlights the progress we have made in stabilising the foundation of the business and returning the Group to positive underlying cash flow in FY24. We are now in phase two, by adding a new revenue stream for the Group, Dashery, building on our established assets.

We remain focussed on delivering profitable revenue growth by maximising the performance of our existing marketplaces. This is where the vast majority of our time and resources is focussed at the moment. We are excited by Dashery, but it is still in its early stage.

We have very clear priorities for the second half of FY25 which, together, will create a foundation for the Group to deliver sustainable profit and revenue growth in FY26. First and foremost, we need to stabilise the decline in Redbubble MPR. This is the first step to our goal of returning the marketplaces to growth.

We have made meaningful improvements to our gross profit margin this half. We will continue to look for ways to leverage our new operating structure to drive incremental improvements to unit economics and OpEx, and we will maintain our disciplined approach to cost management.

Finally, our guidance for FY25. The Group expects its competitive environment to remain challenging. In this environment, we'll remain focussed on optimising unit economics, maintaining cost discipline, and maximising synergies across the Group.

Due to the improvement in its gross profit margin during the second quarter, the Group increased, in January 2025, its FY2025 GPAPA margin guidance to between 25% and 27%, and reduced its FY25 OpEx guidance to between $89 million and $92 million. We are reaffirming that guidance today.

The Group continues to expect to deliver positive underlying cash flow in FY25, subject to an incremental investment in Dashery in the second half of FY25. Thank you all for joining us today. This is the end of our prepared remarks. We're now happy to answer 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, then two. If you're using a speakerphone, please pick up the handset to ask your question. Once again, to ask a question, please press star, one, on your phone. We'll pause for a moment to allow parties to enter the queue. Thank you. The first question today comes from Wei-Weng Chen for RBC Capital Markets. Please, go ahead.

Wei-Weng Chen: (RBC Capital Markets, Analyst) Hi, guys. Just want to contextualise, I guess, the marketplace revenue declines. Is your best guess that it's macro, or is it the offering not resonating, or are you being out-competed? What's your best guess of what's happening out there?

Martin Hosking: Thank you very much for that question. It's Martin here. I'll give Vivek a chance to answer as well, but certainly, our observation which we do have is that there is overall macro factors at work, and you'll be well aware of recent announcements by a number of US companies, Etsy, Walmart, Wayfair, et cetera, which point to those declining issues. That is a macro factor.

That said, we also do recognise that there's a difference in performance between the Redbubble and TeePublic marketplaces, so to some extent, we're mitigating those macro factors. The fact that TeePublic can show stable MPR over the period is a mitigating factor, so that gives us some confidence that they are addressable within the overall context of the Redbubble and TeePublic marketplaces. I might hand it over to Vivek to give some more colour into that.

Vivek Kumar: Yes, thanks, Martin, and great to be here, and I just wanted to add to what Martin was saying. Clearly, there are some macro effects here in terms of consumer sentiment and consumer demand. That said, we do have TeePublic as a benchmark, and clearly TeePublic revenue has been – MPR has been stable.

One of the other factors we are seeing on the Redbubble is the continued declines in the SEO, and Redbubble has more penetration in the SEO space versus TeePublic. The mitigation for that is clearly paid marketing, and profitable paid marketing that we are dealing in, which TeePublic has successfully been able to navigate.

We'll continue to optimise for the overall mix here, and we still have two best-in-class marketplaces, at scale, marketplaces that are global, and clearly, a content library that is the key asset that we have. There is clearly a lot of potential here to stabilise the MPR.

Wei-Weng Chen: (RBC Capital Markets, Analyst) Yes, thanks for that. Then, just another question. Do you feel declining MPR impacts your ability to reaccelerate the business? So for lack of a better term, are there network effects that, on the way up, customers beget customers through referrals, social media, et cetera, if you're going backwards, does that effect work in reverse?

Martin Hosking: I'll give a little bit of context on that. It's actually an excellent question, by the way, because the nature of how the flywheels work, it gets to the very heart of the way in which the flywheels work. I will say, and it's probably coming a little bit from my experience with Dashery, which I've been really leaning into over the last period of time, both Redbubble and

TeePublic have this really strong, established base and foundation with artists and creators. We are seeing – we did see that in results.

So, while the sales from artists and creators had gone down as a result, in the Redbubble Marketplace, as a result of those macro factors, and the factors specific to Redbubble, we still are seeing, and are continuing to see it attracting new creators, and those creators joining and adding content. Clearly, we have weighed in to that by the changes which we've made, particularly so making sure that we're serving our best creators and best artists in the marketplace as well, through the differentiated tiers.

Keeping that part of the marketplace healthy is fundamentally important, and so what we – and we're really trying to ensure that we don't take actions which would impact the attractiveness of the marketplaces to the creators, particularly the top creators, and making sure that that keeps the flywheel active.

On the other side of the flywheel, we are seeing the fact that there are macro factors at play, because if people are prepared to really come to the table in terms of our cost base, and hence, we were able to drive the higher GP margins by bringing the overall costs down. That does reflect that we are an at-scale player, and so while those macro factors can affect [unclear], we're really aiming to mitigate that impact, and then also go beyond that to drive further growth in the flywheel overall. Vivek, do you have any further comment on that?

Vivek Kumar: Yes, Martin, I absolutely agree with everything you said here, in terms of the flywheel effect. The only thing that I would add to that is, we are also first order profitable, so in terms of customer acquisition, we are not relying on LTV to CAC, and not spending money that gives us a future potential of LTV, even though we do have a strong LTV.

That also gives us, again, a little bit of confidence in terms of just being first order profitable, and our unit economics can support customer acquisition at scale. So yes, just wanted to build to what you were saying, Martin, in terms of the content flywheel, and then the customer flywheel.

Wei-Weng Chen: (RBC Capital Markets, Analyst) Cool. That's all from me. Thanks.

Operator: Thank you. At this time, we're showing no further questions via the phones. I'd like to hand the conference back to Martin Hosking.

Martin Hosking: Thank you very much, and I'm very, very aware that it's a very busy day with releases coming out, so I appreciate the analysts being here and taking the time for it. Clearly, we've got follow – there will be follow-up questions, you can come to Virginia directly, and ask her and Rob follow-up questions as we get through this overall release cycle. Thank you very much, everybody, and we look forward to talking with you in about six months' time or so.

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

[Music playing]

[END OF TRANSCRIPT]