Trading Update Conference Call Transcript

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The transcript of the Trading Update conference call on 14 October 2021 is attached.

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

Trading Update

Conference Call Transcript

14 October 2021

Start of Transcript

Operator: Thank you for standing by and welcome to the Redbubble Limited Q1 market update. 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 1 on your telephone keypad. I would now like to hand the conference over to Louise Lambeth, Head of Investor Relations. Please go ahead.

Louise Lambeth: Thank you. Good morning everyone here in Australia. Good afternoon and evening for our US investors. This is Louise Lambeth, Head of Investor Relations for Redbubble Group. Welcome to this investor call following the release of Redbubble's FY2022 first quarter trading update released earlier today. With me on the line are Redbubble's CEO, Michael Ilczynski, and CFO, Emma Clark. As well as the first quarter results and report, the key information for today's update is contained in the ASX announcement and accompanying slides also released to the market this morning. Please note that the financial results and operational metrics are from internal management reports and have not been subject to audit. Mike and Emma will now speak and then we will open up the lines for questions. Please note that 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 release. That safe harbour statement also applies to this investor call. I will now pass on to Mike.

Michael Ilczynski: Thank you, Louise. Hello everyone and welcome to Redbubble's FY22 first quarter trading update. Given that this is mostly a financial update, I will shortly be passing to Emma to walk you through the numbers in more detail, but I'll just take a few moments to introduce the results.

The growth of the business over the last 18 months shows that we continue to make real progress on our mission to create the world's largest marketplace for independent artists. This mission drives our ambition. We remain passionately committed to it. Redbubble is uniquely positioned to capitalise on our medium to long-term opportunity and emerge as a significant winner in what are very large addressable markets.

Coming into this quarter, we knew that the prior period performance would be a tough comparative. We had set and hopefully communicated our expectations accordingly. As we flagged in August, first half of FY22 Marketplace

Revenue growth would likely be negative year on year as the business cycled this particularly strong prior period which was driven by the COVID-related lockdowns and mask sales. As such we are pleased with the actual results for this first quarter. What we are sharing with you today are well in line with our expectations.

We're also encouraged to see improving performance during the quarter from July to September. Emma will talk to this in more detail, but in summary underlying Marketplace Revenue in July on a paid basis was down 11% versus July last year with this improving to just negative 2% for September versus September last year. This trend, coupled with the operational progress we're making, gives us confidence about the near-term outlook. We're also using this opportunity to reiterate the full-year revenue and EBITDA guidance provided in August.

The Redbubble business has a truly global footprint. North America is our largest market followed by the UK and EU. There are now early signs of what post-pandemic normal might look like. In those markets, society as a whole and their economies have really opened up. As we discussed in August, offline retail outlets are now mostly all open. People are able to move around freely, dine out, travel, with increasingly more choices for their spending. As such this first quarter essentially captures what a post-COVID normal might start to look like across both marketplaces in their largest geographies. In that, we are encouraged to see the shift to online platforms like ours has withstood the opening up of both offline retail and services more generally and that our business has held on to much of the underlying gains that we saw last year.

While there will still definitely be some uncertainties ahead, the early data points we've seen continue to give us confidence about our business over the medium to long term. Redbubble Group now is at a significantly larger scale than we were two years ago pre-COVID. At the top line, gross transaction value has grown 57% since Q1 of FY20. That's two years ago. Artist Revenue has grown 53% and Marketplace Revenue has grown 55% on that two-year basis. The team continues to pursue initiatives that will expand and scale the business towards our medium-term aspirations.

I want to briefly make mention of some of the experimentation and operational highlights the team achieved during this quarter. We don't provide detailed operational updates on these quarterly trading releases, however given we are still in the early days of developing a culture and process of targeted experimentation and investment across the business, we felt it important to share some information on how we're doing. I'll hit some of those highlights now.

Firstly building on what we shared in August, I discussed how the team launched buy now pay later provider experiments and, at the early signs, showed some meaningful increase in average order value for customers. Since then we've chosen to partner with and roll out with Afterpay. We launched to US customers a couple of weeks ago and have just gone live and added Canada, the UK and Australia this week.

In terms of loyalty, we've conducted 13 loyalty experiments across the two marketplaces with seven of those experiments showing early positive retention signals in that the repeat purchase rate for those in the experiment was significantly more than those in the control group. Several of these experiments still require more time to reach their 90-day condition. The next step for us is to complete our analysis so we can determine which experiments are economic to scale or to repeat at scale next year.

In search and recommendations, we've been running experiments to try to improve the discoverability of new artists and new works. We know that it's quite important to drive sales for artists within the first 28 days and so this recent experiment is taking some artists and giving them additional boosts to help them appear more prominently in search results pages.

In terms of products, we talked about being the first large-scale print-on-demand marketplace to launch baseball caps and dad hats when we spoke last. They have performed well in their initial weeks. Redbubble has continued to add new products and extended existing product lines with desk mats, mouse pads and the new iPhone 13 cases now available on site in time for Thanksgiving and holidays.

We've also increased localisation for five products at four fulfillers. This further enhances the resilience of the fulfilment network as well as moving production closer to customers ahead of holidays.

Additionally we ran a significant experiment in our search and shopping acquisition channels across both businesses to test these channels given the evolving data and attribution landscape prior to holidays. This had a material impact on acquisition spend that Emma will speak to in more detail.

These are just a few of the examples of the work the team's doing. For those of you who are familiar with our operating rhythm, you will know that we're now heading into the busy and important holiday trading season. This means we'll be pausing most of our experimentation activities to focus on delivering a great holiday season for artists and their customers through this current quarter and into early next year.

Finally, I want to touch upon the important topic of ESG. Redbubble's business model has always emphasised a small environmental footprint together with a strong focus on social good including diversity at all levels of the Group. We continue to work to better understand our material ESG impact and more clearly integrate ESG into our business strategy and decision making. I would point you to our just-released 2021 Annual Report where we have shared an overview of our ESG strategy and approach that we will develop further over the year ahead. Most recently we were very proud to see the Company rank number 10 in the Australian Chief Executive Women's diversity rankings in our first year as part of the ASX 300 and ASX 200. We will continue to champion diversity and inclusion as part of our ESG and people and culture strategies.

I'll now hand over to Redbubble Group's CFO, Emma Clark. Emma.

Emma Clark: Thanks, Mike. Hello to everyone. Today I will be discussing the first-quarter financial metrics provided in the update and also using this opportunity to reiterate our near-term outlook. Please be aware that unless otherwise stated the financial results discussed are on a delivered basis but have not yet been subject to audit. For those of you who have been following us, you will remember that at the full-year results in August we flagged that the first half of financial year 2022 would likely be negative and so it's important to emphasise that the first quarter's results were in line with our expectations. We have added two-year compound annual growth rates to this slide given the extraordinary events over the last year. As I speak to each of the major metrics, I will at times mention both the year-on-year and the two-year growth rates which is representative of a longer-term view.

In the quarter, Redbubble recorded Gross Transaction Value of $142 million. Year on year, this was down 21% and 20% on a constant currency basis. Compared to two years ago, GTV has grown 57% and so the two-year CAGR was 25%. Artist revenue was $21 million in the first quarter and we are proud of the continuing financial impact that the platform is able to deliver for artists. This quarter's Marketplace Revenue was $106 million, down 28% year on year and 27% on a constant currency basis. Again compared to two years ago, Marketplace Revenue has grown 55% and so, on a two-year view, the CAGR was positive 24%. In the first quarter, Redbubble also recorded gross profit of $42 million, down 34% year on year and 33% on a constant currency basis. Margin came in at 40% for the quarter. On a two-year basis, gross profit has grown and was up 64% representing a CAGR of 28%.

As we travel down the profit and loss, I would now like to pause on paid acquisition which, as you can see on the income statement detailed in the appendix, came in at 14.4% for the quarter. This is higher than we would have ideally liked to see and is due to a number of factors. Most of these factors related to the iOS 14 ATT update which has caused the digital advertising environment to become quite chaotic with acquisition attribution by channel difficult and costs subject to significant fluctuation.

We had a hypothesis that we were seeing under-attribution, particularly in search and shopping, and so ran a tactical experiment during September where we materially increased spend in those channels. This increased spend ran for the majority of the month. Whilst it was the right experiment to do at the right time, it ultimately did not generate the outcome that we had hypothesised. The spend was inefficient and increased our paid acquisition costs materially.

Additionally we undertook prospecting spend during August as our internal data shows us that this is a good time of the year to do this as an increased percentage of visitors generated at this time purchase on the platform during the holiday season.

Whilst we expect the challenging digital marketing environment to continue, it is important to note that the major drivers of the spend level this quarter were as a result of our own decisions and are not, in and of themselves, recurring in nature.

Moving on to operating expenses which grew at 11% year on year, this uplift was actually lower than our expectations due to slower hiring than forecast. We had expected increases in web hosting expenses, administration expenses and increased creative marketing costs. There have been additional employees joining in part of the quarter, largely in engineering, product and on our exec team. These onboarding employees will continue to increase our operating expenses as we progress through the financial year.

Other expenses were particularly low at $200,000 for the quarter. This line incorporates share-based payments expense, leasing expenses and foreign currency movements. The latter is the reason for the low expense. Operationally currency is quite neutral at the moment as is evidenced by how close the constant currency growth rates are when compared to the floating growth rates. However, approximately 47% of our cash on the balance sheet is denominated in US dollars. As such there can be material swings as this is revalued into AUD at the end of every quarter.

EBITDA was $3.9 million compared to $25.7 million in the first quarter of last financial year and $1.4 million in the first quarter two years ago. EBITDA margin for the quarter was therefore 3.7%.

Finally we closed the quarter with $109 million in cash, providing the business with a strong balance sheet and continuing strategic flexibility.

Delving into Marketplace Revenue in more detail, I'd like to refer to the bridge that has been provided on slide 3 in the accompanying slides. We have shared this chart to illustrate how management is measuring and assessing the performance of the business this quarter. Within last year's quarter one reported Marketplace Revenue of $148 million, there was an $8 million positive delivery date adjustment which was disclosed at the time. From there we have adjusted out the $29 million of mask sales. This bridges us to a first quarter FY21 underlying Marketplace Revenue of $111 million.

Moving to this year, the first quarter of FY22 reported Marketplace Revenue was $106 million. However, we also adjust out the same factors which in this case were $4 million of mask sales and a $2 million negative delivery date adjustment. This results in an underlying Marketplace Revenue number of $104 million for this year's quarter one, which is 6% below the prior year on a floating basis and only 4% on a constant currency basis. This trend is as per our expectations and flagged with the market in August when we gave guidance that the first half of this year's

Marketplace Revenue growth is likely to be negative. As the quarter progressed, we were encouraged to see that underlying growth in the business without mask sales improved meaningfully from negative 11% in July to negative 2% in September. At this point in time, the year-on-year growth rates are much less meaningful. The sequential trends, month on month, provide better signals for managing the business.

Being a quarterly update, we do not normally share geographic and product splits. However, we acknowledge that Australia has not as yet opened up in the two largest states and felt that it would be helpful to provide data on how each of our major markets performed for the quarter.

As Mike mentioned earlier, Redbubble Group operates truly global marketplaces. North American customers contributed 69% to overall Marketplace Revenue and remains our largest market. It performed per our expectations this quarter. We knew coming in that the prior period comps were very strong and driven by a confluence of macro tailwinds. This time last year, there was a tremendous surge in online spend, especially around July and August of 2020. This was the case for all of our major geographies. Now a year later, as most countries have started to emerge into the post-pandemic normal, albeit some at a faster pace than others, we can see that the business remains well positioned for geographies either in or out of lockdown. The US is representative of the average whilst Australia, with a majority of its citizens still in lockdown, contributed 8% to the total, which is slightly higher than its historical contribution.

On the next slide, you can see that we have provided a breakdown for the first-quarter performance by product categories. These numbers include masks which are captured inside accessories. It's clearly shaded and shown in this chart. In this quarter last year, masks contributed 21% of total sales and this has fallen away to 4% in this quarter. All things being equal, one would expect to see everything else down approximately 6% and this is not the case. The accessories category itself, ex-masks, was essentially flat year on year with contributions from other products such as bags and pins. T-shirts, which is our largest selling product category, has grown by approximately 8% and apparel is neutral. At the other end of the spectrum, homewares are down approximately 27% which is unsurprising. Stationery and stickers are down approximately 20%.

Finally I would like to reiterate our near-term outlook for the financial year 2022 as we stated in August. As said then, we don't normally provide any form of guidance, but given the ongoing uncertainties in the macro environment, this can result in those modelling the business generating widely varying outcomes. We would like our shareholders to be as aligned as possible with our own internal views on near-term performance.

The latter part of financial year 2020 and the first half of financial year 2021 saw phenomenal growth across the business. This means, in the near term, Redbubble will continue to cycle strong prior period comparatives. As we have previously shared, masks are a significant contributor, adding $57 million to last year's Marketplace Revenue. Therefore the underlying financial year 2021 Marketplace Revenue was $497 million.

Looking forward Redbubble expects financial year 2022 Marketplace Revenue to be slightly above financial year 2021's underlying Marketplace Revenue. This will still represent solid growth on the $350 million achieved in financial year 2020. To again reiterate what we said in August, the first half of financial year 2022 Marketplace Revenue growth will likely be negative year on year as the business cycles a particularly strong prior period. From the second half, we expect a steady return to year-on-year growth rates consistent with meeting our medium-term aspirations.

Targeted investments will continue to be made and will affect gross margin, marketing and OpEx lines. Investments in this financial year will focus on key aspects of the customer experience, both digital and physical. These are aimed at driving cumulative increases in users, order rate, average order value and repeat rate. As noted in the April 2021 release, EBITDA margin as a percentage of Marketplace Revenue is expected to be in the mid-single-digit range for FY2022 with EBITDA margin expected to expand over the medium term along with top-line growth.

We will now open up the line for questions.

Operator: Thank you. If you wish to ask a question, you will need to press star 1 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 speakerphone, please pick up the handset to ask your question.

Your first question comes from Owen Humphries from Canaccord. Please go ahead.

Owen Humphries: (Canaccord Genuity, Analyst) Good day, team. Thanks for taking my questions. First question, you just talked about the DDA in the first quarter versus the PCP. Can you just tell us what the delivery date adjustment was for the fourth quarter of FY21?

Emma Clark: Sure. That's a great question. Thanks for that, Owen. Obviously when we came out in August and we were speaking largely to the full year, we had the fourth-quarter profit and loss in the appendix of that release, which we always do. I would refer back to those numbers. If you look at those numbers in that release, you'll see that the fourth-quarter Marketplace Revenue was $97 million. That was the reported number. If we adjust it to an underlying basis to be on the same basis that we talk about the $104 million in this current quarter, that number is $92 million. Between masks and DDA, there was a $5 million adjustment to those numbers if you were comparing underlying. For ease of understanding, if you're sitting there and saying what was the fourth-quarter underlying revenue for last year compared to the first quarter underlying revenue for this year, that number has moved from $92 million to $104 million.

Owen Humphries: (Canaccord Genuity, Analyst) Good one, so what's that? 13%. Good one. Okay, thanks for that.

The second one, just around the marketing investment that you made that you believed that was ineffective, can you just maybe quantify that amount of the 14.4%?

Emma Clark: Yes, absolutely. If we hadn't conducted the experiment, marketing spend still would have been slightly higher than we would have ideally liked because of our prospecting spend. It would have come in somewhere between 13% and 13.5%. But the impact on revenue - and this is going to demonstrate how inefficient that spend was - would have only taken somewhere between $1 million and $2 million off the underlying revenue number of $104 million. It was very inefficient.

Owen Humphries: (Canaccord Genuity, Analyst) Good one. Okay, thanks. Just obviously you're flagging a level of investment across the three major lines so your gross profit investment and then marketing and then OpEx. I kinda get the bottom two. But just talk through where the investments could be in the COGs line talking about prices and delivery. Do you expect to make those investments in the second quarter into the big period? Obviously you've got $109 million of cash. You've got plenty of flexibility. Or is it more of a calendar year '22 investment?

Emma Clark: Yes, no, that's a good question, Owen. It's more of a calendar year '22 investment from a margin perspective, because the reality is - so two things will happen in this current October to December quarter. One is we generally, and as Mike flagged, will pause all experimentation during that quarter anyway, because we really need to just keep things nice and smooth to be able to deliver a really great holiday season. That happens every year and this year is no exception to that, so there will be very little experimentation. Nothing will happen until we come out.

The other thing that happens in this next quarter is if you were to go back and look at the business seasonally, you will see that margin naturally takes a little bit of a dip during holidays anyway, both due to the increased rate of promotions that we do in that holiday quarter and also just due to the lagginess in some of the December results and returns that flow through from that. Margin across the next quarter and the third quarter tend to be slightly lower than margin in the first and the fourth quarter. We would expect that seasonal profile to continue.

Owen Humphries: (Canaccord Genuity, Analyst) Good one. Maybe the last one for Mike. It's good to see you rolling out some experiments. You said before that purchase rate's high. Can you maybe just quantify some of the exciting experiments that you're doing and some of the changes in consumer behaviour that you could see going forward?

Michael Ilczynski: Yes. Thanks, Owen. We talked about this before. Particularly when we talk about the loyalty experiments, they're all targeted at the same - they have the same success metric in terms of increasing repeat purchase rate over a 30, 60, 90 day period. We're not going to talk to the specific experiments that worked because, to be honest, we don't want to share them out with other players. That's now hard-earned IP for us. But I think as we talked about, none of them are going to double retention or anything like that. We've talked about a grind and needing to continue to make those incremental improvements. That's very much what we see with these experiments. We're actually really encouraged that more than half of them seem to be positive in terms of the impact they've had on retention.

The next step for us, as we said, some of them need to get through their 90-day condition. Then we need to complete the economic analysis, because while they may have had a statistically significant impact on retention, the next step is to compare the incremental cost of those changes that we might have made with the incremental revenue that they've brought in. With the ones that are clearly economically positive, that's great. We move either into scale if they're an ongoing thing or we move into scaling them when we repeat those initiatives. For the ones that were positive but maybe not quite economically positive, then we'll try and see, does it have more of an impact beyond 90 days? Because it may get up to economically positive when we extend the time. Or are there some tweaks that we can make to those conditions and to the costs that we put in that don't have a big decrease in repeat rate but do bring down the economics?

I'm sorry I'm not being specific, but you can understand. Some of them are remarkably straightforward and, like I said, are not ones that we want to put out openly.

Owen Humphries: (Canaccord Genuity, Analyst) Good one. Thanks, guys. Thanks for the ongoing transparency in the business.

Operator: Your next question comes from Anthony Porto from Morgans Financial. Please go ahead.

Anthony Porto: (Morgans Financial, Analyst) Hey, guys, a few from me there. Just the customer data platform that you mentioned at the full year, just the progress here and where you're at, being able to actually have that single view of the customer to really drive those initiatives? Obviously delivery in ecommerce has been a big issue. Could you just remind us of the percentage of product sales that you've got through localised fulfilment now? Are you seeing any impact of delivery there and impact on conversion rates from delivery?

Then Emma, sorry, you went through that marketing thing pretty quickly. Could you just reiterate what the impacts were on marketing? I guess even from that 13% to 13.5% range that probably normalised marketing, you saw a 400 basis point increase quarter on quarter last year. Would you be expecting anywhere near that amount in the second quarter? Obviously that's the largest percentage of Marketplace Revenue quarter for paid advertising.

Michael Ilczynski: Yes. Thanks, Anthony. I'll speak to the first one and then hand over the second to Emma.

Yes, on the CDP, look, continuing to make progress. It's been really only seven-odd, eight-odd weeks since we spoke. That team continues to, to be honest, generate really good insight for us. There's a lot of work to continue to do to, I guess, cut our cohort data in different ways to really extract the insights from it, from the data that we're collecting, but it's coming along really well. It's starting to get shared more openly across the business, so we're feeling good that will be a good investment.

It will allow us and enable us to continue to be more targeted in our marketing to slowly start to make decisions. At the moment, all of our marketing decisions, as we've talked about, are really focused on that first click and first purchase profitability basis. To be able to make targeted investments where we can see clearly that some of those channels actually have a higher customer lifetime value that would justify spending more in those channels rather than what we do today, we can see that starting to come along now. We're starting to see some of those areas.

To be honest, as we talked about, we won't experiment too much now, heading into holidays. It's really important we deliver a good holiday. That's part of the reason why we test the marketing spend in our search and shopping channels now in September, pre-holidays. It was the right month to do that. But yes, we're feeling good about where the customer data platform is and how that team - it's a small team and we'll continue to invest in our headcount and build that team, but we're feeling good about how it's progressing. I'll hand to Emma.

Emma Clark: Yes, so the two questions that I captured, Anthony, were one on localisation. Has the percentage of products being shipped in location to customers in location increased? Then the second one was about the marketing spend and looking forward, what might occur in the next quarter as a result of it being higher in the first quarter.

On the localisation piece, I don't have the exact number to hand. The way we define localised is in geography, so if you think about the US, it's US to US. Most of the localisations that we've done in the last quarter - actually in fact all of them - have been within the US when you think about bringing it down to more localised regions within the US. It's at that sort of next sub-level down, which is excellent and what we should continue to do. That means that the percentage we quote, which I'm pretty sure off the top of my head is in the 90%s in terms of in-market delivery, will be pretty much the same. But effectively the most recent set of localisations take that down to an even more granular and nuanced detail to say, okay, are we localising on the East Coast and the West Coast for each of the product lines? We did five localisations in the quarter and they were really focused in on the US on those sub-regions.

Broadly - and once again I understand the reason for the question because I, like everyone else, am getting the Australia Post email saying they're not picking up things and please do all your Christmas shopping in July because we're not sure we can deliver it. I get where the question's coming from. Really once again I would say Australia's a little bit of an outlier in terms of actual performance. We're actually seeing pretty strong delivery performance across our entire network and think that the conditions for us in terms of holidays this year will actually be substantially better on that basis than last year. Obviously monitoring Australia as its own separate thing, but overall in terms of getting products to customers, we're feeling like we're in a pretty good space at the moment.

Then in terms of the quarter-on-quarter increase for marketing, so as you point out and I said, even if we stripped out the experiment that we run, marketing still would have been pretty high at 13% to 13.5%. When you look at last year and the increase from Q1 to Q2, your question very simply is would we expect to see 4% on top of that? The short answer to that is no. I would expect to see it relatively flat, if not reduced, across the next quarter.

Anthony Porto: (Morgans Financial, Analyst) Great. Thanks, Emma.

Operator: Your next question comes from Tyler Glauser from Grandeur Peak. Please go ahead.

Tyler Glauser: (Grandeur Peak, Analyst) Hey, guys. Thanks for the update. Just one quick question. I'm not sure if you said when you were going through the products and segments. Can you give us a sense for the difference between the TeePublic business and the Redbubble t-shirt segment? Is there a material difference between the performance there? Thanks.

Emma Clark: That's a great question. Thanks, Tyler. We don't split segment reporting by marketplace, so we don't show TeePublic versus Redbubble. But what I can actually say, so high level, the differences between the two is TeePublic as a marketplace is much more US focused - so obviously disproportionately contributes to the US geographic split number - and is much more t-shirt focused so disproportionately contributes to the t-shirt percentage. What I can tell you is that the growth in t-shirts - so the $54 million to the $58 million - was across both marketplaces.

Tyler Glauser: (Grandeur Peak, Analyst) All right, thanks. That was my only question. Appreciate it.

Operator: Your next question comes from Chami Ratnapala from RBC. Please go ahead.

Chami Ratnapala: (RBC Capital Markets, Analyst) Hi, Mike and Emma. Thanks for taking my question. I actually wanted to follow up on the TeePublic platform from the previous question. It seems that the TeePublic platform appears to have outperformed the Redbubble core platform. Correct me if I'm wrong. Could you talk to any differences or - you did say that the growth in t-shirts were across both platforms, but any differences that you can talk to?

Emma Clark: Thanks, Chami. As we disclosed before we came into COVID - because obviously for those who have followed us for the longer term, you'll note that for the first year that we owned TeePublic, we did actually provide the splits of revenue growth by marketplace. We did that at that time to demonstrate to the market that that was a really good use of shareholders' funds to go off and buy that business. Yes, at the time that we were reporting that, TeePublic came in with a very high growth rate. It actually got as high at 55% per annum. It happened to coincide at a time where Redbubble had a low growth rate, so the differences coming into COVID were quite stark.

During COVID we've been asked this question a few times over various quarters. Whilst I don't provide those splits anymore, I have said and will continue to say that the performance across both businesses is quite consistent. There's not anywhere near as much differential between the two businesses as there was coming in, which mathematically also has to be the case because we couldn't double the size of our business the way that we did without Redbubble picking up most of that just due to its larger size. As we go back to the post-COVID - we've now got our second quarter of more normalised trading - we can see that the performance across both businesses is strong and continues to not have as much of a gap as they did coming into COVID.

Chami Ratnapala: (RBC Capital Markets, Analyst) Thanks, Emma. That's very clear. Just one more question, anything that you can talk to on the repeat rate of customers.

Emma Clark: Yes, so the repeat rate is flat. So in terms of the numbers that we had at year end, it's flat in Q1.

Chami Ratnapala: (RBC Capital Markets, Analyst) Thanks for taking my questions.

Operator: Once again if you wish to ask a question, please press star, then one on your telephone keypad and wait for your name to be announced. Your next question comes from Aryan Norozi from Barrenjoey. Please go ahead.

Aryan Norozi: (Barrenjoey, Analyst) Hi, guys. First one is just, looking at the next 12/24 months, how are you balancing capital allocation between new customer acquisition and retention? Just give me a bit more colour around that please, those two buckets.

Emma Clark: Yes, look, I can have a go at that and then hand over to Mike to add some more flavour to it. Obviously one of the hallmarks of Redbubble across its entire history from a transactional perspective is our ability to generate users and customers at a really good first transaction profitability rate. Obviously I made the comment about the experiment, talked about the chaotic digital environment. The reality is there's nothing that we see in the business at the moment that makes me think that we can't continue to generate profitable customers on first transaction and that we can't continue to get user growth. Obviously if we're comparing users year on year, the COVID bump makes that look more negative than it actually is. But if we look to your question out 12/24 months, we would expect to continue to generate user growth.

That being said, as we've said previously in the last couple of updates, we really need to focus on loyalty and we really need to try and get that annual average order value up. The real way to do that is to - yes, obviously we can get customers to spend more in the first order, AOV, but the more important one is actually over the long term to make sure that they come back to the platform and entice them to come back to the platform multiple times. There will be an increasing focus on that as we build our capability and modify our technological platforms to enable us to experiment more and more into that space over time. I don't know, Mike, if you want to add anything to that.

Michael Ilczynski: Yes. Thanks for the question. Probably just to build on it a little bit, the reality is that we need to invest into both. From a user acquisition point, at the moment, we've talked about the importance of that first click, first transaction, first click profitability, first transaction profitability. As we understand our cohorts better, then that will allow us to open up. We would expect there to be incremental investment where we can see that that will be profitable over a second or third transaction when we've got that broader view. But at the same time though, we know that repeating that repeat rate - increasing that repeat rate is super important. Those changes, for that though there's no real simple, easy, low-hanging fruit. There's just a whole lot of experiments we need to run and improvements we need to make, both through our on-site digital experience and then also the physical product, lived experience of customers.

That's why we've talked openly about our OpEx investment increasing over the next 12 months in this financial year. As Emma mentioned, our actual OpEx increase was a bit below our expectations, mainly because our hiring's been okay. But we've had a bit more attrition than we expected, so our net's a bit lower. We will continue to be investing in our people. Those people will be working particularly in our digital area - so our product and engineering space - on building out that digital experience, which we think will lead to better first transaction, conversion and basket size but then importantly into their repeat rate.

Aryan Norozi: (Barrenjoey, Analyst) Perfect. In terms of marketing return on investment, could you give us an update around how the ROI on your customer acquisition cost is this quarter and how has that tracked over time please?

Emma Clark: Sorry, just checking I wasn't on mute. I was talking away. I was merrily muted.

In terms of our ROI, and those who've been following the business for a longer period of time also know, we run first transaction profitability on a monthly basis. Even at that elevated level of spend across that quarter, the ROI is still there. They're still profitable. Obviously the CACs have gone up a little bit. It's not as profitable as if we, say, had spent $0.12 in the dollar or like last year when we had a confluence of favourable factors. We were spending $0.10 in the dollar. Obviously it's slightly less profitable. You can mathematically calculate that by using the metrics that we give you. But it's still profitable is the important thing to know. Whilst it's still profitable, we're still going to go and spend the money to acquire the customers.

Aryan Norozi: (Barrenjoey, Analyst) Yes. Just last one, just in terms of your exposure to cotton pricing, obviously cotton pricing's gone through the roof more recently. You guys obviously use the fulfillers, but how is that feeding into or how will that feed into your costs over the next few months please?

Emma Clark: Yes. Thanks for the question. Obviously inflation is a thing that's on most people's mind. I had a few questions come through in the last quarter about this. Unsurprisingly we'll get questions on that this quarter. From our perspective, we have in the last quarter had three to four very small price increments across 135 products. None of them are actually related to the cotton price increases. They're all actually to do with the shipping container rates and the delays and the holding of more stock as a result of the slowness of getting things across the globe. We have now pretty much locked in almost all of our pricing through holidays. Not sure what will happen after holidays, but certainly for the near short term, we feel relatively comfortable with where our pricing is at the moment.

Aryan Norozi: (Barrenjoey, Analyst) Just one more if I can, just you mentioned the performance of TeePublic and Redbubble core platform has been converging more recently or they're close together. Pre-COVID there were a few issues flagged, like competition in t-shirts because the Google algorithm changed that slowed that organic Redbubble growth rate. I guess what I'm asking you is are those issues now behind you and you're confident that this is the base moving forward for that core Redbubble platform?

Emma Clark: Been asked this question before. Yes, how you characterise it is correct. What we did see is - if we think all the way back to January and February 2020, we'd already started to see growth back in the core Redbubble marketplace before COVID hit. As I'm fond of saying, I was thinking about the March quarter and thinking this is going to be great. I'm going to be able to come out and say how growth has occurred back in the main marketplace and we can put that behind us and move forward. Then of course, COVID happened and everything went haywire. That had actually started to unwind and go back to what I would consider a more normalised base before COVID. Then obviously everything's happened during COVID, growth rates all accelerated.

As we come out of it, we're happy with where the Redbubble marketplace is tracking by itself and where the TeePublic marketplace is tracking by itself. Obviously if Redbubble was negative or continuing to demonstrate that it couldn't generate growth, I wouldn't say that. Sorry, Mike, I was going to hand back over to you.

Michael Ilczynski: Yes, maybe just to build on it and more of a general comment. I think one of the strengths of the Group now is we have these two businesses that operate similar marketplaces but are a little bit different. They're a little bit different in terms of their geographic coverage. They're a little bit different in terms of their product coverage. They're also a little different in terms of the way that the sites are architected and their approach to SEO and SEM in particular. We think that that's a real advantage, because it allows the businesses - the businesses talk a lot. The teams talk a lot with what they're seeing on the different platforms. If they're seeing some positivity or some negativity, being able to talk to one another and go, well, is it us or is it the market - if they're both seeing it, it tends to be external. If one's seeing it versus the other, then it tends to be internal, whether positive or negative. That's a real benefit for us.

It does mean that potentially there could be external changes that might impact one of the marketplaces more than the other. That's obviously still a possibility, because the sites are a bit different. But as I said, we see that as a real, that's a real strength for us at the moment. Having those two marketplaces that are doing similar things but can learn from each other, and have slightly different exposures from a technical and a customer and a geographic and product basis, we feel is a real positive.

Aryan Norozi: (Barrenjoey, Analyst) That's perfect. Thanks, guys.

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

Michael Ilczynski: Thank you very much. Look, really appreciate all the questions. We have our AGM in a few weeks. We look forward to speaking to you all again then. Then for those who we're catching up with over the next few days, really looking forward to continuing with the discussion. Thanks again for the support and we will speak to you again soon. Cheers.

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

End of Transcript