articore

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24 April 2024

Trading update

Articore Group Limited (Articore or the Group) today releases its third quarter of FY24 (3QFY24) and nine months to 31 March 2024 (YTD) trading update. It also reaffirms its FY24 guidance.[1]

Articore 3QFY24 overview

- Gross profit of $34.8 million, up 4% on the pcp, and gross profit margin of 44.6%, 660 basis points higher than the prior corresponding period (pcp), as the Group continued to see the benefit of initiatives rolled out in the past 12 months to improve unit economics
- Gross profit after paid acquisition (GPAPA) of $21.3 million, up 6% on the pcp, and GPAPA margin of 27.3%, 450 basis points higher than the pcp, largely driven by the improvement in gross profit
- Marketplace revenue (MPR)[2] of $78.1 million, down 12% on the pcp, reflecting the Group's continued focus on profitability and a short-term disruption to paid marketing efficiency as the Redbubble marketplace enhanced its paid marketing strategy. YTD MPR down 10%, in line with the first half of FY24 (1HFY24) decline
- Operating expenditure of $23.5 million, down 25% on the pcp as the Group continued to realise the benefits of cost-reduction initiatives implemented in FY23 and maintained strong cost discipline
- Operating EBITDA of -$2.2 million, up $8.9 million on the pcp and underlying cash flow[3] of -$4.8 million, up $9.3 million on the pcp. The decline in operating EBITDA and underlying cash flow compared to the first and second quarters of FY24 reflects the usual seasonality of the business
- The Group expects the decline in MPR to moderate in the fourth quarter of the financial year, as it has begun to see an improvement in Redbubble's performance in April to date. The Group reaffirms its FY24 guidance range for FY24 GPAPA margin to be between 24% and 26%[4] and FY24 operating expenditure to be between $97 million and $100 million. The Group remains focused on its aim to deliver positive underlying cash flow for FY24

Martin Hosking, Group CEO and Managing Director of Articore, said, "Over the last 12 months, we have delivered a number of initiatives across both our marketplaces, Redbubble and TeePublic, to drive profitability. We are pleased to see the sustained improvement in unit economics this quarter, with the Group's gross profit up 4% on the pcp and its gross profit margin increasing 660 basis points to 44.6%.

"Driving profitable revenue growth for the Group remains our primary objective going forward. This quarter the Redbubble marketplace implemented significant changes to its paid marketing strategy to enable it to scale its paid

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[1] The financial results and operational metrics are unaudited and are on a delivered basis (unless otherwise noted). All references to dollar amounts or figures are in AUD unless stated otherwise.
[2] Marketplace revenue is total revenue less artist revenue.
[3] Underlying cash flow defined as operating EBITDA plus net interest earned, less payments for capitalised development costs, leases and property, plant and equipment (PPE). This definition has been updated to include net interest earned which was $0.2 million in 3QFY24 and $0.6 million YTD. This reflects the Group's efforts to more actively manage its cash balances. Prior to FY24, the number was immaterial.
[4] Our ability to achieve this aim is highly dependent on internal and external factors, including consumer demand, foreign exchange rates, geographic and product mix.

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marketing spend, while maintaining the marketplace's disciplined approach of being profitable on first order. We purposefully implemented these changes in 3QFY24, as it is seasonally the lowest MPR quarter of the financial year. As expected, the changes were disruptive and had a negative impact on Redbubble's MPR in 3QFY24. We are starting to see the intended benefit in April.

"We reaffirm our FY24 guidance today. While market conditions remain challenging, we are confident that our ongoing focus on profitability, combined with continued strong cost discipline, will enable us to achieve our aim of being underlying cash flow positive for FY24, a marked turnaround from FY23, and a necessary first step as we work towards returning to profitable revenue growth."

Financial performance

The following table details the Group's 3QFY24 and YTD unaudited financial metrics.

	3QFY23	3QFY24	% change	%cc change[5]	YTD FY23	YTD FY24[6]	% change	%cc change
MPR	$88.4m	$78.1m	(12%)	(15%)	$377.6m	$338.4m	(10%)	(13%)
Gross profit	$33.6m	$34.8m	4%	(0%)	$134.9m	$143.2m	6%	3%
Gross profit margin	38.0%	44.6%	6.6pp	6.6pp	35.7%	42.3%	6.6pp	6.5pp
GPAPA	$20.2m	$21.3m	6%	2%	$72.0m	$85.5m	19%	14%
GPAPA margin	22.9%	27.3%	4.5pp	4.5pp	19.1%	25.3%	6.2pp	6.0pp
Operating EBITDA	($11.1m)	($2.2m)	80%	79%	($29.1m)	$11.3m	139%	134%
Underlying cash flow	($14.1m)	($4.8m)	66%		($41.6m)	$4.4m	110%	
Closing cash balance	$40.7m	$37.1m	(9%)		$40.7m	$37.1m	(9%)	

In 3QFY24, the Group delivered gross profit of $34.8 million, up 4% on the pcp. The Group's GPAPA margin increased to 27.3%, 450 basis points above 3QFY23.

Initiatives delivered over the last 12 months drove this significant improvement in gross profit. This included the introduction of artist account tiers on both marketplaces (and associated account fees), supply chain efficiencies and base price increases.

MPR was down 12% in 3QFY24 on the pcp. As 3QFY24 is seasonally the lowest contributor to the Group's MPR, the YTD decline of 10% was in line with the 1HFY24 decline, on their respective pcps. The decline reflected the Group's continued focus on profitability, rather than volume, as well as an expected short-term disruption to Redbubble's MPR, as the marketplace adjusted its paid marketing strategy.

The Group continued to maintain its strong cost discipline. Operating expenditure of $23.5 million, was 25% lower than the pcp and 14% lower than 2QFY24.

Due to seasonally lower MPR in the third quarter, operating EBITDA and underlying cash flow were both negative.

[5] Constant currency. Reflects the underlying growth before translation to Australian dollars for reporting purposes. Redbubble sources about 88% of its marketplace revenue in currencies other than Australian dollars, predominantly US dollars. TeePublic sources about 90% of its marketplace revenue in US dollars.

[6] The 1HFY24 statutory results included a one-off release of an accrual that has been excluded in this announcement for the purpose of assessing the Group's YTD performance on a like-for-like basis. Gross profit, GPAPA, EBITDA, operating EBITDA, EBIT and NPAT are $2.7 million lower than in the Group's statutory financial statements.

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The closing cash balance as at 31 March 2024 was $37.1 million, $50.0 million below the closing cash balance as at 31 December 2023, consistent with seasonal payments to marketplace participants after the holiday period. The 31 March 2024 closing cash balance was $1.4 million higher than the closing cash balance at 30 June 2023.

FY24 guidance and outlook

The Group continues to drive absolute GPAPA growth by focusing on unit economics and optimising its paid marketing activities. It remains confident in the execution of its strategy and as a result, the Group reaffirms its FY24 GPAPA margin range to between 24% and 26%.[7]

The Group continues to expect the decline in Group MPR to be more moderate in the second half of the financial year than the first half (MPR was down 10%), as the Group revised its strategy to focus on profitability in the second half of FY23 and it has begun to see the early benefits of recently-implemented changes to the Redbubble marketplace's paid marketing strategy.

The Group has realised the full benefit of cost-saving measures implemented in FY23 in its YTD performance and has maintained its ongoing focus on strong cost discipline. It continues to expect its FY24 operating expenditure to be between $97 million and $100 million.

As expected, underlying cash flow was negative in 3QFY24, reflecting the usual seasonality of the business. It remains positive YTD. The Group is continuing to focus on its aim to deliver positive underlying cash flow for FY24.

Martin Hosking said, "The Group has implemented a marked turnaround this financial year but there is more work to be done. The first step is returning to positive underlying cash flow, which the Group remains focused on achieving for FY24. Reinstating profitable revenue growth is the next step that will assist the Group to be underlying cash flow positive on a quarterly basis going forward."

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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).

Forward-looking statements

This announcement contains forward-looking statements in relation to the Articore Group, including statements regarding the Group's intent, belief, goals, objectives, initiatives, commitments or current expectations with respect to the Group's business and operations, market conditions, results of operations and financial conditions, products in research, and risk management practices. Forward-looking statements can generally be identified by the use of words such as "forecast", "estimate", "plan", "will", "anticipate", "may", "believe", "should", "expect", "project," "intend", "outlook", "target", "assume" and "guidance" and other similar expressions. The forward-looking statements are based on the Group's good faith assumptions as to the financial, market, risk, regulatory and other relevant environments that will

[7] Our ability to achieve this aim is highly dependent on internal and external factors, including consumer demand, foreign exchange rates, geographic and product mix.

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exist and affect the Group's business and operations in the future. The Group does not give any assurance that the assumptions will prove to be correct. The forward-looking statements involve known and unknown risks, uncertainties and assumptions and other important factors, many of which are beyond the control of the Group, that could cause the actual results, performances or achievements of the Group to be materially different to future results, performances or achievements expressed or implied by the statements. Factors that could cause actual results to differ materially include: changes in government and policy; actions of regulatory bodies and other governmental authorities such as changes in taxation or regulation (or approvals under regulation); the effect of economic conditions; technological developments; and geopolitical developments.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as at the date of the announcement. The Group disclaims any responsibility for the accuracy or completeness of any forward-looking statement. Except as required by applicable laws or regulations, the Group does not undertake any obligation to publicly update or revise any of the forward-looking statements or to advise of any change in assumptions on which any such statement is based. Any projections or forecasts included in this announcement have not been audited, examined, or otherwise reviewed by the independent auditors of the Group.

This announcement was authorised for release by the Articore Group Limited Disclosure Committee.

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