26 August 2024

FY24 results webcast transcript

Articore Group Limited released its financial results for the full year ended 30 June 2024 (FY24) on 21 August 2024. The FY24 results webcast transcript is attached.

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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).

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

TRANSCRIPTION

Company: **Articore (ATG)**

Date: **21 August 2024**

Time: **9:30AM AEST**

[START OF TRANSCRIPT]

Francoise Dixon: My name is Francoise Dixon, and I'm responsible for Investor Relations at Articore. With me today, I have the Articore CEO and Managing Director, Martin Hosking, and Group CFO, Rob Doyle. Martin and Rob will provide an overview of our FY24 results shortly. 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 Harbor Statement in our ASX release regarding forward looking information. That Safe Harbor 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 Francoise, and good morning everyone. FY24 has been an important year for the Articore Group as we stabilised the business, achieving positive underlying cashflow, an improvement of $47.8 million on the prior year. This was my primary objective on returning to the CEO role in March 2023.

I want to reiterate our vision. Providing a way for creators to monetise their works is the cornerstone of our business. Our vision is to be the global leader for connecting digital creators with their customers, has remained essentially the same since we founded Redbubble in 2006. In FY25, we'll be taking concrete additional steps in pursuit of this vision, building on the base we've created as we expand beyond our two existing marketplaces.

The next slide provides a summary of the Group's overall performance in FY24. The Group delivered the first phase of a significant turnaround in FY24, achieving positive underlying cashflow of $0.9 million and operating EBITDA of $10 million, a $41.8 million turnaround on FY23.

Gross profit increased 4% to $181.7 million in FY24. Our gross profit margin increased 570 basis points, to 42.9%. This uplift was driven by the implementation of initiatives which focused on maximising our unit economics. Gross profit after paid acquisition, or GPAPA, increased 11%, to $108.3 million. The Group's GPAPA margin increased 470 basis points, to 25.6%.

This improvement was driven by this uplifting gross profit and reduction in paid marketing spend. We also realised the full benefit of initiatives implemented in FY23, to right-size our cost base, and have maintained a disciplined approach to cost management. In the second half of FY23, we began the process of resetting the business by identifying key priorities.

As outlined on Slide 4, we have achieved what we had set out to do in this first phase. This revolved around our organisational restructure that has provided greater insights into the performance of each marketplace and significant leadership renewal across the Group, bringing new capabilities and experience.

Absolute profit and margin improvement was a primary objective. This was achieved through better unit economics and more effective marketing spent, leveraging each marketplace's unique strength and value proposition. At the same time, we reduced our cost base by $31 million, or 24%. During this process, we were careful to ensure that the Group retained capability to return to growth, and position the Group for long-term success. While a lot was achieved in FY24, there's more to be done. Our immediate priority is to return the Group to profitable revenue growth, and leverage our assets to create additional growth opportunities.

On the next slide, we've provided a snapshot of each marketplace's performance during FY24. Both marketplaces have contributed to the Group's significant improvement in operating EBITDA, and delivering positive underlying cashflow.

Turnaround has been particularly significant for Redbubble, with a $32.4 million improvement in operating EBITDA in FY24. Both marketplaces also delivered significant margin expansion, by prioritising profitable revenue over volume, and focusing on initiatives that drove better unit economics.

For the year overall, Redbubble MPR declined by 17% as the marketplace reduced its marketing spend and adopted a more disciplined approach to being profitable on first order. In the third quarter of FY24, the Redbubble marketplace implemented significant changes to its marketing strategy, to efficiently scale its paid marketing spend. These changes took time to take effect, with the anticipated benefits becoming evident in the fourth quarter, as MPR rate of a decline moderated to 14%. Optimising paid marketing activities will remain a key focus area for Red Bubble in FY25.

Turning to the individual marketplace performance on Slide 7, we provide a summary of Redbubble's key metrics for FY24. These operational metrics reflect the transformation that is going on at Redbubble. The increase in selling artists to 575,000 in FY24 demonstrates our focus on improving the artists' experience, particularly for pro and premium artists.

The number of customs and designs sold in FY24 were lower on PCP, largely due to the decline in paid marketing spend, which brought fewer new customers to the site, and the addition of friction in the sign-up process to reduce the volume of lower quality accounts. We believe that the reduction in designs sold is a short-term response to some of the measures which we have taken to improve the content library, and are confident they will deliver long-term benefits. A better quality content library will ultimately improve the onsite experience and enhance offsite marketing.

As highlighted on slide 8, flywheel dynamics remain at the heart of the business model. Returning the Redbubble marketplace to profitable revenue growth remains our main priority, and in FY24 we made significant progress in addressing the issues that were inhibiting the flywheel.

This began with the measures taken to control the surge of low-value content, which I've highlighted in previous calls. We are confident this issue is now fixed, as indicated by the 45% increase in new works sold in June on the PCP.

We also extended the use of AI to improve search and discovery, and have focused our off-site marketing on the best performing content. Strong offsite promotion helps to attract new customers, and it also reminds customers who have previously bought a product about Redbubble, and increases the likelihood of a repeat purchase.

Another recent initiative has been the mobilisation of artists to fill content gaps. At the same time, we have made a number of improvements to drive new customer acquisition and increase repeat purchases. These include new products and line extension, as well as increased promotions that offer free shipping on stickers in the US.

In FY24, Redbubble's paid marketing spend was down 12% on PCP. Our paid marketing is profitable on first order. While this remains the case, we can increase our spend without compromising our profitability. We've also made good progress in improving our margins by optimising the Redbubble marketplace supply chain, shortening delivery times, and reducing shipping costs. As a result of these initiatives, our gross profit margin was up 670 basis points FY24, and our OpEx was down 35% during the same period.

Turning to Slide 9, TeePublic has delivered a solid set of results this year, as we leveraged our strong foundation to drive sales and customer attention. The metrics on this slide show the TeePublic's flywheel is operating well, with the number of selling artists and designs increasing. Improving the artists' experience has been a focus area for TeePublic, with the introduction of two account categories, artisan and apprentice, well received by the most valuable artists.

Artisan accounts are given more prominence onsite in search results, as well as in off-site marketing. The amount they earn for each product sold is also higher. The decrease in artist earnings in FY24 reflects these changes due to a decrease in earnings for apprentice accounts.

The number of customers declined slightly during the year, reflecting a reduction in new customers in a challenging economic environment. Pleasingly, we continued to see growth in repeat customers. In FY20, repeat purchases represented just 30% of total MPR. In FY24, it was 48%.

In FY24, TeePublic has focused on enhancements to the website to improve the customer experience, with the launch of new account features that include favouriting to drive higher customer engagement. We also introduced a new product page and navigation to improve conversion rates, and an expanded bundling offer to increase order size. As a result, new customer orders were 4% higher in FY24.

We further optimised the supply chain by increasing allocation of volume to lower cost third party fulfillers, and continued to localise the supply chain in non-US markets. These changes contributed to a 400 basis points expansion in TeePublic's growth margin in FY24.

Before handing over to Rob, I want to highlight how the Group has embraced AI to reduce cost and enhance the consumer experience. AI is impacting all areas of our business, and we are already realising benefits. For simplicity, we grouped AI benefits into five major categories.

In customer acquisition, AI has enabled us to enhance marketing campaigns from a relevance as well as customer matching perspective. It also allows us to categorise incoming artworks by topic, guiding artists to meet demand supply gaps.

In customer engagement, we're using AI in vector search, analysing and matching images to search queries. This is already applied to about 30% of Redbubble's search traffic. TeePublic has used AI to create canonical pathways through their content. In future, we see uses in guided discovery [as we create] pathways specific to each customer.

AI is also particularly useful across our content library, detecting duplication and defining and categorising into hierarchy of themes. Elsewhere, AI is driving internal and operating efficiency, reducing cost and improving how we work. This is just a brief scan of the landscape, and we expect the benefits to accumulate both in revenue opportunities and allowing the business to scale efficiently. I will now hand over to Rob.

Rob Doyle: Thank you, Martin. Turning to Slide 13 and our Profit and Loss statement. As Martin highlighted, we've delivered a significant improvement in performance this year. Our focus has been on increasing absolute GPAPA, maintaining strong cost discipline and returning the Group to positive underlying cashflow, all of which have been achieved and are evident in the numbers released today.

As I mentioned at the half year results in February, I'd like to call out an adjustment that we've made to the results highlighted in our investor presentation and ASX announcement, which means that gross profit, GPAPA, EBITDA, EBIT and net profit are $2.7 million lower in these materials than in our statutory financial statements.

This non-cash adjustment relates to the identification and correction of a reconciliation issue relating to artists expense accruals, specifically the treatment of cancelled orders. This reconciliation issue resulted from a system change in 2020, which has now been remediated. In each historical period, the adjustment was below our materiality threshold, but in total since 2020, amounted to $2.7 million, which we've written back in full this period.

As this is a one-off item, we've adjusted our results in the investor presentation and ASX release to enable the market to compare this year with prior periods on a like for like basis. Importantly, this reconciliation issue had no impact on artists.

The increase in the Group's profitability is being driven by Redbubble and TeePublic improving their GPAPA, alongside a 24% reduction in the Group's operating expenditure. The waterfalls on this slide highlight the improvement in gross profit due to the successful delivery of a number of initiatives in the last 12 months. This included a review of base prices which has been enabled by our greater understanding of unit economics by product and geography, supply chain efficiencies, which were particularly significant for the Redbubble marketplace following the introduction of a dynamic order routing system, and the creation of artist account categories and associated fees.

As we previously signalled, both marketplaces have scaled investment in paid marketing in the second half, while remaining profitable on first order. This was especially evident for Redbubble and contributed to a moderation in the rate of decline in Redbubble's MPR in Q4.

The year on year reduction in operating expenditure was evident in a number of expense categories. Payroll expenses reduced significantly following the restructures implemented in the second half of FY23. We have maintained a very disciplined approach to managing headcount throughout FY24. This discipline will continue into FY25.

IT costs also reduced significantly year on year, with the renegotiation of major software contracts and the consolidation of providers across the Group to maximise scale benefits. Again, this remains an ongoing focus as we seek to maximise synergies and improve efficiency in the Group's operations. Finally, as you know, we ceased investment in brand marketing during FY23 in order to focus on lower funnel performance marketing.

Our closing cash balance at period end was $36.9 million, which was 3% ahead of 30 June 2023. Importantly, we met our guidance to be underlying cashflow positive in FY24, achieving an almost $48 million turnaround on PCP. In June, we launched an on market buy-back, which is an important capital management initiative, and reflects our confidence in the future performance of the Group.

I'll now hand you back to Martin, who will talk about the strategy going forward.

Martin Hosking: Thank you, Rob. Turning to Slide 17. While we remain focused on driving profitable revenue growth, we are also pursuing a longer-term term strategy based on our vision of being the global leader for connecting digital traders with their customers. We have distinctive assets underpinning this vision, namely our leading network of creators with commercial content, our scaled and growing fulfillment network, and superior unit economics.

We aim to build on these assets to dramatically increase the range and value of services we provide to our existing creators and creators not yet on the platform. The loyalty and depth of creator membership is highlighted on Slide 18. Unusually for a marketplace, we have a high level of established sellers who continue to sell on the marketplace, with 30% of sales in FY24 coming from creators who joined the marketplace before 2020.

Importantly, the marketplaces are also renewing, with new creators joining at a [solid clip] and getting early sales. Combined, this gives us an unusually vibrant and diverse platform on which to build by attracting new creators and providing more services to those who are already with us.

Slide 19 provides a snapshot of our geographic diversity, with over 90% of sales coming from outside Australia and New Zealand. The fulfillment network extends across 46 third party sites. I'll now hand back to Rob to go through our FY25 priorities and guidance.

Rob Doyle: Thanks, Martin. Articore exited FY24 in a strong financial position. Our immediate priority is to leverage the Group's assets to drive sustainable and profitable revenue growth. The Group expects trading conditions to remain mixed in our key markets, especially the US. In this environment, we will remain focused on optimising COGS and paid marketing activities to extract maximum value from both marketplaces.

In FY25, the Group expects its GPAPA margin to be between 24% and 26%, operating expenditures to be between $96 million and $100 million, and to deliver positive underlying cashflow. We will build on the solid foundation established in FY24 to deliver the next phase of growth, by investing in organic opportunities that leverage our distinctive assets.

By the end of FY25, we aim to have gone beyond the existing marketplaces in pursuit of our vision in pursuit of our vision of being the global leader for connecting digital creators with their customers. Thank you for joining us today. I'll now hand back to the Operator for questions.

Operator: Thank you. If you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star 2. If you're on a speakerphone, please pick up the handset to ask your question. We'll pause a moment for questions to register. Once again, to ask a question, please press star 1.

Thank you. Your first question comes from Steven Sassine from Morgan's Financial. Please go ahead.

Steven Sassine: (Morgan's Financial) Thank you and good morning, Team. Just a couple of quick ones from myself, if that's okay. Probably just touching on the FY25 guidance for GPAPA, I was just thinking, is there any conservativeness baked into that, given the hard work that you've done over the last couple of years already and you came in at the top end of that range for FY24. I would've thought that maybe we'd see a bit more GPAPA margin expansion into '25, so maybe just your thoughts around that.

Secondly, I think Martin touched on it in the strategy outlook, where you talked about investing in organic opportunities beyond existing marketplaces. I was just hoping you can unpack that a little bit for us, as well. Thank you.

Rob Doyle: Hi, Stephen, thanks. It's Rob here, I'll take the GPAPA question and then Martin can cover off the strategy. Look, we continue, obviously, to optimise GP margin and GPAPA, but FY25 is also a year of investing in revenue growth. So, we'll continue to optimise paid marketing, and we do want to put the foot down, while still being profitable on first order, and really drive the revenue growth. So, that's really why we expect to be within that range, pretty consistent with what we saw in FY24.

Martin Hosking: In relation to the strategy, Martin here, what we're doing at this point is really outlining the assets which we have, and particularly this strong base of creator and artists. So, we're actively working on where those – how we may deploy those assets to create new opportunities for us.

There are two things which are perhaps worth mentioning. One is that the current creators on the platform overwhelmingly would think of themselves as artists, and so there's a whole bunch of creators who are maybe using YouTube or Instagram or TikTok, who could want access to a distribution platform for their content. We have had some penetration in that market with the TeePublic merge program. So, that's an area which we're actively looking to leverage up.

Secondly, our artists on both platforms have asked for more services and more ways of distributing their content, So, that's another area which we're indicatively looking at to make further investments in. So, what we're aware of is this strong base, this strong asset base, and the importance of leveraging that to create new opportunities for us.

Steven Sassine: (Morgan's Financial, Analyst) That's perfect, thank you.

Operator: Thank you. Your next question comes from Owen Humphries, from Canaccord. Please go ahead.

Owen Humphries: (Canaccord, Analyst) G'day team. So, we've had 12 quarters in terms of negative revenue growth. Just looking at that fourth quarter. It was in line with your expectation that the growth would moderate. Year on year was down 6% but quarter on quarter was up 9% or was positive. Just curious as to, now that we've reset the cost base, realigned the GPAPA margins, [call it, we're siphoning] out the marketing that happened over 12 months ago, and looking at your guidance statement, it looks like you're forecasting positive growth for this year. Is that the expectation?

Rob Doyle: Hey, Owen. I'll take that. It's Rob here. It's very early in the year, as you know, to be giving explicit revenue guidance. We've obviously got July under our belts, but that's a low seasonal month. There's a lot of runway to go, obviously, through holidays and beyond. So, we're not explicitly guiding to when we turn positive. We've said very clearly that that remains one of our key priorities, is to return both marketplaces to revenue growth, that continues to be the goal. But we're not going to provide more explicit guidance on it at this stage. It's just not helpful, I don't think.

Owen Humphries: (Canaccord, Analyst) Maybe not helpful, but it's definitely – for [the valuation], people are looking for those earlier signs. Just on that comment, it looks like for July, we're still tracking negative. Is that a fair comment?

Rob Doyle: I'm not going to comment on July specifically. As I said – you're right, it is obviously very important, and we've certainly stressed that in the materials that we've presented today. That obviously still remains the primary goal for us in the existing marketplaces is to return to revenue growth.

Owen Humphries: (Canaccord, Analyst) Okay, good one. Just around the cash box, obviously now you're guiding to free cash positivity, $30 plus million of cash in hand, which is a stronger number than what most people were expecting. Just understanding the capital management going forward, what's the buffer that you guys are comfortable with? Is it $20 million, $30 million? Just to understand what you believe you would have available cash for investment, for the new assets or the likes.

Rob Doyle: Yes, the aim – we're very comfortable with where we're at from a cash perspective. As you say, one of the main highlights, really, of FY24 was very much stabilising that and getting back to underlying cashflow growth.

In terms of the organic investment, really the priority is around allocating the existing resources that we have, and creating capacity to focus both on the existing marketplaces and driving growth. But also, then leaning into some of the strategic areas that Martin talked about.

So, we're obviously not guiding as you can see from the OpEx numbers, a significant increase in OpEx. It's really about allocating the significant resources that we have within the business on the highest priority areas. So, we're seeing that stability continuing through FY25 whilst investing in key areas that we've identified.

Owen Humphries: (Canaccord, Analyst) Good one. Thanks, guys.

Operator: Thank you. Once again, if you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. We'll pause a moment for any further questions to register.

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

Martin Hosking: Thank you very much. Thank you all for joining us today. I would like to take this opportunity to acknowledge and thank the incredible team across the Articore Group for their hard work and dedication during a year of substantial change. I'm excited for the journey ahead and look forward to sharing it with you. Finally, please get in touch with Francoise if you have questions as you review the material in detail. Thank you.

[END OF TRANSCRIPT]