

Redbubble (ASX: RBL)

Intro

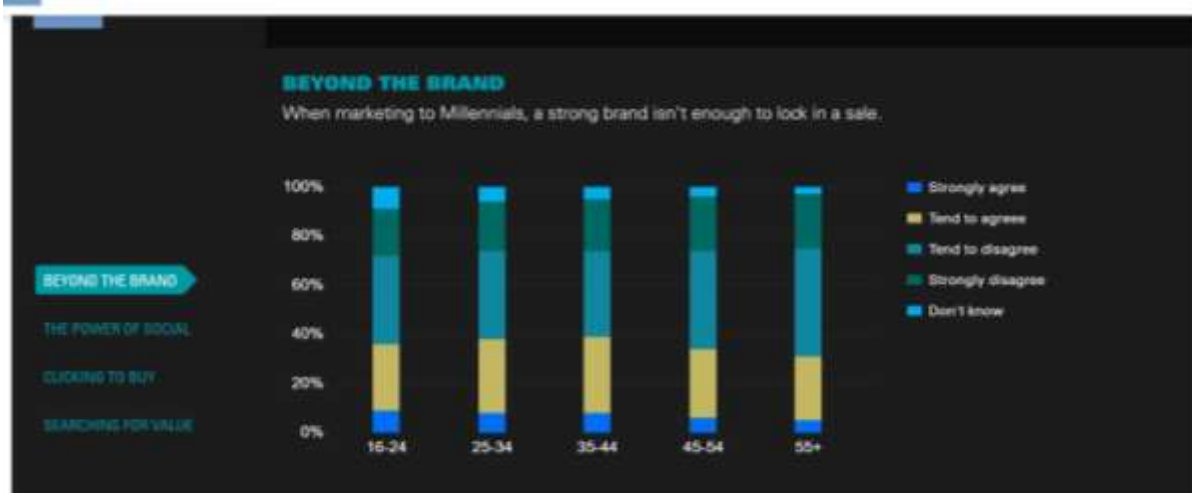
RBL was a stock that we uncovered over the holiday season while looking for unique gifts for family and friends. However this was a few years ago, and it didn't occur to us that this was an investable business until we read Bonsai Partners' write-up on it. What began as a money-spending exercise eventually turned into a subsequent research and deep dive into an interesting POD (Print on Demand) marketplace business that should compound for years to come.

Credit: Co-Written by our friend [Gerard Chua](#)

History

RBL (redbubble.com) is a three-sided online global marketplace connecting independent artists and a network of third party fulfillers to whoever uses their service. The company was founded in Australia by Martin Hosking, Peter Styles and Paul Vanzella in 2006 as a platform to serve artists, providing them an avenue to showcase their creative work and get paid for it. The first products featured were wall art, greeting cards and T-shirts but RBL gradually expanded beyond this to 117 product categories available today¹.

Hosking was driven by a passion to help artists bring their artwork to market given the struggle that they face. Producing artwork while finding customers who are willing to pay for their designs is a lot of work for any aspiring artist. In doing so, RBL rode the wave of a growing number of customers who prefer products that reflect their own identity and values, rather off-the-shelf merchandise they do not identify with. The service especially appealed with artists and consumers who were against the mass-market products offered by companies like Amazon. Further, shopping trends among younger generations have been far less brand focused. This is reflected in a Goldman Sachs study² done on millennials who showed that brand strength was not much of a factor when making purchases.



¹ <https://shareholders.redbubble.com/site/PDF/9b7b5ffc-55ac-4cc3-a057-68828cc8e37e/AGMManagementPresentationSlides>

² <https://www.goldmansachs.com/insights/archive/millennials/>

Initially an Australia focused company, Redbubble in 2008, added its first United States fulfiller. The company grew at a very slow pace with less than 9 employees leading up to 2009 and didn't start advertising on Facebook till 2014. Since then however we've seen the number of selling artists go from less than 40,000 (start 2014) to over 510,000 in this recent quarter. Similarly customers picked up with just over a million customers in 2015 to nearly 7 million now.

The company was listed in 2016 on the ASX (Australian Stock Exchange) at a debut price of \$1.33/share. In October 2018, RBL made their first acquisition through the A\$57.7m cash purchase of TeePublic, also an e-commerce platform that serves as a marketplace for independent artists to sell apparel with their designs. The acquisition broadened RBL's US market coverage, since TeePublic predominantly operated there, saving RBL time and resources to achieve scale in the US – not a bad deal at a 12.4x EBITDA multiple.

How does RBL work?

RBL's concept is simple:

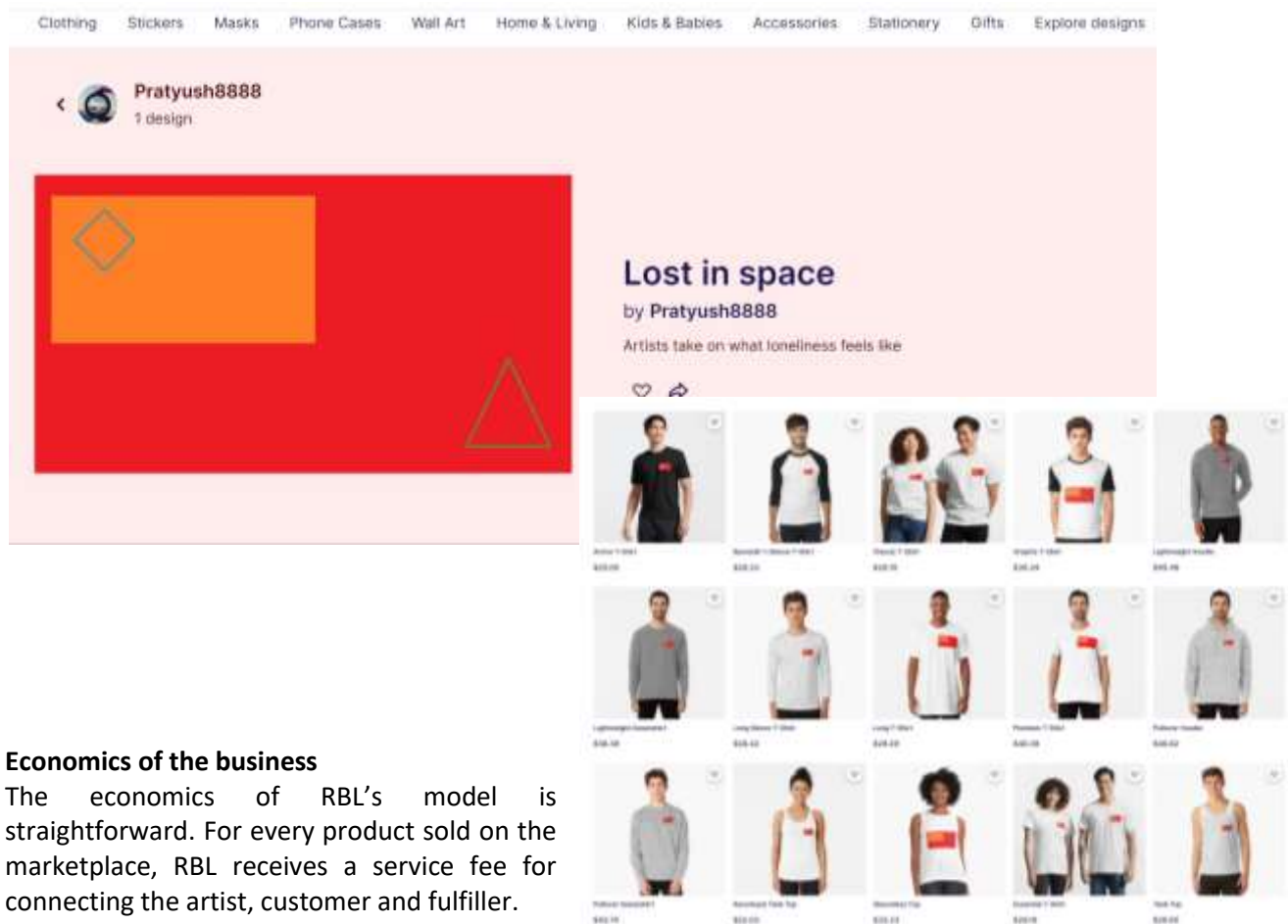


Source: <https://shareholders.redbubble.com/site/PDF/9b7b5ffc-55ac-4cc3-a057-68828cc8e37e/AGMManagementPresentationSlides>

- 1) Provide artists with a platform to upload their designs and creative work that can subsequently be printed on a variety of merchandise – phone covers, stickers, mugs, etc. Artists themselves determine which products they want their designs to feature on from RBL's available product range.
- 2) Attract and direct customers looking to buy unique artist designs printed on various merchandise to the RBL platform through search and other marketing channels.
- 3) Arrange and coordinate product fulfillment logistics with manufacturers (fulfillers) and shipping companies when a customer makes a purchase. Products are made **on demand** by one of RBL's network of third party fulfillers who then ships the product directly to the consumer.

In doing so, RBL removes the hassle of production and quality control trouble from artists while still paying them for their art work. At the same time, customers seeking meaningful designs on merchandise will also have a platform to discover them on. This positive feedback loop is RBL's flywheel effect, where the growth in artists and customers reinforces the platform's sustainability and draw, making the RBL more valuable to all.

With regards to point 1) above, we were told it was a simple process to get artists up and running on the site. We decided to test this for ourselves, and indeed we found it true. It took us about 15-20 minutes to go from account creation to have ~70 products live on the site. Now, granted we made zero sales as the quality of our product left much to be desired (we designed our images on MS Paint in about 5 minutes), however we were impressed by how quickly we could launch so many products (see screenshots below).



Economics of the business

The economics of RBL's model is straightforward. For every product sold on the marketplace, RBL receives a service fee for connecting the artist, customer and fulfiller.

Effective take rate¹ of ~\$29.3 for \$100 of GTV²
 RB benefits from a favourable working capital cycle



Source: <https://shareholders.redbubble.com/site/PDF/d83d0f1e-d515-4217-b232-7e2deaa90fc7/InvestorPresentationAugust2020>



As shown, for every \$100 in GTV, an Artist takes \$14.70, the payment platform takes \$2.70, fulfillers take \$44.10, \$7.90 goes to tax and RBL takes \$29.30 – a take rate³ of 29.3%.

RBL's high take rate is a function of two elements: continued GTV growth (20-35% yoy) and declining fulfiller costs as a percentage of GTV – as product volume increases, RBL gains more bargaining power over fulfillers, allowing for additional cost savings and ultimately, a higher take rate.

RBL's business model also benefits from a favourable working capital cycle, since customers pay upfront for their items directly to RBL, while fulfillers and suppliers get paid much later. This ensures no additional capital required as the company grows.

How artists get paid

RBL's site is unique in that they are the only platform that allows artists to set their own margin on top of RBL's base price, giving them autonomy to how much they earn from each product sold. This gives an artist the choice to decide how much they think their design is worth with considerations – too high a price would turn away potential buyers while too low would make their work less worthwhile.

We stress any margin artists decide on will only impact GTV and not RBL's revenue since the artist margin is set **above** RBL's base price, which includes fulfiller margins. In essence, this also means that excluding CAC (Customer Acquisition Costs), products are profitable for RBL from a customer's very first purchase.

In terms of actual cash payments to artists, earnings are paid monthly for every sale shipped and once earnings have reached a \$20 payment threshold. If these criteria are not met, they carry over to the next pay cycle.



Source: <https://help.redbubble.com/hc/en-us/articles/360001342326-Artist-Analytics-Dashboard>
Artists are able to easily view all their earnings on RBL's artist dashboard.

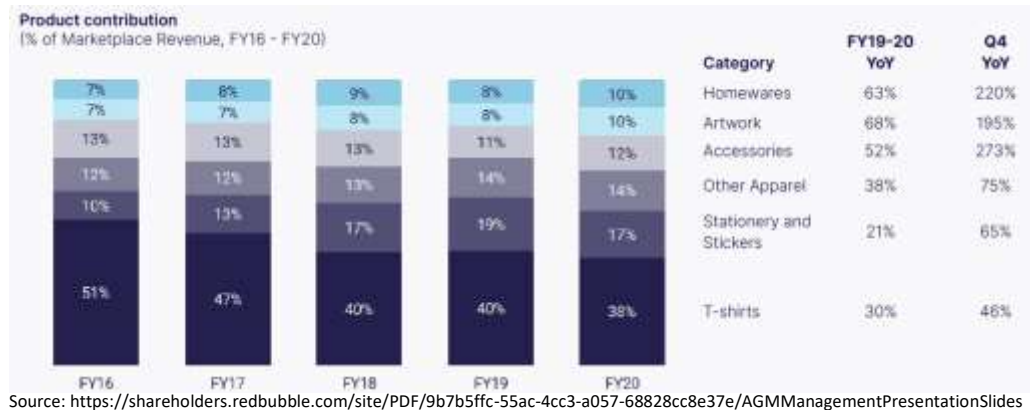
³ Net Revenue subtract fulfiller expenses (or Gross Profit) divided by GTV



Historically, artists generally earn a ~14-16% margin on GTV. Given an AOV of \$40-\$50, this translates to \$6.40 to \$8 for every item sold on RBL.

Product Range

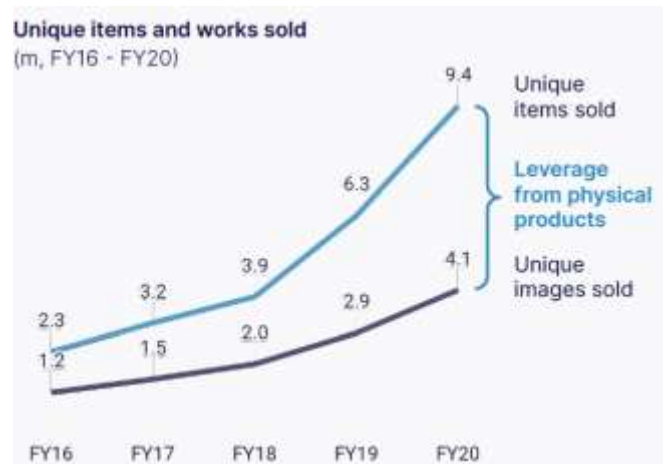
RBL features a wide variety of products totaling 117 to date, more than 2x the initial 54 product range when they listed in 2016.



Product category additions are determined by the company in tandem with their ability to engage suitable fulfillers for production.

At present, T-shirts and other apparel contribute the lion share (68%) of sales which does represent a product concentration risk in a highly competitive category alongside fast fashion retailers such as ASOS and Zalora amongst others. However, we note that sales from other categories have been contributing an increasing revenue share and would likely dilute apparel product concentration going forward. As such, we expect RBL’s apparel sales concentration to decrease even more as RBL increases its product range going forward.

It should be noted one of the key moats of the business is the number of designs that exist on the platform. As of the last earnings release, there are over 10 million designs on the platform and over 117 unique products. This implies there are a billion combinations for customers to choose from. This number is unlikely to ever decrease as there is very little incentive for an artist to remove their design from the site (remember, for almost no effort they could make money by leaving their design on the site). Thus this number is only going to grow, making it very difficult for a new entrant to enter into the space and build a similar breath of product. This builds a flywheel as the more products that RBL has the more customers it attracts, the more customers it attracts the more artists it attracts the more designs it has. RBL does very little marketing on artists because as one ex-employee told us “artists come to Redbubble because that’s where all the customers are.”



Fulfillers

RBL's key value-add pillar is their role as a product fulfillment partner on behalf of artists to customers.

In the words of the ex-CEO⁴ Barry Newstead, RBL expects “**supply economics continue to improve as the business reaches scale**” and believes “**The supply side is our essential moat**”.



Today, the company has 37 production centres located in the U.S, U.K, Canada, Germany, Netherlands, and Australia. Typically, the centre closest to the customer's location is used to fulfill orders ensuring quick delivery times and lower shipping costs. RBL has actually stated that their supply network is so robust that they can make and deliver any of their products to a North American or European customer in 3 to 5 business days with standard shipping, which is rather impressive.

This may not seem like it, but our conversations with other investors and past employees do indicate that the supplier portion of the business is a moat. While it seems that the business is quite easy to replicate (launch a site, put up some designs, get them printed) the operations to deal with suppliers is quite complex. You have to get the right pricing, ensure quality and timely delivery, coordinate between the supplier and the customer and ensure a flexible capability such that new products can be launched/scaled quickly (i.e. masks in March 2020).

Why RBL – an Artist's perspective

Based on our math, artists on RBL seem to earn an average of \$120-\$130/year⁵, which is hardly a profitable endeavor. This is not uncommon on user driven content sites. Statistically, only the top 3% of Youtubers make enough money to live above the poverty line in the US⁶.

Artists on RBL are no different, with only the top 10% of artists on these sites are able to make good money (>\$10,000/year) from such means. Our first thought was – why would anyone want to participate for such little money?

However, we must remember that the majority of these artists are not looking to make this their full-time career, but just doing this as a side hustle or for additional pocket money. Moreover, artists

⁴ 29 July 2019, earnings call

⁵ Artist revenue divided by number of active artists

⁶ <https://fortune.com/2018/02/27/youtube-success-poverty-wages/>

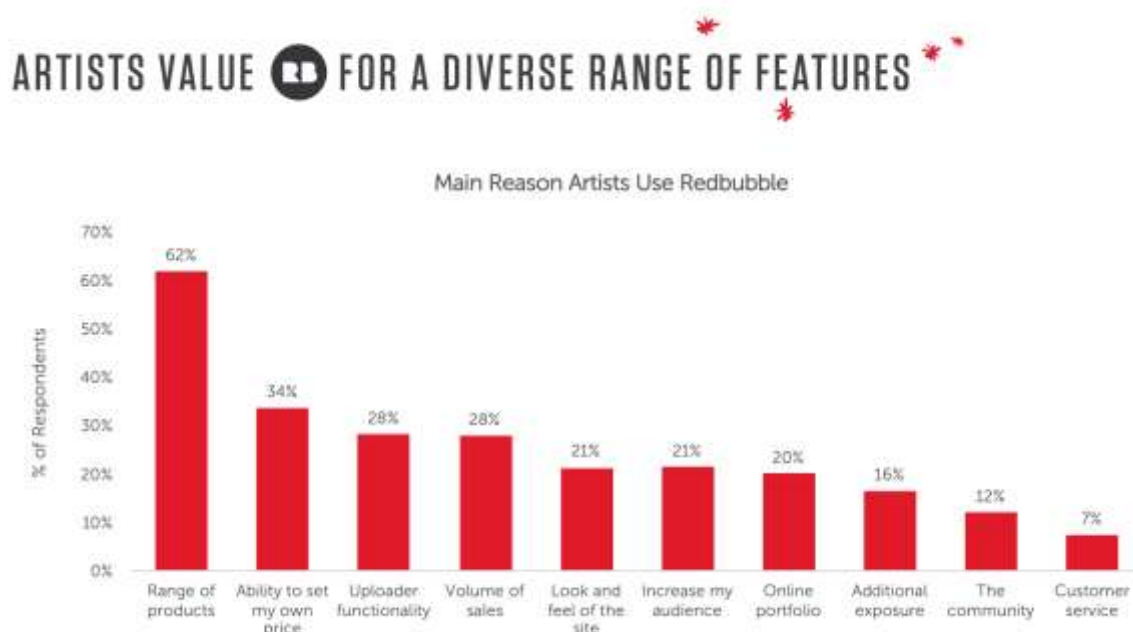


also seek a sense of vindication for their artwork when they are “recognized” for it by the public, above any monetary gains.

Primary research indicates that artists on the site are able to earn anywhere from \$150-\$750 a month, not as low as our math suggests, likely due to a very long-tail distribution. Now this might still not seem like a lot, but one must remember artists do not rely on RBL for all their income, and the nature of how passive it is makes the effort-reward ratio very well worth it. As a young artist (in early 20s), earning passive income of over ~\$300 (half a month’s rent!) for designs uploaded on RBL is a lot of money for their design work.

In addition, RBL’s platform provides an opportunity for artists to leverage their artwork on any number of products offered on the site, an easy to scale the use of their designs. Put it this way, all you have to do is upload a design, set your price, and RBL takes care of **everything** else. No hassle with shipping, returns, customer complaints etc.

We note that artists are not bound to RBL by any exclusivity contracts imposed on their artwork uploaded to the site. While this does mean that artists are able to upload their work on other competitor platforms, we do not think this is a huge sticking point simply because of the long tail distribution in artist earnings. Ex-employees of RBL have commented that even if RBL loses half of its artists, the impact to RBL’s sales impact would be no more than 15%.



Source: <https://shareholders.redbubble.com/site/PDF/0865c54a-ef52-472c-b06f-a09c760446eb/Prospectus>

As shown, volume of sales was 4th on the list of what artists value using RBL.

Lastly, our personal experience with joining RBL as an “artist” was also smooth – the process of uploading designs, selecting the products we want to be included on our store and setting up the account was very simple and can be accomplished fairly quickly.

Why RBL – a Buyer’s perspective

As proud buyers of RBL’s products, we personally experienced the entire customer purchase process.

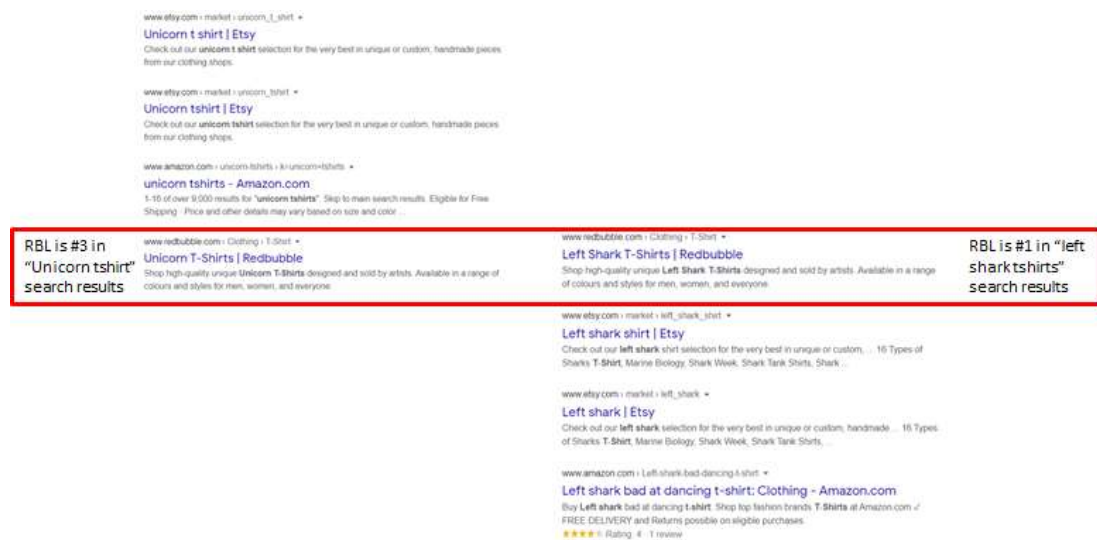
Our initial discovery to the site stemmed from looking for merchandise associated with the Red Rising series – a science fiction book series which we highly recommend! Being a non-mainstream novel, there were no such products available on the usual market places (Amazon, etc), which led us to the RBL site and a subsequent purchase where a whole range of Red Rising products were available.



The process through which we discovered RBL was also simply through a google search, which pulled up results closest to our key words and not by any clickbait or advertising channels. In fact, this is actually how RBL sales are typically generated⁷ – a search for products featuring the latest memes, recent launch of a new movie/TV series or any popular trends and themes that match the designs available on the RBL site.

We note that 52%⁸ of RBL's customers are also millennials, who increasingly buy items that go beyond brands and instead prefer items that they identify with, stand for, and/or are not readily available elsewhere. This makes RBL the go-to platform even if by accident if one were looking for products

related to trending themes. On this topic, it's important to understand how Redbubble attracts buyers. The answer to that is simple, it's predominantly through search. Now this is a tough value proposition as Redbubble competes with big players for search hits such as Etsy and Amazon. This is where Redbubble's uniqueness plays in its favor. If you were to search for something more generic like "unicorn tshirt" Redbubble is only the third result (after Amazon and Etsy), however if you



7 Checks with ex-employees have also confirmed that this is the most common channel of customers learning about RBL's platform alongside by the routine digital marketing and paid search avenues.

8 <https://shareholders.redbubble.com/site/PDF/0865c54a-ef52-472c-b06f-a09c760446eb/Prospectus>



search for something more unique such as “Left shark tshirt” (those who remember the infamous Katy Perry’s Superbowl performance will know what we mean), Redbubble turn into the first result.

Performance and key metrics

Statement (AUD 000s)	Jun’13	Jun’14	Jun’15	Jun’16	Jun’17	Jun’18	Jun’19	Jun’20
Revenue	27,467	48,561	71,070	114,578	140,961	218,718	306,954	416,257
growth		76.8%	46.4%	61.2%	23.0%	55.2%	40.3%	35.6%
Gross Profit	9,475	16,493	24,072	39,003	50,117	63,925	94,535	134,367
growth %		74.1%	46.0%	62.0%	28.5%	27.6%	47.9%	42.1%
margin	34.5%	34.0%	33.9%	34.0%	35.6%	29.2%	30.8%	32.3%
EBITDA	- 513	1,566	- 7,134	- 10,546	- 7,713	- 6,881	- 4,416	4,733
growth		N/M	-	555.6%	47.8%	-26.9%	-10.8%	-35.8%
Take Rate	28.1%	27.8%	27.2%	27.3%	28.6%	27.6%	30.8%	32.3%

RBL has seen steady sales growth averaging 38% over the past seven years from increased site visits, active buyers and sellers (flywheel effect). This pre-covid sales growth rate is particularly impressive considering RBL’s marketing expenses averaged 9-10% historically, far below the industry average of 11-26% amongst peers.

Statement (AUD 000s)	2H Jun’19	2H Jun’20
Revenue	136,256	202,790
growth		48.2%
Gross Profit	42,482	68,231
growth % margin		61%
margin	31.2%	33.6%
EBITDA	- 6,601	596
growth		109%
Take Rate	31.2%	33.6%

As one would expect, the pandemic further supercharged RBL’s sales with revenue increasing 48.2% in the 6mths-06/20 period, as lockdowns resulted in a surge in mask sales and site traffic.

RBL also averaged take rates of 28.7% through Jun’20, far higher than other e-commerce platforms. Etsy, the closest listed competitor had a take rate of 17.3%⁹ in the Sep’20 quarter compared to 33.6% for RBL in the Jun’20 period. However, this high take rate is somewhat offset by lower gross

⁹ https://s22.q4cdn.com/941741262/files/doc_financials/2020/q3/Investor-Presentation-3Q20.pdf

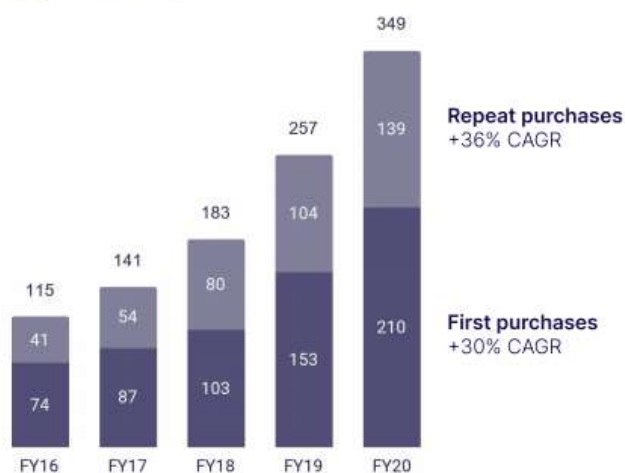


profits (~30-35% compared to Etsy's 66.9%¹⁰) which is not unexpected since RBL's has the responsibility of engaging fulfillment partners to manufacture and deliver the end products to customers, something Etsy does not do.

Statement (AUD 000s)	2017	2018	2019	2020
Net Cash from Operating Act.	- 4,446	2,344	7,838	46,602
Net Cash from Investing Act.	- 8,895	- 9,284	- 55,898	- 16,000
Net	- 13,341	- 6,940	- 48,060	30,602

Like any budding growth enterprise, RBL burnt cash up until 1H-12/19 period, when the company became EBITDA positive. While this happened before in 2014, RBL was still in the early stages of growth where continued investments were made into people, governance and systems in order to scale for larger growth. Given RBL's current size (10x FY'14 sales in FY'20), we expect better operating leverage dynamics against fixed costs and further positive EBITDA growth from hereon.

Marketplace Revenue by purchase type
 (A\$m, FY16 - FY20)



Lastly, RBL's repeat customer purchases have also seen continued growth over the past 5 years, achieving a 36% CAGR. The company stopped disclosing repeat purchases as a percentage of total GTV since FY'18, but we note that this ranged between 36-38% (for every 100 customer purchases, 36-38 went back to the RBL site) from FY'16 to FY'18, similar to Etsy's repeat rates of ~38%.

Competition

The POD space has a few key names – CaféPress, Zazzle, Society6 and RBL; each serving different niches.

CaféPress was the only company in the peer set who had an in-house manufacturing facility. This inevitably resulted in issues around quality, costs and production capacity particularly during peak holiday periods – scaling is always much harder to do efficiently when one is constantly required to pony up for maintenance and expansionary capex budgets.

¹⁰ https://s22.q4cdn.com/941741262/files/doc_financials/annual/2019/Etsy-Annual-Report.pdf

As a listed company, CaféPress performed poorly since its listing, and was eventually acquired in 2018 for \$25mIn at \$1.48 per share, a fraction of their IPO debut price of \$19 in 2012.

CaféPress & Zazzle's value propositions were similar. Both geared toward customers looking to have their own designs manufactured not necessarily for sale on the site. Their product range is also nearly wholly apparel-based.

In the words of an ex-RBL employee: *"CafePress was more like Zazzle where it was just print your own things and Redbubble was more like, it's a market place where we want others to print your things."*¹¹



Add Your Own Image Men's Fitted T-Shirt (dark)

\$19.49 \$29.99



Personalized Football Shirt T-Shirt

\$24.04 \$36.99



Source: CafePress site

Society6 is undoubtedly RBL's most direct competitor. Like RBL, Society6 is a pure marketplace where artists could upload their design, sell it on their platform and not have to bother with any production or order fulfillment. Prior to Society6 being bought out by Leaf Group in 2013, the two companies were so similar that they shared the same T-shirt product vendor. Since being acquired, Society6 claims they widened their focus beyond apparels and toward wall art and home décor, however, we feel that this is still similar to what RBL offers.

While RBL and Society6 are seemingly the same, what sets RBL apart is:

- 1) RBL allows artists to set their own price, whereas Society6 does not and
- 2) RBL's A\$416mIn in sales are well ahead of Society6's ~A\$160mIn.

While these may not seem like strong advantages, we must remember that size matters in a marketplace model given the increased operating leverage and bargaining power companies have with vendors, leaving money available for artists and RBL.

In fact, a Society6 employee even commended RBL's supply chain:

"Even though they don't share much details, they do share the unit economic and I can see that for \$100 that they get from a customer, they only pay about \$44 to their fulfillers, so the vendors and the carriers. And that tells me that they really get some economy of scale there because of the

¹¹ Call with former RBL Head of Data Analytics



volume that they got, right? They are very also strategic into finding -- there's tons of vendors that can do POD.”¹²

“I think Redbubble did a great job at really, they have, I think, something like how many, 45 vendors right now, something like that. So they found really a lot of vendors to give them the best price for each of their products.”¹³

As such, we cannot underestimate RBL’s order fulfilment advantage over Society6 especially when RBL’s more localized production facilities cut down shipping times significantly – an especially important point during the peak holiday season, as we found out ourselves.

Readers would notice that while we have used Etsy’s metrics as comparisons for RBL, we did not list Etsy as a competitor. This is solely because Etsy is RBL’s only comparable direct-listed peer – Leafgroup (Society6 parentco) is listed, but their business includes artwork marketplaces and media properties that publish content.

While both Etsy and RBL share a similar vision of focusing on the artists and offering products customers can identify with, many of Etsy’s products come in one or only a handful of pieces, unlike RBL, who can leverage infinitely on every artist’s creative design that can be printed on each product.

Lastly, no marketplace competitive analysis will ever be complete without discussing the elephant in the room – Amazon. Although they possess the financial muscle, resources and production capability to compete in the POD (or any other e-commerce) market, and do have such a solution (Merch by Amazon), we do not believe that buyers and artists would be attracted to their site given the completely different focus. We come back RBL’s primary focus as a platform for artists and buyers to create and discover unique merchandise that are meaningful to them, something they would not be able to find on a mainstream marketplace. Even if they do find it on Amazon, that sense of “uniqueness” may not hold the same weight given a perception that Amazon is not an “artsy” enough place.

This “anti-amazon/mainstream” effect was also mentioned by ex-employees of the POD industry, who noted that the industry’s artists and buyers were less enthusiastic purchasing from vanilla marketplaces.

As such, we believe that RBL is a leader in its own right in the POD category.

Key management and Shareholders

Martin Hosking, one of the three RBL founders, remains a board member of the company. He has been a director at RBL since inception in Apr’06 and held the position of CEO from Jul’20 to Aug’18 and Interim CEO Feb’20 to Jan’21. Martin owns 16%¹⁴ of the company and is the largest shareholder.

From our conversations with employees, Martin was the brains behind RBL’s vision and strategy, focusing on the big picture. His working style also seems to be one of decentralized management where he gives employees the autonomy to make decisions.

12 Call with Leaf Group Employee

13 Call with Leaf Group Employee

14 <https://shareholders.redbubble.com/site/PDF/64510606-f158-4c1f-bbbb-447ba815c35f/Appendix3YMartinHosking>



Michael Ilczynski was appointed CEO from Jan'21 after Martin stepped down. He previously spent 13 years at SEEK – Australia's top job matching portal. We admit that we scratched our heads when we first learnt about his background but were more convinced after understanding the rationale behind his appointment.

Martin described his choice of successor in his recent interview with the AFR¹⁵:

"Marketplaces have two critical inflection points. The first is when you start getting both sides of the marketplace working. Getting through that first stage is where most potential marketplaces fail. We've got through that already. The second point is just as important in many ways. It's where it goes from the early adopters to mainstream penetration and the reality is that SEEK has done that already. In 2006 SEEK was just one of those places where you could find and post jobs and now it's the dominant player. There's precious few marketplaces that get to that second stage."

This does make sense given RBL seems to be at a growth inflection point where new product additions draw in a larger proportion of mainstream consumers joining the site.

Michael's incentive scheme is fairly standard but we note the use of a compounded return target of 10% per annum TSR (Total Shareholder Return) over a 3-5 year period¹⁶, which we see as shareholder friendly and in line with RBL's objective of continued growth.

A note on management: Warren Buffet once said that we should try to invest in a business that an idiot can run because one day an idiot will. Now, we are not suggesting by any means that management is full of idiots, but we do believe that the person who runs Redbubble is a bit irrelevant because the business at this point is idiot proof. With over a billion unique combinations, the company has an 'inventory' depth to it that is hard to compete with, and as long as they can be one of the top search results in google, the flywheel will continue. We can also see this in the numbers with the most recent filings showing RBL spending only 28% of Gross Profit on marketing whereas Etsy spends close to 38% and the Leaf Group is more than 40%.

Growth levers

In order of importance, we see four key growth pathways for RBL's.

1) Product additions. RBL has gradually increased their range of merchandise that artist designs can be printed on, from 57 in FY'16 to 117¹⁷ as at Dec'20. In the same period, sales effectively tripled.

15 <https://www.afr.com/technology/former-seek-exec-named-new-redbubble-ceo-20201117-p56feo>

16 [https://shareholders.redbubble.com/site/PDF/cbe6d216-7463-4730-8939-](https://shareholders.redbubble.com/site/PDF/cbe6d216-7463-4730-8939-2a0e19e50f74/RedbubbleannouncesMichaelIlczynskiasCEO#:~:text=Melbourne%2C%20Australia%3A%2020%20November%202020,global%20force%20it%20is%20today)

[2a0e19e50f74/RedbubbleannouncesMichaelIlczynskiasCEO#:~:text=Melbourne%2C%20Australia%3A%2020%20November%202020,global%20force%20it%20is%20today](https://shareholders.redbubble.com/site/PDF/cbe6d216-7463-4730-8939-2a0e19e50f74/RedbubbleannouncesMichaelIlczynskiasCEO#:~:text=Melbourne%2C%20Australia%3A%2020%20November%202020,global%20force%20it%20is%20today).

17 <https://shareholders.redbubble.com/site/PDF/9b7b5ffc-55ac-4cc3-a057-68828cc8e37e/AGMManagementPresentationSlides>

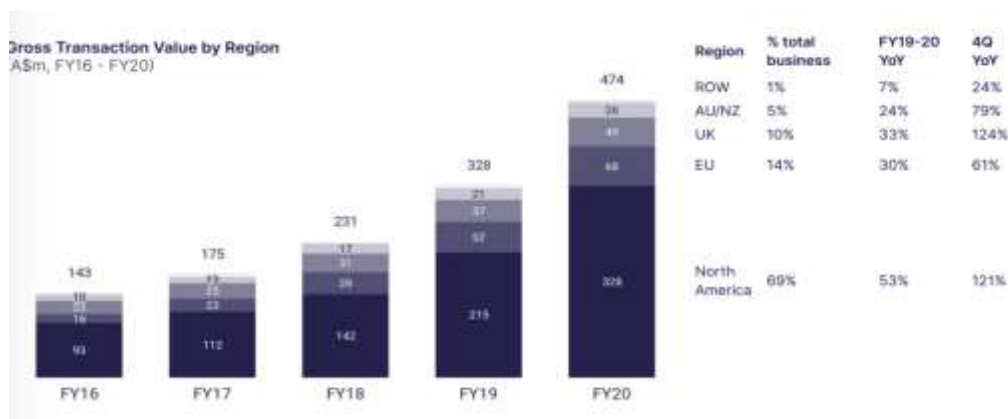


Source: <https://shareholders.redbubble.com/site/PDF/9b7b5ffc-55ac-4cc3-a057-68828cc8e37e/AGMManagementPresentationSlides>

This growth is entirely attributable to the fact that each design work uploaded to RBL has numerous uses. As previously mentioned, each new product type that RBL introduces effectively creates a “new” product for customers to choose from, since the designs can be used repeatedly. In other words, RBL’s business can self-sustain because cash flow from the content library can support ongoing operations – no new invested capital is required. The increase in SKUs available also improves RBL’s search results, especially since a large bulk of site traffic is generated through the search results page.

2) Fast growing TAM. Estimating TAM is for RBL is difficult since theoretically, the POD market encompasses almost every consumer product with a design sold. That said, we note that RBL’s key product category TAM metrics of a \$960bln online apparel TAM growing at a 9.7%¹⁸CAGR and a \$100bln home décor category growing at a 23% CAGR¹⁹ which are impressive tailwinds for the company to ride on going forward.

3) New regions. RBL’s geographic revenue split has predominantly been weighted toward North America simply due to the size of the market in that region. As shown below, although RBL participates in the most developed markets, the company seems to be missing out on the market potential in Asia and South America.



Source: <https://shareholders.redbubble.com/site/PDF/9b7b5ffc-55ac-4cc3-a057-68828cc8e37e/AGMManagementPresentationSlides>

¹⁸ <https://www.grandviewresearch.com/industry-analysis/custom-t-shirt-printing-market>

¹⁹ Call with Leaf Group employee



Conversations with insiders indicate that management has considered entering the Asian and South American market many times, especially since there seems to be no RBL equivalent in those regions. However, this was constrained by capital requirements to set-up and operate the platform effectively – building a local language platform in non-english speaking regions can be capital/resource intensive. We think this could change going forward as RBL has become increasingly profitable and cash generative.

Risks

We see three main risks for RBL ahead.

1) RBL is heavily reliant on Google's search algorithms. As mentioned, search represents the largest source of site traffic to the platform, and puts growth at risk if the RBL site is not properly optimized.

This was what happened in the 2H-12/19 period when growth rates slowed to 25% compared to the usual 30-40% range. Google had changed their algorithms during that time and it took time for RBL to re-optimize their site in order for their products to be favourably ranked in search results.

This was also the reason why Barry Newstead (Martin's successor in Aug'18) was fired from the CEO position shortly after in Feb'20. While we think Barry's firing was unfortunate, it goes to show how intertwined RBL's fate is with Google's search algorithms.

To this extent, the company has been de-risking this through the introduction of their own mobile app. Based on discussions with ex-employees, RBL's iOS app traffic has reached 10% of sales in two years and there is no reason to think that Android app user traffic cannot reach the same percentage, if not more. Moreover, not only does a mobile app de-risk RBL's reliance on Google, it also creates greater loyalty with customers given the convenience, driving repeat purchases.

We note that other than the slowing growth in the 2H-12/19 period, RBL has historically seen consistent growth rates. As such, we must give the company credit for historically being able to ensure a responsive site prioritized by Google and trust that the company would be able to bounce back from any future algorithm changes. Ultimately, this is a risk present to any e-commerce company that relies on Google and one we have to accept.

2) A key part of RBL's story is their fulfillment partners. While RBL's current supply chain has been commended by their competitors, the POD vendor industry itself is seeing an increasing consolidation trend, especially in the U.S.²⁰. This could result in suppliers resisting lower pricing when negotiating with RBL, impacting gross margins materially.

3) Based on our research, artist support on RBL seems to fall behind that offered by Society6. While Society6 provides artists with guidance on how to better promote and sell their products or what designs are currently trending, our own personal experience with RBL was that there was no such direction on their site.

Sure, it was simple enough to upload our designs and get started on selling, but there was no insight as to how one could better promote products on the RBL platform. This is especially important since not all artists may be savvy enough to understand basic promotion/pricing strategies and a lack of sales would discourage artists from uploading their work.

Above these, we do see some fringe risk from copyright infringement lawsuits that RBL could face in

²⁰ Call with Leaf Group employee



the future. RBL has actually been involved with one such court case in the past when Pokémon alleged that RBL violated copyright laws based with similar designs on their products. However, we note that the ruling did not hold RBL liable²¹ for any loss of income given the efforts taken to prevent IP breaches – RBL actually has an IP policy team devoted to ensuring that products on sale are not in breach of copyright laws.

Valuation

We considered RBL's valuation both from a DCF and an EV/GPAPA (Gross Profit after Paid Acquisition costs) multiple perspectives.

DCF

Based on RBL's historical financials and current growth trajectory due to Covid, we expect strong FY-06/21 sales growth of 45%. While we could see a slowdown post-covid Boom, we note that RBL revenues were up 96% from the year previous, and January 2021 numbers were up 66%.

As such, our assumption of a 45% increase in revenues should be reasonable and even conservative. Going forward for the next few years we assume growth around the mid to low 30% range. We fundamentally believe the market for unique products will continue to grow over the next several years.

A\$ 000	Actual			
	4Q 2020	H2 2020	2020	1H 2021
Market Place Revenue	124,600	168,918	348,888	352,800
Growth	74.75%	48.2%	35.8%	96.0%
Gross Profit	42,900	68,231	134,367	144,000
Gross Profit %	34.4%	40.4%	38.5%	40.8%
EBITDA	8,400	595	4,733	48,880
EBITDA % of Rev	6.74%	0.35%	1.36%	13.85%

A\$ 000	Projected				
	2021	2022	2023	2024	2025
Revenue	606,177	815,617	1,101,083	1,464,441	1,947,706
Growth	45.63%	34.55%	35.00%	33.00%	33.00%
Gross Profit	246,557	334,986	458,785	627,618	857,918
Gross Profit %	40.7%	41.1%	41.7%	42.9%	44.0%
EBITDA	75,111	93,213	132,392	193,515	280,562

Steady State EBITDA Multiple	20	
Value in 2025	5,611,250	2025 EBITDA x 20
PV	3,682,601	9% WACC
Current	1,456,000	
Upside	152.93%	
CAGR	20.39%	

²¹ <https://www.lexology.com/library/detail.aspx?g=52b61044-4e9c-4c6f-87b8-7d227d478531>



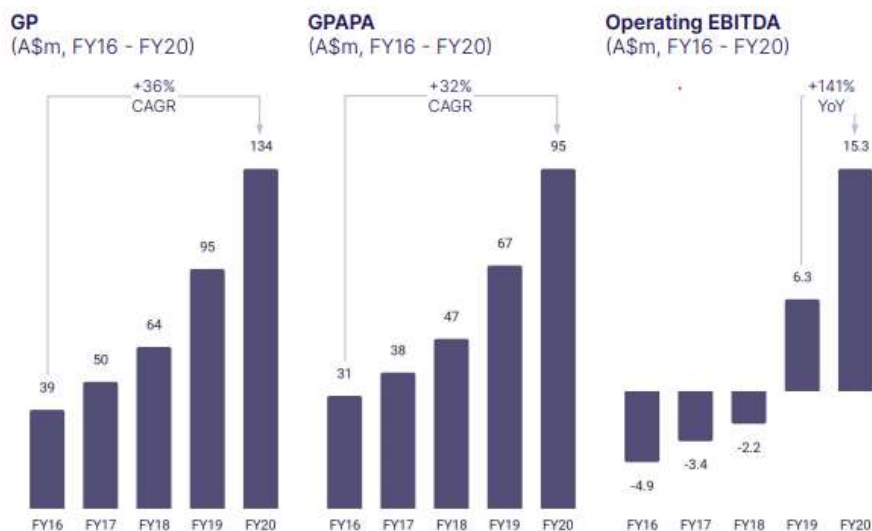
EV/GPAPA

To cross check our valuation, we also looked at RBL from an EV/GPAPA multiple angle (GPAPA = Gross profit After Paid Acquisition). On a TTM basis, EBL's EV/GPAPA was 9.975x, compared to 43.5x and 6.2x for Etsy and Leaf Group.

As at 3Feb'21	TTM GPAPA (mlns)	EV	EV/GPAPA
RBL	146	1,456	9.97
Etsy	599	26,101	43.5
Leaf Group	34	209	6.2

If we were to assume a 30% discount to Etsy's 43.5x GPAPA (to be conservative) multiple and multiply that to RBL's A\$95mln GPAPA, we arrive at an EV of A\$2.85bln, a 54% upside from current levels.

RBL TTM GPAPA	146
30% haircut of Etsy Multiple	30
EV	4,380
Current	1,456
Upside	200%



Source: <https://shareholders.redbubble.com/site/PDF/9b7b5ffc-55ac-4cc3-a057-68828cc8e37e/AGMManagementPresentationSlides>

As such, whichever way we look at it, RBL seems conservatively priced at current levels.



Thesis

RBL's business model is not ground-breaking or unique by any means. The company is essentially a middle-man between artists, fulfillers and customers. That said, executing this role effectively requires consistency and focus, which the company has so far displayed.

We summarize an investment in RBL as pinned on the following:

- 1) Continued optimization of the platform for key-word search-related traffic.
- 2) A robust network of product fulfillers capable of meeting volume and quality requirements.
- 3) Continued product additions to exploit and leverage design content library to create "new" items.

As long as RBL continues to execute positively on these three fronts, they will continue to lead the POD market.