# REDBUBBLE

# PROSPECTUS

INITIAL PUBLIC OFFERING OF ORDINARY SHARES IN REDBUBBLE LIMITED

ABN 11 119 200 592

FINANCIAL ADVISER

EM ADVISORY

JOINT LEAD MANAGERS AND UNDERWRITERS

Morgans IN ALLIANCE WITH CIMB

CANACCORD Genuity

# Important Notices

**The Offer**

This Prospectus is issued by Redbubble Limited (ABN 11 119 200 592) (**Redbubble**) and Redbubble SaleCo Limited (ACN 611 424 634) (**SaleCo**) for the purpose of Chapter 6D of the Corporations Act 2001 (Cth) (**Corporations Act**). The Offer contained in this Prospectus is an initial public offering to acquire fully paid ordinary shares in Redbubble (**Shares**) (the **Offer**). Refer to Section 7 for further information.

**Lodgement, Original Prospectus and Listing**

This Prospectus is dated 3 May 2016 and a copy was lodged with the Australian Securities and Investments Commission (**ASIC**) on that date (**Prospectus Date**). This is a replacement prospectus which replaces the prospectus dated and lodged with ASIC on 19 April 2016 (**Original Prospectus**). Redbubble has applied to ASX Limited (ABN 98 008 624 691) (**ASX**) for admission of Redbubble to the Official List and quotation of all of its Shares on the ASX under the code "RBL".

This Prospectus differs from the Original Prospectus. Some of these key differences relate to clarification of the number of Artists who have designs or creative works available for sale on the website, amendments to definitions of "GTV" and "constant currency", the inclusion of a reference to the key risks associated with an investment in Redbubble in the Letter from the CEO and Managing Director, the inclusion of source references in respect of certain statements in Section 2, the inclusion of summaries of the terms of the Redbubble User Agreement and the arrangements between Redbubble and third party fulfillers in Sections 3.3.1 and 3.3.3 respectively, the inclusion of definitions for "organic search", "direct" and "paid channels" in Section 3.6 and the Glossary, the inclusion of further information regarding the assumptions supporting the Forecast Financial Information in Section 4.7.2, the inclusion of a sensitivity analysis for the Forecast Financial Information for FY2016 in Section 4.8, the inclusion of a further reference to the two material lawsuits brought against the Company in Section 5.2.24 (which were already disclosed in Section 9.6) and the inclusion of further Director disclosures in Section 6.1.2.

In respect of the Offer dates, the opening date for the Broker Firm Offer has changed to Wednesday, 4 May 2016 and the date on which Shares are expected to commence trading on a normal settlement basis has changed to Wednesday, 18 May 2016.

In addition, the lodgement of this replacement prospectus has also required certain references to the "Prospectus" to be amended to refer to the "Original Prospectus" and to reflect the fact that an application has been made to ASX for admission of Redbubble to the Official List and quotation of all of its Shares on the ASX.

None of ASIC, the ASX or their respective officers takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates. As set out in Section 7.10, it is expected that the Shares will commence trading on ASX on or about 16 May 2016, initially on a deferred settlement basis. Redbubble, SaleCo, the Share Registry and the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statements.

**Expiry Date**

This Prospectus expires on the date which is 13 months after the date of the Original Prospectus (**Expiry Date**) and no Shares will be issued or transferred on the basis of this Prospectus after the Expiry Date.

**Not investment advice**

The information in this Prospectus is not investment or financial product advice. The Offer, and the information in this Prospectus, does not take into account your investment objectives, financial situation or particular needs (including finance and tax issues) as an investor. It is important that you read this Prospectus carefully and in its entirety before deciding whether to invest in Redbubble and completing and lodging an Application Form.

In particular, you should consider the assumptions underlying the Forecast Financial Information and the risk factors that could affect the financial performance and position of Redbubble as well as the other information in this Prospectus. You should carefully consider these risks and this information in light of your investment objectives, financial situation and particular needs (including financial and tax issues) and seek professional guidance from your accountant, financial adviser, stockbroker, solicitor or other independent and qualified professional adviser before deciding whether to invest in Redbubble. Some of the key risk factors that should be considered by prospective investors are set out in Section 5. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

Except as required by law, and only to the extent required, none of Redbubble, SaleCo, the Joint Lead Managers, any other person named in this Prospectus or any other person warrants or guarantees the performance of Redbubble or the repayment of capital or any return on investment made pursuant to this Prospectus. This Prospectus includes information regarding the past performance of Redbubble. Investors should be aware that past performance is not indicative of future performance.

No person is authorised to give any information or to make any representation in connection with the Offer, which is not contained in this Prospectus. Any information or representation not contained in this Prospectus may not be relied upon as having been authorised by Redbubble, SaleCo, the Joint Lead Managers or any other person in connection with the Offer. You should rely only on information contained in this Prospectus.

**Financial information presentation**

The Historical Financial Information for the financial years ended 30 June 2013, 30 June 2014 and 30 June 2015 and for the half-years ended 31 December 2014 and 31 December 2015 and the Historical Consolidated Balance Sheet as at 31 December 2015 included in this Prospectus have been prepared and presented in accordance with the recognition and measurement principles prescribed in the Australian Accounting Standards, except where otherwise stated. The Forecast Financial Information included in this Prospectus is unaudited and is based on the best estimate assumptions of the Directors and SaleCo Directors. The basis of preparation and presentation of the Forecast Financial Information is, to the extent applicable, consistent with the basis of preparation and presentation of the Historical Financial Information. The Historical Financial Information and Forecast Financial Information in this Prospectus should be read in conjunction with, and are qualified by reference to, the information contained in Section 4. Section 4 sets out in detail the financial information referred to in this Prospectus and the basis of preparation of that information.

**Forward looking statements**

This Prospectus contains forward looking statements which are identified by words such as "may", "could", "believes", "estimates", "expects", "intends", "considers" and other similar words that involve known and unknown risks and uncertainties. In addition, consistent with customary market practice in offerings in Australia, the Forecast Financial Information has been prepared and included in this Prospectus in Section 4. The Forecast Financial Information is an example of forward looking statements. Any forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause actual results, performance, events or outcomes to differ materially from the results, performance, events or outcomes expressed, anticipated or implied in these statements, many of which are beyond the control of Redbubble. Such forward looking statements are based on an assessment of present economic and operating conditions and on a number of best estimate assumptions regarding future events and actions that, at the Prospectus Date, are expected to take place. The Forecast Financial Information and the other forward looking statements should be read in conjunction with, and qualified by reference to, the risk factors set out in Section 5, the general and specific assumptions set out in Section 4, the sensitivity analysis set out in Section 4 and other information contained in this Prospectus.

The Directors and the SaleCo Directors cannot and do not give any assurance that the results, performance, events, outcomes or achievements expressed, anticipated or implied by the forward looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on such forward looking statements. Redbubble has no intention to update or revise forward looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

This Prospectus, including the industry overview in Section 2, uses market data and third party estimates and projections. There is no assurance that any of the third party estimates or projections contained in this Prospectus will be achieved. Redbubble and SaleCo have not independently verified this information. Estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the risk factors set out in Section 5.

**Foreign jurisdictions**

This Prospectus does not constitute an offer or invitation to apply for Shares in any place in which, or to any person to whom, it would be unlawful to make such offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to

otherwise permit a public offering of the Shares, in any jurisdiction outside Australia.

The distribution of this Prospectus (including in electronic form) outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. For details of selling restrictions that apply to the Shares in certain jurisdictions outside Australia, please refer to Section 7.13.

This Prospectus may not be distributed to, or relied upon by, persons in the United States. The Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended, (**US Securities Act**) or the securities laws of any state of the United States, and may not be offered or sold, directly or indirectly, in the United States, except in a transaction exempt from, or not subject to, registration under the US Securities Act and applicable United States state securities laws.

**Exposure Period**

The Corporations Act prohibits Redbubble and SaleCo from processing applications for Shares in the seven day period after lodgement of the Original Prospectus with ASIC (**Exposure Period**). ASIC has extended this period by a further seven days (i.e., to a total of 14 days). The purpose of the Exposure Period is to enable the Prospectus to be examined by market participants prior to the raising of the funds. The examination may result in the identification of certain deficiencies in this Prospectus in which case any application may need to be dealt with in accordance with section 724 of the Corporations Act. Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be given to applications received during the Exposure Period.

**Prospectus availability**

This Prospectus is available to Australian resident investors in electronic form at the Offer website, https://events.miraqle.com/RedBubble-IPO/. The Offer constituted by this Prospectus in electronic form is available only to persons downloading or printing the Prospectus within Australia and is not available to persons in any other jurisdiction (including the United States) without the prior approval of Redbubble, SaleCo and the Joint Lead Managers. Persons who access the electronic version of this Prospectus must ensure that they download and read the entire Prospectus.

A paper copy of this Prospectus will be available (free of charge) by telephoning Morgans Corporate Limited on 1800 658 206 (within Australia) from 8:30am to 5:30pm (Melbourne time), Monday to Friday (Business Days only), and may be available through your Broker if you are an eligible investor under the Broker Firm Offer.

**Applications**

Applications may be made only during the Offer period on the appropriate Application Form attached to, or accompanying, this Prospectus in its paper copy form or in its electronic form which must be downloaded in its entirety from the Offer website, https://events.miraqle.com/RedBubble-IPO/. By making an application, you represent and warrant that you were given access to the Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing on to another person the Application Form unless it is attached to, or accompanied by, a paper copy of this Prospectus or a complete and unaltered electronic copy of this Prospectus.

**No cooling-off rights**

Cooling-off rights do not apply to an investment in Shares issued or transferred under this Prospectus. This means that, in most circumstances, you cannot withdraw your application once it has been accepted.

**Defined terms and abbreviations**

Some words and expressions used in this Prospectus have defined meanings, which are explained in the Glossary. Unless otherwise stated or implied, a reference to time in this Prospectus is to Melbourne time. Unless otherwise stated or implied, references to dates or years are calendar year references. All financial amounts contained in this Prospectus are expressed in Australian dollars unless otherwise stated. Any discrepancies between totals and the sum of components in tables contained in this Prospectus are due to rounding.

**Photographs and diagrams**

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by Redbubble. Diagrams and maps used in this Prospectus are illustrative only and may not be drawn to scale.

**Privacy**

By completing an Application Form, you are providing personal information to Redbubble and the Share Registry, which is contracted by Redbubble to manage applications. For information on how this information may be used, your rights to request access to it and Redbubble's privacy practices, refer to Section 9.10.

**Website**

Redbubble maintains a website at www.redbubble.com. Information contained in or otherwise accessible through this or a related website is not a part of this Prospectus.

**Offer management**

The Offer is being arranged, managed and underwritten by Canaccord Genuity (Australia) Ltd and Morgans Corporate Limited.

Neither Joint Lead Manager has authorised, permitted or caused the issue or lodgement, submission, despatch or provision of this Prospectus and there is no statement in this Prospectus which is based on any statement made by either of them or by any of their affiliates, officers or employees.

To the maximum extent permitted by law, each Joint Lead Manager and each of their respective affiliates, officers, employees and advisers expressly disclaim all liabilities in respect of, and make no representations regarding, and take no responsibility for, any part of this Prospectus other than references to their name and make no representation or warranty as to the currency, accuracy, reliability or completeness of this Prospectus.

**Independent Limited Assurance Report on Financial Information and financial services guide**

The provider of the Independent Limited Assurance Report on the Financial Information is required to provide Australian retail investors with a financial services guide in relation to its independent review under the Corporations Act. The Independent Limited Assurance Report and accompanying financial services guide are provided in Section 8.

**Compliance Offer**

This Prospectus also relates to the Compliance Offer described in Section 9.11.

**Questions**

If you have any questions about how to apply for Shares, please call Morgans Corporate Limited on 1800 658 206 (within Australia) from 8:30am to 5:30pm (Melbourne time), Monday to Friday (Business Days only). Instructions on how to apply for Shares are set out in Section 7 and, in the case of the Broker Firm Offer, also on the back of the Application Form. Alternatively, call Morgans Corporate Limited on 1800 658 206 (within Australia) from 8:30am to 5:30pm (Melbourne time), Monday to Friday (Business Days only).

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# LETTER FROM THE CHAIR

3 May 2016

**Dear Investor,**

On behalf of the Board of Directors, it is with great pleasure that I present you with the opportunity to participate in the initial public offering of Redbubble.

Redbubble's mission is to create the world's largest marketplace for independent artists, bringing more creativity into the world.

From a consumer perspective, demand for clothing, decoration and accessories that allow individuals to express their status and tastes has long been a driver of product sales. Today's consumers – in particular Millennials (people currently aged 17 to 34 years old) – are seeking to express their personal style through products that clearly present their individuality and are moving away from branded, mass-produced goods.

For the world's creative community, technology has been a liberating force: allowing them to showcase their talents on a global stage.

Enter Redbubble. Redbubble allows the members of its creative community to offer for sale a wide variety of products that showcase their designs while taking away the difficulties of payment, manufacture and logistics.

Redbubble allows consumers to immerse themselves and discover *the* item for themselves or a friend. Given the breadth of the designs and the range of products and styles they can be printed on, their choices – while perhaps not truly unique – will be exceedingly uncommon: allowing a consumer to make a differentiated personal statement.

A key to Redbubble's growth has been the rapid development of the print-on-demand fulfilment market. The improvements in technology, growth in the available product categories and the relationships Redbubble has developed with its third party fulfiller network allows Redbubble to scale and bring on new products to meet the demand from both consumers, and artists and designers. A further benefit is that Redbubble can scale without heavy investment in capital equipment or inventory.

These factors have enabled Redbubble to establish a clear, sustainable position in the very large and rapidly growing online markets for apparel, stationery, electronic accessories and home goods. Redbubble believes that it can grow as this consumer driven wave of individualism continues, operating in a segment of the market in which traditional, brand-driven retailers find it difficult to compete.

In addition, Redbubble believes that the network effect of the existing Redbubble marketplace, combined with its skill in building and maintaining relationships with the product fulfiller network, represents a strong barrier to entry for potential competitors.

Redbubble has built a Board and executive team with the skills required to grow the business. Among the executive, Redbubble has extensive operating experience in on-line marketplaces, on-line communities, e-commerce, logistics and finance. Redbubble's directors have deep experience in on-line marketplaces (investing and operating), technology start-ups, e-commerce, search, finance and growth company governance. We are all excited to be leading Redbubble in the next stage of its development.

Redbubble has now made the decision to further drive growth through a capital raising under the Offer and a listing on the ASX. The funds raised under the Offer will provide Redbubble with the capital to pursue its growth strategy while allowing early investors in Redbubble to realise some of their investment. Following Completion of the Offer, the Existing Shareholders will retain approximately 71% of the Shares on issue.

On behalf of my fellow Directors, I invite you to subscribe for Shares in Redbubble. I encourage you to read the Prospectus carefully and in its entirety, particularly Section 5 which describes a number of risks associated with an investment in Redbubble, and I look forward to welcoming you as a shareholder.

Yours faithfully,

**Richard Cawsey**
Chair
Redbubble Limited

# LETTER FROM THE CEO AND MANAGING DIRECTOR

Dear Investor,

What is Redbubble? A global online marketplace where independent artists and designers upload their designs and creative works and, only when it is ordered by a Customer, the product is produced on demand by one of a network of third party fulfillers.

We are well on the way to being the largest such marketplace with over 399,000 selling Artists,[1] 57 million unique visitors to the website in FY2015, forecast revenue from services of $114.5 million in FY2016 (which represents growth of 61.2% and constant currency[2] growth of 47.4% from FY2015) and forecast Gross Transaction Value (**GTV**)[3] from services of $143.5 million in FY2016 (which represents growth of 62.4% and constant currency growth of 48.5% from FY2015).

But the Redbubble experience is much more. It is:

- Being stopped in the street by a stranger who has connected with your t-shirt and wants to know where you got it.
- Opening your laptop in a meeting and having the conversation start about the skin that adorns your machine rather than the topic at hand.
- Giving individual mugs to all your family with an image carefully chosen for each of them based on their unique interests.
- Getting lost for hours in thousands of designs and creative works that fascinate, amaze and sometimes mystify you.
- Earning money from the art you create at home, knowing that you are not alone in your passion.
- Being inspired by the creative works of another and reaching out to them via Redbubble to work on a joint project together in the "real world".

Redbubble is defined by an alignment of interest with independent artists. This runs through the Company, from the people it recruits, to the art hanging on its walls. The Company has made a large contribution to the art world with more than $44.1 million being earned through the website by Artists globally since its launch.[4]

When we founded Redbubble in 2006, it was hard to imagine what Redbubble would become. We were driven by a passion to help independent artists take their creations to market. About 10% to 15% of people consider themselves artists, but face challenges in finding customers and producing their products. Redbubble has enabled a marketplace for them and the customers who are attracted by their creativity. Our long-term relationship with Artists is reflected in the fact that of those Artists who first sold in Redbubble's first year (FY2007), 45% also made sales in FY2016.

On the customer side, Redbubble has been caught by the wave of consumers seeking more meaningful, relevant and distinctive products. For many traditional retailers this represents a challenge as they have scaled their businesses through mass production and mass marketing. By contrast, through Redbubble a single Customer can receive a one-off product that is produced only after it has been ordered. This enables Redbubble to match the breadth and depth of artistic creativity with the diverse interests of the Customers in the Redbubble marketplace.

1. Artists who had designs or creative works available for sale on the website as at 1 March 2016.
2. Constant currency numbers are derived by converting the underlying historical GTV and revenue, generated in the four currencies other than Australian dollars, into Australian dollars at the same rates assumed for the forecast instead of the rates used in preparing the IFRS financial statements. The exchange rates used for the forecast are set out in the third column of the foreign exchange rates table in Section 4.7.2.3. Management believes inclusion of constant currency numbers for GTV and revenue enables a clearer understanding of the underlying growth of the business by removing the impact of historical fluctuations in foreign exchange rates.
3. GTV is calculated as the total amount of sales processed through Redbubble less refunds, fraudulent transactions and Chargebacks. GTV therefore equates to the value of cash receipts from customers (as defined in AASB107 Statement of Cash Flows published by the Australian Accounting Standards Board) as represented in Redbubble's statutory and pro forma historical and forecast cash flows.
4. As at 31 December 2015.

Increasing consumer demand for distinctive products has driven much of the recent growth of Redbubble. It has been fuelled by the ever-increasing possibilities of the print-on-demand technologies used by a network of third-party fulfillers. There are now 51 different product types available on the Redbubble marketplace, including apparel, stickers, homewares and accessories, with 15 more planned for 2016.

Looking towards the future, we expect the range of production capabilities to continue to expand with new innovations in cut-and-sew fashion items (where the printing occurs on material before it is cut and sewn), continued development of digital and sublimation printing on new product "blanks" and, in due course, three-dimensional and laser printing.

Continued geographic expansion is part of Redbubble's growth strategy. From the start, Redbubble has had an international orientation and in 1H FY2016, 94% of sales (by GTV) originated from outside Australia. Currently, the United States is Redbubble's largest market, but Europe has been expanding rapidly. Earlier this year, a German language version of the Redbubble website was launched, and French and Spanish versions are in advanced stages of planning.



To date, Redbubble's growth has been primarily from organic and free traffic sources. The diversity of content on the Redbubble website has meant that online search engines have given prominence to Redbubble in search results. The importance of social networks has also increased with higher levels of social content sharing. Sales from Repeat Customers are up 96% in 1H FY2016 from 1H FY2015 (69% on a constant currency basis). Paid sources of traffic have grown in importance in recent years, but they represent only 29.9% of all Sales (1H FY2016) and are profitable from the first visit. Looking forward, we anticipate that free, organic sources will be the mainstay of growth, at approximately 70% of Sales.

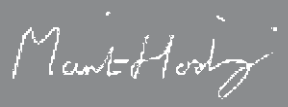
Funds raised from the Offer will enable continued investment in the people and systems that create the website, research the products, and deliver the experiences that attract and retain Artists and Customers. This is a proven model that has and is expected to continue to drive growth. Where paid marketing has a clear financial return, we will continue to spend in this area.

I am often asked what is the "secret sauce" of Redbubble. The answer is a commitment to having the best content by nurturing and sustaining long-term relationships with artists and designers, delivering a great customer experience and building long term and stable relationships with the fulfillers. This focus provides the Company with a platform for long term profitable growth.

Increasingly, consumers are seeking products that cannot be mass-produced. As they demand the creative, the personal and the distinct, Redbubble, through the Artists and ever-increasing range of products, aims to be there to meet that demand.

This Prospectus contains detailed information about the Offer, the industry in which Redbubble operates and Redbubble's operating and financial performance and outlook. As with any company, an investment in Redbubble is subject to a range of risks, any or a combination of which may have a material adverse impact on Redbubble's business, financial performance and operations. These risks include maintaining the authenticity of Redbubble's marketplace, attracting and retaining independent artists, attracting and converting customers, shifts in consumer trends, adapting to changes in technology, the actions of competitors and substitute offerings, a failure to penetrate new markets, extending the available product range, fulfiller and supplier concentration risk, the informality of its relationships with fulfillers and suppliers, search engine risks, intellectual property litigation risk, sales tax risk, credit card or payment gateway disruption and credit risk associated with payment gateway providers. It is also important to note whilst Redbubble made a profit before income tax in FY2014, it incurred a loss before income tax for FY2015 and is forecasting losses before income tax for FY2016 and FY2017. Redbubble may not achieve or maintain profitability in the future. For more information about the key risks associated with an investment in Redbubble see Section 5. It is important to read this Prospectus carefully and in its entirety before making your investment decision.

I commend the Offer to you and hope to welcome you as a shareholder.



**Martin Hosking**
CEO, Managing Director and Co-founder
Redbubble Limited

# Important Dates

| | |
|---|---|
| Original Prospectus lodgement date | Tuesday, 19 April 2016 |
| Lodgement of this Prospectus with ASIC | Tuesday, 3 May 2016 |
| Broker Firm Offer opens | Wednesday, 4 May 2016 |
| Broker Firm Offer closes | Wednesday, 11 May 2016 |
| Settlement of the Offer | Thursday, 12 May 2016 |
| Completion of the Offer (issue and transfer of Shares under the Offer) | Friday, 13 May 2016 |
| Expected commencement of trading of Shares on the ASX on a deferred settlement basis | Monday, 16 May 2016 |
| Expected dispatch of holding statements | Monday, 16 May 2016 |
| Expected commencement of trading of Shares on the ASX on a normal settlement basis | Wednesday, 18 May 2016 |

These dates are indicative only and are subject to change. The Company, with the agreement of the Joint Lead Managers, reserves the right to amend any and all of the above dates without notice to you (subject to the ASX Listing Rules and the Corporations Act).

# Key Offer Details



| | |
|---|---|
| Offer Price | $1.33 per Share |
| Number of New Shares offered | 22.6 million |
| Number of Existing Shares offered | 7.4 million |
| Total number of Shares offered under the Offer[1] | 29.9 million |
| Total number of Shares on issue at Completion of the Offer | 201.3 million |
| Number of Shares held by Existing Shareholders at Completion of the Offer | 142.1 million |
| Gross proceeds received under the Offer | $39.8 million |
| Indicative market capitalisation at the Offer Price[2] | $267.7 million |
| Pro forma net cash[3] | $57.4 million |
| Fully diluted equity valuation at the Offer Price[4] | $298.3 million |
| Enterprise value/pro forma forecast FY2017 revenue[5,6] | 1.22× |

1. Includes the sale of Existing Shares under the Offer by the Selling Shareholders.
2. Calculated as the Offer Price multiplied by the total number of Shares at Listing.
3. Calculated as cash and cash equivalents less current and non-current interest bearing liabilities, including finance leases, as at 31 December 2015, adjusted to reflect the impact of the Offer.
4. Calculated as the Offer Price multiplied by the total number of Shares, Options, Performance Rights and Warrants at Listing.
5. Enterprise value/revenue multiple is calculated as the expected enterprise value of the Company at the Offer Price divided by the pro forma forecast FY2017 revenue of $172.2 million.
6. The Forecast Financial Information is based on assumptions and accounting policies set out in Sections 4 and 8, and is subject to the risk factors set out in Section 5.

# 1

# INVESTMENT OVERVIEW

# 1 Investment Overview

## 1.1. Overview of Redbubble's business

| Topic | Summary | For more information |
|---|---|---|
| What is Redbubble? | Redbubble is a leading global online marketplace for independent artists connecting:<br>• a global community of independent artists and designers looking to showcase and sell their work;<br>• consumers seeking distinctive designs and creative works across a range of quality products including apparel, accessories, homewares, and other lifestyle categories; and<br>• third party fulfillers utilising leading edge capabilities to produce the products after they have been ordered by the Customer in a print-on-demand model and then arranging for their delivery to the Customer. | Sections 3.1, 3.2 and 3.3 |
| How does Redbubble's business model work? | Artists and designers from almost anywhere in the world create their own designs and creative works using a wide range of techniques and digital design tools. Artists then:<br>• upload their designs and creative works to Redbubble;<br>• choose the products on which they would like their designs and creative works to appear;<br>• set their mark-up over a base price for each product, which includes Redbubble's service fee and the manufacturing fee; and<br>• offer their designs and creative works for sale on the Redbubble marketplace.<br>All image ownership rights are retained by the Artists.<br>Customers seeking personal and distinctive products visit the Redbubble website on their desktop computer, tablet or mobile device. They can search (by product, theme, or Artist) or browse for the specific items that they are looking for and that most resonate with them. Once the Customer has found a design and selected the product they wish to buy, they proceed to checkout and pay via credit card or other industry standard payment methods.<br>Once orders are placed, the order information is immediately sent to one of the third party fulfillers via Redbubble's online platform, and enters the fulfiller's production queue. The chosen design is then printed on the selected product using state-of-the-art print-on-demand techniques, packaged, and shipped directly to the Customer's chosen address. Redbubble handles any customer support issues that may arise.<br>Redbubble is neither the seller (Artists have that role), nor the producer of the product (fulfillers and suppliers have that role). | Section 3.4 |

| Topic | Summary | For more information |
|---|---|---|
| What are Redbubble's key operating statistics? | **Saleable Designs:** 9.8 million as at 1 March 2016<br>**Artists:** 399,000 as at 1 March 2016[5]<br>**Products:** 51<br>**Customers:** 1.44 million in FY2015<br>**Fulfillers:** 12 across four continents in 18 locations | Sections 3.3 and 3.10 |
| How does Redbubble generate its revenue? | For every product sold on the Redbubble marketplace, Redbubble receives a service fee for connecting the Artist, Customer and fulfiller. Redbubble's revenue is derived from deducting tax and the Artist Margin from Gross Transaction Value (**GTV**).<br>GTV is calculated as the total amount of sales processed through Redbubble less refunds, fraudulent transactions and Chargebacks. GTV therefore equates to the value of cash receipts from customers (as defined in AASB107 Statement of Cash Flows published by the Australian Accounting Standards Board) as represented in Redbubble's statutory and pro forma historical and forecast cash flows. | Section 3.4 |
| What types of products can be purchased through Redbubble? | The designs and creative works available on Redbubble's website can be purchased on 51 products, with expanding the product range a focus for future growth. Current product categories include:<br>**Apparel:** Men's, Women's, Teen, Kids, Baby<br>**Accessories:** Phone cases, Laptop sleeves, Stickers, Bags<br>**Homewares:** Cushions, Doona covers, Mugs<br>**Stationery:** Greeting Cards, Postcards, Calendars, Notebooks, Journals<br>**Art/Prints:** Posters, Canvas prints, Framed prints, Photo prints, Art prints | Sections 3.10 and 3.15 |
| Who are Redbubble's Customers? | The Customers in Redbubble's marketplace express a strong preference for creativity and finding products not readily available elsewhere. Millennials comprise 52% of Redbubble Customers, and 57% of Customers are female.<br>Gifting is an important segment with 28% of purchases reflecting products intended as a gift. | Section 3.3.2 |
| What is Redbubble's mission? | Redbubble is creating the world's largest marketplace for independent artists, bringing more creativity into the world. | Section 3.1 |
| What are Redbubble's strategic priorities? | Redbubble's strategic priority is to establish itself as the largest global online marketplace for independent artists by continuing to invest in the marketplace dynamics that provide for low cost scaling and customer acquisition, with strong Customer and Artist retention. | Section 3.15 |

5. Artists who had designs or creative works available for sale on the website.

| Topic | Summary | For more information |
|---|---|---|
| What is Redbubble's growth strategy? | There are four reinforcing areas of investment, chosen as having maximum impact on extending Redbubble's market position.<br>• Attracting and retaining Customers by enhancing the website experience.<br>• Bringing in new Customers and increasing Customer purchase frequency by strengthening the product offering through increasing the number of products available, scaling the supply chain and reducing costs.<br>• Sustaining strong growth in selling Artists and in the content library by improving the Artist's experience and increasing Artist-related marketing and promotional activities.<br>• Expanding Redbubble's marketplace into new geographies and languages with a near term focus on Europe and improved delivery services for Australia and Canada. | Section 3.15 |
| What are Redbubble's key costs? | Redbubble's key costs for FY2016 and FY2017 are forecast to be as follows:<br>FY2016 ($ million) / FY2017 ($ million)<br>Fulfiller expense: 76.0 / 113.5<br>Employee benefits: 20.7 / 25.7<br>Marketing: 11.3 / 14.0<br>Operations and administration: 17.1 / 20.3 | Section 4.6 |
| How does Redbubble expect to fund its operations? | Redbubble's principal source of liquidity will be its cash resources and cash flows from operations (which is supported by Redbubble's business model which has a positive cash cycle). Redbubble expects it will have sufficient cash resources and cash flow from operations to meet operational requirements and business needs during the forecast period. On Completion of the Offer, Redbubble will have no debt financing arrangements. | Sections 3.4 and 4.4 |
| Who are Redbubble's competitors? | Redbubble competes in several major retail sectors including apparel, electronic accessories, wall art, home accessories and stationery. The competitive landscape in each of these sectors includes:<br>• **Pure online marketplaces** that provide customers with an array of content on products created or designed by the artist, designer or craftsperson. There are two variants of such marketplaces, being:<br>– **multi-category with a broad product range.** Redbubble is an example of this along with Society6. Etsy has a similar customer orientation but lacks access to a fulfilment network; and<br>– **specialists** offering a limited number of products within one or more major categories: t-shirts, stationery and wall art. Examples include Minted, Threadless, Teepublic, TeeFury, Teespring, Woot, Qwerty and Fine Art America. | Section 3.16 |

| Topic | Summary | For more information |
|---|---|---|
| Who are Redbubble's competitors? cont. | • **Online print-on-demand services** that provide customers with the ability to buy from a wide array of products printed with their own images (such as family photos), licensed content (such as Disney), out-of-licence content (expired intellectual property rights) and, to a lesser extent, images from independent artists. To the extent they sell the work of independent artists, they have marketplace characteristics. Examples of these competitors include Zazzle, CafePress, Spreadshirt, art.com, Snapfish and smaller print-on-demand services.<br>• **Traditional general retailers** with bricks and mortar stores and an online e-commerce platform who sell similar products, but with far less content for customers. Examples of these competitors include H&M, Cotton On, Uniqlo, Ikea, Typo and Target.<br>• **Branded retailers** that sell through bricks and mortar stores and an online e-commerce platform who sell similar products (primarily in apparel and homewares) that carry a specific brand and often display a brand logo. Examples include Nike, Converse and Ralph Lauren. | Section 3.16 |

## 1.2. Key strengths



| Topic | Summary | For more information |
|---|---|---|
| Large addressable market opportunity | Redbubble competes in multiple online retail market sectors including apparel, stationery, art, electronic accessories and home decor. It is particularly focused on consumers seeking to express their individual creativity and thoughtfulness in what they buy.<br>The total online market for apparel, stationery, electronic accessories and home goods (excluding furniture) in the United States, the United Kingdom and Australia is estimated by Redbubble to be US$21.7 billion in 2015. With GTV of $88.4 million in FY2015, Redbubble is only a small portion of the overall market (at 0.7% of the estimated addressable United States, United Kingdom and Australian market), but the scale of the addressable market provides Redbubble with significant opportunities to grow its business. | Section 2.4 |
| A market leader | Redbubble is a leading global online marketplace for independent artists, connecting them with customers and a network of third party print-on-demand fulfillers. | Section 3.3 |

| Topic | Summary | For more information |
|---|---|---|
| Barriers to entry | Redbubble has built up a range of competitive advantages that create barriers to entry for any potential new entrant.<br>• **Natural marketplace effect:** The natural marketplace effect describes the difficulty for a potential new entrant to replicate an already large and fast-growing marketplace. A marketplace typically has two sides, the seller and the buyer. In Redbubble's case, the sellers are the Artists and the buyers are the Customers. Without Sellers, it is hard to encourage Customers to purchase products, and without Customers, the marketplace cannot encourage Sellers to sell products. This network effect provides momentum for Customers, Sellers and third party fulfillers to continue to trade through the Redbubble marketplace. Establishing, and then replicating, a marketplace of these dimensions would require significant investment (both of capital and time) and as a consequence, creates a barrier to entry.<br>• **Fulfiller network:** The third leg to the Redbubble marketplace is the third party fulfiller network. Redbubble:<br>– provides fulfillers with a high degree of certainty of the volume of orders they will receive year on year;<br>– has established mutually beneficial relationships of up to nine years with some fulfillers. Many of the fulfillers have grown in direct proportion to the growth of Redbubble; and<br>– currently has 12 fulfillers located in 18 locations across four continents, which are all intricately linked via Redbubble's technology platform such that order processing, transaction management, stock control, shipping control and management are automated.<br>Establishing, and then replicating, a fulfiller network would require significant investment (both of capital and time).<br>• **The breadth and quality of Artists' content:** Redbubble's ever-growing content library allows Redbubble to provide high quality and relevant content to platforms such as Google which recognise this content in the way they rank their searches. This delivers organic and low-cost paid traffic to Redbubble, enabling profitable customer acquisition on first purchase. This search effectiveness is only possible at scale. Establishing a comparable content library would require significant investment (both of capital and time) for any new entrant.<br>• **High quality website:** Another deterrent for potential new entrants is the investment already made by Redbubble in the high quality website and underlying technical competency in searching its content library. Establishing a comparable technology platform would require significant investment (both of capital and time) for any new entrant. | Sections 3.1, 3.4 and 3.14 |

<table>
<tr><th>Topic</th><th>Summary</th><th>For more information</th></tr>
<tr><td>Artist loyalty and retention</td><td>45% of Artists on Redbubble do not sell on other websites. Further, once Artists start selling on Redbubble they continue to do so, as after joining Redbubble and uploading their designs or creative works, no further work is required by them. Of those Artists who joined Redbubble in FY2013, 53% also made sales in FY2016. Of those Artists who joined in FY2007 (Redbubble's first year), 45% also made sales in FY2016.</td><td>Sections 3.3.1 and 3.14</td></tr>
<tr><td>Strong track record of growth and performance</td><td>Redbubble's strong track record of growth is demonstrated by the following metrics:
<table>
<tr><th></th><th>FY2014</th><th>FY2015</th><th>1H FY2016</th></tr>
<tr><td>GTV constant currency growth %</td><td>56.8%</td><td>37.9%</td><td>55.4%</td></tr>
<tr><td>GTV growth %</td><td>76.1%</td><td>49.0%</td><td>80.0%</td></tr>
<tr><td>Revenue constant currency growth %</td><td>57.5%</td><td>35.5%</td><td>47.9%</td></tr>
<tr><td>Revenue growth %</td><td>76.8%</td><td>46.4%</td><td>71.4%</td></tr>
<tr><td>Gross Profit growth %</td><td>74.1%</td><td>46.0%</td><td>62.5%</td></tr>
<tr><td>Visits growth %</td><td>17.2%</td><td>5.8%</td><td>56.0%</td></tr>
<tr><td>Conversion rate growth %</td><td>37.8%</td><td>40.5%</td><td>6.2%</td></tr>
</table>
Some of the above metrics are reflected on a constant currency basis or relate to Redbubble's revenue or GTV.<br><br>Constant currency numbers are derived by converting the underlying historical GTV and revenue, generated in the four currencies other than Australian dollars, into Australian dollars at the same rates assumed for the forecast instead of the rates used in preparing the IFRS financial statements. The exchange rates used for the forecast are set out in the third column of the foreign exchange rates table in Section 4.7.2.3. Management believes inclusion of constant currency numbers for GTV and revenue enables a clearer understanding of the underlying growth of the business by removing the impact of historical fluctuations in foreign exchange rates.<br><br>GTV is calculated as the total amount of sales processed through Redbubble less refunds, fraudulent transactions and Chargebacks. GTV therefore equates to the value of cash receipts from customers (as defined in AASB107 Statement of Cash Flows published by the Australian Accounting Standards Board) as represented in Redbubble's statutory and pro forma historical and forecast cash flows.<br><br>Revenue represents GTV less taxes and Artist Margin.</td><td>Section 4.3.2</td></tr>
<tr><td>Global consumer reach</td><td>Redbubble operates on a global scale and has access to a global market of Artists and Customers. This is made possible by the network of fulfillers who work with Artists and allows for local fulfilment and local pricing in the major markets.</td><td>Sections 2.2, 3.3, 3.4, 3.16</td></tr>
</table>

<table>
<tr><th>Topic</th><th>Summary</th><th>For more information</th></tr>
<tr><td>Attractive operational metrics</td><td>Redbubble's key operational metrics are as follows:
<table>
<tr><th></th><th>FY2014</th><th>FY2015</th><th>1H FY2016</th></tr>
<tr><td>Gross Profit margin %</td><td>34.0%</td><td>33.9%</td><td>32.9%</td></tr>
<tr><td>Visits ('000s)</td><td>97,426</td><td>103,060</td><td>75,200</td></tr>
<tr><td>Conversion rate %</td><td>1.2%</td><td>1.8%</td><td>2.0%</td></tr>
</table></td><td>Section 4.3.2</td></tr>
<tr><td>Aligned with long-term industry trends and growing market segments</td><td>Redbubble operates in the retail e-commerce industry, a large and rapidly expanding industry sector. Global retail e-commerce sales were US$840 billion in 2014 (an increase of 21% from 2013). Within this segment, the global online apparel and footwear market in 2014 was estimated to be worth approximately US$81 billion. The global apparel market is expected to generate double digit growth between 2014 and 2020.<br><br>Redbubble is also taking advantage of the rise in consumers seeking to express their personal style and move away from branded, mass produced goods. This is a new consumer, who is more concerned with standing out than fitting in and who sees individuality as the new cool.</td><td>Sections 2.2 and 2.3</td></tr>
<tr><td>Scalable global platform and supply chain infrastructure</td><td>The network of third-party fulfillers and suppliers, and sophisticated infrastructure, developed over 10 years, represents a significant barrier to entry to competitors trying to replicate Redbubble's value proposition.<br><br>Redbubble's favourable cash flow cycle also allows Redbubble to grow sales without the requirement for deep working capital.<br><br>Redbubble's technology platforms are developed, and serviced and supported by a diverse, experienced and product-focused engineering team.</td><td>Sections 3.3.3, 3.4 and 3.9</td></tr>
<tr><td>Experienced Board and management</td><td>The Board and Senior Leadership Team bring a combination of strong corporate governance credentials and on-target industry experience across all the key areas of Redbubble's business and operations.</td><td>Sections 6.1 and 6.2</td></tr>
</table>

## 1.3. Key risks

Some of the key risks of investing in Redbubble are outlined in the table below. Investors should read Section 5 for further information on risk factors.

| Topic | Summary | For more information |
|---|---|---|
| Authenticity of Redbubble's marketplace and focus on enduring value | It is critical to Redbubble's mission that Redbubble's marketplace remains authentic and transparent. This authenticity could be undermined by:<br>• decision making that is inconsistent with Redbubble's mission;<br>• negative publicity;<br>• the perception that Redbubble is not fairly or appropriately enforcing its policies;<br>• its failure to respond to or action feedback from Artists or Customers; or<br>• technical or other failures (described below).<br>If the authenticity of Redbubble's marketplace is questioned, then Redbubble's ability to attract and retain Artists and Customers could be impaired and Redbubble's reputation and business could be adversely affected.<br>Part of Redbubble's strategy is to become a company of enduring value. This may result in the Company making certain decisions that it expects will be beneficial in the long term, but that could have an adverse impact on its business, financial performance or operations in the short or medium term. The benefits that Redbubble expects to occur in the long term might never come to fruition and this could have a material adverse impact on Redbubble's business, financial performance and operations. | Section 5.2.1 |
| Attracting and retaining independent artists | In order to achieve Redbubble's mission of creating the world's largest online marketplace for independent artists, as well as creating a company of enduring value, Redbubble must attract new Artists and retain existing Artists. If existing Artists are not satisfied with their experience on Redbubble or are dissatisfied with the brand for another reason, they may delete their account or stop uploading new designs and creative works to Redbubble's marketplace.<br>Under these circumstances, Redbubble may have difficulty retaining and/or attracting new Artists and Customers which, in turn, could have a material adverse impact on its business, financial performance and operations. | Section 5.2.2 |
| Attracting and converting Customers | Redbubble's revenues and success of its growth initiatives depend upon attracting and retaining Customers to its website and converting those Customers into both new and repeat Customers.<br>A decline in traffic coming to Redbubble's website or the rate of conversion could adversely impact Redbubble's ability to achieve its strategic objectives and could have a material adverse impact on its business, financial performance and operations. | Section 5.2.3 |

| Topic | Summary | For more information |
|---|---|---|
| Shift in consumer trend | Redbubble is reliant on the consumer trend towards de-branded, made-to-order creative and well-designed products. If this trend reverses and consumers are no longer interested in finding ways to express an individual sense of style, this could reduce the demand for products sold via the Redbubble marketplace which, in turn, could have a material adverse impact on Redbubble's business, financial performance and operations. | Section 5.2.4 |
| Adapting to changes in technology | Redbubble operates in the print-on-demand market. This industry is characterised by rapidly changing technology, new service and product offerings and evolving consumer demands. Being able to remain sufficiently innovative and adaptable may be costly to, and complex for, Redbubble. If Redbubble is unable to adapt quickly to such changes, this could have a material adverse impact on Redbubble's business, financial performance and operations. | Section 5.2.5 |
| Action of competitors or substitute offerings | Redbubble operates in a competitive landscape alongside a number of other online marketplaces with competing offerings and geographically diverse presences.<br><br>There is the potential for Redbubble's business to be disrupted by new or existing user-generated content platforms that emerge or develop a product fulfilment capability and an artist community that competes directly with Redbubble's services.<br><br>If Redbubble is unable to compete, or if an expenditure of significant resources or significant discounting is required to compete, this could have a material adverse impact on Redbubble's business, financial performance and operations. | Section 5.2.6 |
| Failure to penetrate new markets | Redbubble attracts Artists and Customers from all over the world.<br><br>Expansion into new markets involves a number of risks – such as difficulties in managing foreign operations, dealing with foreign legal or regulatory issues, differences in artist and customer behaviour, potential political and/or economic instability and the potential for higher rates of fraud – any of which could result in expansion being unsuccessful.<br><br>If Redbubble's expansion into new markets is not successful, it could have a material adverse impact on Redbubble's business, financial performance and operations. | Section 5.2.7 |
| Product range risk | Redbubble spends time and resources to support the launch of new product types on the Redbubble marketplace. These efforts could fail for many reasons – such as a lack of interest in new product types, the failure to successfully market new product types, product defects, negative publicity about Redbubble or specific products, the failure of Redbubble to be able to support the infrastructure needed to launch new product types or disruptions to the supply chain.<br><br>If Redbubble is unable to cost-effectively support the extension of the product range offered on the Redbubble marketplace to grow revenue, then this could have a material adverse impact on Redbubble's business, financial performance and operations. | Section 5.2.10 |

| Topic | Summary | For more information |
|---|---|---|
| Fulfiller and supplier concentration risk | The fulfilment network and suppliers are geographically concentrated, with the majority being based in the United States.<br><br>Fulfillers or suppliers may fail to deliver sufficient quantities of products in a timely manner, suspend services, encounter financial difficulties, terminate their relationships with Redbubble and the Artists, amend the terms upon which they do business with Redbubble and the Artists or experience raw material or labour shortages as well as increases in raw material or labour costs. In addition, these fulfillers and suppliers are not bound by any exclusivity obligations in respect of the Redbubble marketplace and so may enter into agreements with Redbubble's competitors.<br><br>If the ability of fulfillers or suppliers to supply products to the Artists selling on the Redbubble marketplace is limited, or if there is any material deterioration to the terms on which the fulfillers or suppliers provide products, this could have a material adverse impact on Redbubble's business, financial performance and operations. | Section 5.2.11 |
| Informality of relationships with product fulfillers and suppliers | The relationships between Redbubble and third party fulfillers and suppliers are informal with limited written agreements and are terminable at will by either party. The loss or deterioration of Redbubble's relationships with key fulfillers or suppliers or an inability to negotiate with new fulfillers and suppliers on terms which are not materially less favourable than existing arrangements, could have a material adverse impact on Redbubble's business, financial performance and operations. | Section 5.2.12 |
| Search engine risks | Redbubble endeavours to enhance the relevance of Redbubble's website to common search queries and thereby improve the rankings of Redbubble's website in search engines, a process known as Search Engine Optimisation (**SEO**). These algorithms and ranking criteria are unknown to Redbubble, and Redbubble may not understand or have access to complete information on the methods used to rank its website.<br><br>Similarly, Redbubble provides a subset of its products to third party shopping platforms, such as Google's Shopping Feed. The algorithms and shopping criteria within these platforms are unknown to Redbubble.<br><br>If Redbubble cannot promptly adapt to such changes in search engine or shopping platform algorithms, or if Redbubble's SEO or shopping platform activities are no longer effective for any reason, the traffic coming to the Redbubble website could significantly decrease and Redbubble's conversion rates may decrease which, in turn, could have a material adverse impact on Redbubble's business, financial performance and operations. | Section 5.2.15 |

| Topic | Summary | For more information |
|---|---|---|
| Claims alleging infringement of third party intellectual property rights based on user-generated content | Although Redbubble is strictly a service provider that does not sell or manufacture the products sold on the Redbubble marketplace, it regularly receives notices alleging infringement of third party intellectual property rights via the Redbubble marketplace or for breach of consumer protection laws.<br><br>Redbubble reviews and acts upon all notices of alleged infringement expeditiously. It frequently removes allegedly infringing images from the Redbubble marketplace and, in appropriate cases, closes the accounts of users.<br><br>While Redbubble believes it has set up its operations to comply with the intellectual property laws of the jurisdictions in which it does business, a court may find that Redbubble's operations do not comply with the governing law. Additionally, litigation may be filed against Redbubble alleging that Redbubble is directly or indirectly liable for intellectual property infringement arising from activities carried out by artists using Redbubble or as a result of third party fulfillers supplying or printing products that are available for sale via the Redbubble website. Redbubble is currently involved in two court proceedings in which third parties have alleged that the Company has infringed intellectual property rights and has contravened the Australian Consumer Law (see Section 9.6 for further information on these proceedings, which are the only two material lawsuits brought against the Company since its inception).<br><br>Litigation regarding intellectual property rights is inherently uncertain because it involves complex issues, and a court may find that Redbubble is liable for direct and/or indirect infringement under current laws. The intellectual property laws in the jurisdictions in which Redbubble does business may also change unfavourably, and Redbubble could be held liable for intellectual property infringement under changed laws or be forced to change its policies or business model. | Section 5.2.24 |
| Sales tax risk | The application of indirect taxes, such as goods and services tax, sales and use tax and value added tax to marketplaces such as Redbubble's and the sellers they serve is a global, complex and evolving issue. In many cases, the ultimate tax determination is uncertain because it is not clear how existing tax laws and statutes apply to marketplaces such as Redbubble's or the persons who sell through those marketplaces (in the case of Redbubble, the Artists).<br><br>One or more jurisdictions (whether state or federal) of the countries in which Redbubble Artists sell products may seek to impose additional reporting, record-keeping or indirect tax collection obligations on online businesses like Redbubble. | Section 5.2.26 |

| Topic | Summary | For more information |
|---|---|---|
| Redbubble has a history of operating losses and it may not achieve or maintain profitability in the future | Whilst Redbubble made a profit before income tax in FY2014, it incurred a loss before income tax for FY2015 and is forecasting losses before income tax for FY2016 and FY2017. Redbubble may not achieve or maintain profitability in the future.<br><br>Redbubble expects that its operating expenses will increase substantially as it develops new markets and new geographies, drives Customer acquisition and retention, incurs expenditure on the ongoing maintenance of existing infrastructure and software platform and incurs legal, accounting and other expenses associated with a public company that it did not incur as a private company. These efforts may be more costly than Redbubble expects and its revenue may not increase sufficiently to offset these additional expenses. Should this occur, this would have a material adverse impact on Redbubble's financial performance. | Section 5.2.27 |
| Credit card or payment gateway disruption | Redbubble is reliant on third party credit card processors and payment gateway providers such as Amazon and PayPal for receiving payments from Customers. Should its credit card processors or payment gateway providers suffer outages or security breaches, Redbubble's ability to accept payments could be significantly affected. An inability to accept payments by credit card, Amazon or PayPal, even if for a short period of time, could negatively impact upon Redbubble's cash flow and have a material adverse effect on Redbubble's business, financial performance and operations. | Section 5.2.28 |
| Credit risk associated with payment gateway providers | The cash proceeds from a sale on the Redbubble marketplace initially pass through third party payment gateway providers. Whilst Redbubble typically receives funds from the payment gateway within a day or two of the sale being made online, if any of those providers become insolvent they may be holding one to two days' of funds representing those sales proceeds and Redbubble may experience significant delays in receiving those funds (or not receive those funds at all). This could have a material adverse effect on Redbubble's business, financial performance and operations. | Section 5.2.29 |

| Topic | Summary | For more information |
|---|---|---|
| Other | There are a number of specific risks to which Redbubble is exposed. These include:<br>• worsening economic conditions;<br>• the display of controversial content on Redbubble's website;<br>• third party delivery services risk;<br>• fulfillers or suppliers using unethical business practices;<br>• hacking attacks and technology platform failure risk;<br>• data security risks;<br>• third party network infrastructure risks;<br>• the effectiveness of Redbubble's mobile platform;<br>• Redbubble's marketing efforts not being effective;<br>• Redbubble's reliance on key personnel and an ability to attract further key talent;<br>• the effectiveness of Redbubble's efforts to protect its intellectual property;<br>• changes in laws and regulations or new laws and regulations being introduced; and<br>• foreign exchange risk. | Sections 5.2.8, 5.2.9, 5.2.13, 5.2.14, 5.2.16 to 5.2.23, 5.2.25 and 5.2.30 |

For further discussion on these and additional risks, refer to Section 5.

## 1.4. Key financial metrics

The financial information presented below is intended as a summary only and should be read in conjunction with the more detailed discussion of the Historical Financial Information and the Forecast Financial Information in Section 4, including the assumptions, management discussion and analysis and sensitive analysis, as well as the risk factors set out in Section 5.

Investors should read Section 4 for full details of Redbubble's pro forma and statutory results (which will differ significantly) and the assumptions underlying the information. A reconciliation between the pro forma and statutory results is set out in Section 4.

| Topic | Summary | For more information |
|---|---|---|
| What is Redbubble's historical and forecast financial performance? | The following table contains selected pro forma financial information for Redbubble for FY2013, FY2014 and FY2015, and forecasts for FY2016 and FY2017. This is intended as a summary only and should be read in conjunction with the more detailed discussions of the financial information disclosed in Section 4, as well as the risk factors set out in Section 5. | Section 4.3 |

Summary Financial Information

| | Pro forma historical | | | Pro forma forecast | |
|---|---|---|---|---|---|
| in 000's | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 |
| Revenue | 27,467 | 48,561 | 71,070 | 114,540 | 172,160 |
| Gross profit | 9,475 | 16,493 | 24,072 | 38,500 | 58,650 |
| EBITDA | (513) | 1,566 | (7,134) | (10,566) | (1,318) |
| EBIT | (832) | 707 | (9,161) | (14,565) | (8,567) |
| NPAT | | | | (18,460) | (6,679) |



## 1.5. Key information on the experience and background of the Directors and Senior Leadership Team

The Redbubble Board is comprised of members with experience in the internet, e-commerce and retail sector in Australia and globally.

| Topic | Summary | For more information |
|---|---|---|
| Who is on the Board of Redbubble? | **Mr Richard Cawsey** – *Non-executive Director and Chair*<br>• Richard has a 25-year track record of building high performing organisations in Australia, Europe, North America and Asia.<br>• In addition to chairing Redbubble, he is the executive chair of Denali Venture Partners. He was previously a managing director at Morgan Stanley.<br>• Richard has held a number of board and senior executive roles for ASX listed companies including OAMPS Ltd (as a non-executive director), Centrepoint Alliance Ltd (as the managing director and CEO), Advance Property Management Ltd (as chair) and Wealthpoint Ltd (as chair). | Section 6.1 |

| Topic | Summary | For more information |
|---|---|---|
| Who is on the Board of Redbubble? cont. | **Mr Martin Hosking** – *Co-Founder, CEO and Managing Director*<br>• Martin has had 20 years of experience successfully scaling Australian technology companies.<br>• Prior to Redbubble, he was the chair of ASX listed Aconex and was instrumental in the development and subsequent listing on the NASDAQ of search company, LookSmart.<br>• He was formerly a diplomat with the Australian Department of Foreign Affairs and Trade, and a consultant with McKinsey & Company.<br>**Ms Teresa Engelhard** – *Independent Non-executive Director*<br>• Teresa has 20 years of experience working with growth technology companies.<br>• She was formerly with McKinsey & Company and Mohr Davidow Ventures as well as a managing partner at Jolimont Capital where she was responsible for the investment in AVCAL-awarded Next Window.<br>• Teresa has served on over 10 boards and is currently a non-executive director for Planet Innovation, Ltd. and StartupAUS.<br>**Ms Stephanie Tilenius** – *Independent Non-executive Director*<br>• Stephanie is an executive-in-residence at Kleiner Perkins Caufield & Byers and serves on a number of boards including Tradesy, Coach and Seagate Technologies.<br>• She previously was a vice president of global commerce and payments at Google, Inc. and a senior vice president of eBay.com global products.<br>• Stephanie was a co-founder of PlanetRx.com.<br>**Mr Greg Lockwood** – *Independent Non-executive Director*<br>• Greg founded UBS Capital's early stage venture investing activities in Europe.<br>• He is currently a partner of Piton Capital LLP, a venture capital fund that specialises in marketplaces and business models with network effects. Piton Capital is also a shareholder in Redbubble.<br>**Mr Grant Murdoch** – *Independent Non-executive Director*<br>• Grant has more than 37 years' chartered accountancy experience. He led the corporate finance team for Ernst & Young Queensland from 2004 to 2011 and was an audit and corporate finance partner with Deloitte from 1980 to 2000.<br>• He is currently a director and the chair of the audit committees for each of ALS Limited (formerly Campbell Brothers), QIC Limited and OFX Limited (previously Ozforex Limited).<br>• He is a senator of the University of Queensland, an adjunct professor at the University of Queensland Business School and a director of UQ Holdings Limited. | Section 6.1 |

| Topic | Summary | For more information |
|---|---|---|
| Who is the leadership team of Redbubble? | **Mr Martin Hosking** – *CEO and Managing Director*<br>• Refer to Martin's biography above.<br>**Mr Barry Newstead** – *Chief Operating Officer*<br>• Barry was on the executive team at the Wikimedia Foundation (which runs Wikipedia) and was previously a senior strategy consultant at the Boston Consulting Group and a partner at the Bridgespan Group, where he worked extensively with online organisations.<br>**Mr Chris Nunn** – *Chief Financial Officer*<br>• Chris has more than 20 years' experience as a senior finance executive for ASX listed entities. He has had senior executive roles working with and reporting to the boards of ASX (and Singapore Exchange Limited) listed companies and property trusts.<br>• Chris initially joined Redbubble as a Non-executive Director and Chair of the Audit and Risk Committee before transitioning to his executive role earlier this year.<br>**Mr Robert Baumert** – *Chief Fulfilment and Analytics Officer*<br>• Rob joined Redbubble in 2010 and has held executive roles leading the Company's finance, supply chain, customer support and analytics functions. Rob was previously a chemical engineer and naval officer, where he worked in the fuel cell industry as head of test engineering for Xcellsis USA. He founded GGC Pty Ltd., where he was the chief financial officer and a director.<br>**Ms Corina Davis** – *General Counsel and Company* Secretary<br>• Prior to joining Redbubble, Corina practised law in Los Angeles and New York at Milstein Adelman, McCurdy & Fuller and Mendes & Mount.<br>**Mr Victor Kovalev** – *Chief Technology Officer*<br>• Victor joined Redbubble as Chief Technology Officer in December 2015. He brings a wealth of experience, coming from senior leadership roles in Silicon Valley internet companies including Indiegogo, Yelp and VMware.<br>**Ms Vanessa Freeman** – *Chief People and Culture Officer*<br>• Vanessa has previously held senior human resources and strategy roles at Pacific Brands. She was formerly with the New Zealand Trade Development Board in New York before joining McKinsey & Company where she focused on corporate strategy, post-merger management and operational transformation. | Section 6.2 |

## 1.6. Significant interests of key people and related party transactions

| Topic | Summary | For more information |
|---|---|---|
| Who are the Existing Shareholders and what will be their interest in Redbubble on Completion of the Offer? | | Section 7.1.4.3 |

| Shareholder | Existing interest prior to the Offer (%) | Shares held prior to the Offer | Interest on Completion of the Offer (%) | Shares held at Completion of the Offer[1] |
|---|---|---|---|---|
| Directors, Senior Leadership Team members and their Associated Entities | 45.39 | 66,007,040 | 33.43 | 67,275,198 |
| Other founding or early stage investment Shareholders | | | | |
| MXB Holdings LP | 9.31 | 13,541,880 | 6.73 | 13,541,880 |
| CAV Investment Holdings Group | 11.74 | 17,069,480 | 8.31 | 16,719,480 |
| Other | 24.80 | 36,070,960 | 17.24 | 34,710,569 |
| Other Existing Shareholders | 8.76 | 12,739,836 | 5.22 | 10,506,539 |
| Current holders of CRPS | – | – | 9.95 | 20,022,554 |
| Current holders of Convertible Notes | – | – | 5.09 | 10,233,919 |
| New Shareholders | – | – | 14.03 | 28,242,539 |
| **Total** | **100.0** | **145,429,196** | **100.0** | **201,252,678** |

1. Assumes the issue of Shares as a result of the vesting of Performance Rights upon Completion of the Offer (see Section 9.4).

| Topic | Summary | For more information |
|---|---|---|
| What significant benefits are payable to Directors and other persons connected with Redbubble or the Offer and what significant interests do they hold? | | Sections 6.3 and 7.1.4.3 |

| Key People | Interest or benefit | For more information |
|---|---|---|
| Existing Shareholders | Ownership of Shares | Section 7.1.4.3 |
| Senior Leadership Team | Remuneration | Section 6.3.2 |
| Other Non-executive Directors | Directors' fees | Sections 6.3.1.2, 6.3.3 and 6.3.4 |
| Advisers | Fees for services | Section 6.3.5 |

| Topic | Summary | For more information |
|---|---|---|
| Will any Shares be subject to restrictions on disposal? | Yes.<br>On Completion of the Offer, the Escrowed Shareholders will hold 78% of the Shares on issue. The Escrowed Shareholders have entered into voluntary escrow arrangements over their Shares, which prevent them from dealing with their escrowed Shares prior to the dates specified in Section 7.7.1 in the case of the Insider Escrowed Shareholders, and Section 7.7.2 in the case of the Non-Insider Escrowed Shareholders.<br>The escrow restrictions will cease to apply in certain circumstances, which are detailed further in Section 7.7.3. | Section 7.7 |

## 1.7. Overview of the Offer

| Topic | Summary | For more information |
|---|---|---|
| What is the Offer? | The Offer is an initial public offering of 29.9 million Shares at an Offer Price of $1.33 per Share.<br><br>On Completion of the Offer, 142.1 million Shares will be held by the Existing Shareholders.<br><br>The total number of Shares on issue at Completion of the Offer will be 201.3 million.<br><br>At the Offer Price, the Offer will raise $39.8 million of total proceeds, comprising $30 million from the issue of New Shares by Redbubble and $9.8 million from the sale of Existing Shares by SaleCo. | Section 7.1 |
| Who is SaleCo? | SaleCo is a special purpose vehicle established to facilitate the sale of Existing Shares by the Selling Shareholders. | Section 9.3 |
| Who are the issuers of this Prospectus? | Redbubble and SaleCo. | |
| What is the Offer size/price? | Offer Price: $1.33 per Share<br>Number of New Shares offered: 22.6 million<br>Number of Existing Shares offered: 7.4 million<br>Number of Shares held by Existing Shareholders at Completion of the Offer: 142.1 million<br>Total number of Shares on issue at Completion of the Offer: 201.3 million<br>Cash proceeds from the Offer: $39.8 million | Key Offer Details |
| What is the purpose of the Offer? | The purpose of the Offer is to:<br>• provide sufficient capital to enable Redbubble to implement the growth initiatives set out in this Prospectus;<br>• raise capital to strengthen Redbubble's balance sheet;<br>• provide a liquid market for the Shares;<br>• provide Redbubble with access to equity capital markets, which it expects will give it added financial flexibility to pursue further growth opportunities;<br>• provide the Redbubble business with the benefits of an increased profile that arises from being a listed entity;<br>• assist Redbubble in attracting and retaining quality staff; and<br>• give the Existing Shareholders an opportunity to realise some or all of their investment in Redbubble. | Section 7.1.2 |
| What are the cash proceeds to be raised? | $39.8 million will be raised under the Offer (based on the Offer Price) if the Offer proceeds. | Section 7.1.3 |

| Topic | Summary | For more information |
|---|---|---|
| What is the proposed use of proceeds from the Offer? | The proceeds raised pursuant to the Offer will be applied as follows:<br><br>**Uses of Funds** — **$ million** — **%**<br>Payment to Selling Shareholders — 9.8 — 24.6<br>Increase in pro forma cash and cash equivalents — 25.8 — 64.8<br>Payment of the Offer costs — 4.2 — 10.6<br>**Total uses** — **39.8** — **100.0** | Section 7.1.3 |
| How is the Offer structured and who is eligible to participate? | The Offer comprises:<br>• the Institutional Offer, which consisted of an invitation to bid for Shares made to Institutional Investors in Australia and a number of other eligible jurisdictions; and<br>• the Broker Firm Offer, which is open only to Australian resident investors who are not Institutional Investors and who receive a firm allocation of Shares from their Broker.<br><br>To the maximum extent permitted by law, an application by an applicant under the Offer is irrevocable. | Sections 7.3 and 7.4 |
| Is the Offer underwritten? | Yes. The Offer is fully underwritten by the Joint Lead Managers pursuant to the Underwriting Agreement. | Section 9.1.1 |
| Will the Shares be quoted? | Redbubble has applied to ASX for admission of Redbubble to the Official List and quotation of all of its Shares on ASX under the code "RBL".<br><br>Settlement of the Offer is conditional on ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act. | Sections 7.2 and 7.10 |
| What is the allocation policy? | The allocation of Shares between the Institutional Offer and the Broker Firm Offer was determined by the Joint Lead Managers, in consultation with Redbubble.<br><br>The allocation of Shares among applicants under the Institutional Offer, including Brokers, was determined by the Joint Lead Managers, in consultation with Redbubble, having regard to the allocation policy outlined in Section 7.3.2.<br><br>The allocation of Shares among applicants under the Broker Firm Offer will be at the sole and absolute discretion of the relevant Broker. | Sections 7.3 and 7.4 |
| Are there any brokerage, commission or stamp duty considerations? | No brokerage, commission or stamp duty is payable by applicants on the acquisition of Shares under the Offer. | Section 7.2 |

| Topic | Summary | For more information |
|---|---|---|
| What are the tax implications of investing in the Shares? | The tax consequences of any investment in the Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest. | Section 9.9 |
| When will I receive confirmation that my application has been successful? | It is expected that initial holding statements and transaction confirmation statements (in the case of CHESS holdings) will be dispatched by standard post on or about Monday, 16 May 2016. | Section 7.6 |
| What is Redbubble's dividend policy? | As the forecasts for FY2016 and FY2017 are projecting operating losses, the Directors do not expect to pay any dividends in the forecast period. | Section 4.9 |
| How can I apply for Shares under the Broker Firm Offer? | If you have received a firm allocation of Shares from your Broker, you may apply for Shares under the Offer by completing a valid Application Form attached to or accompanying this Prospectus.<br><br>Applicants under the Broker Firm Offer must lodge their Application Form and Application Monies with the relevant Broker in accordance with the relevant Broker's directions in order to receive their firm allocation. | Section 7.4 |
| Can the Offer be withdrawn? | Yes. Redbubble and SaleCo reserve the right to withdraw the Offer at any time before the issue and transfer of Shares to successful applicants or bidders under the Offer. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest) in accordance with the requirements of the Corporations Act. | Section 7.8 |
| Where can I find out more information about this Prospectus or the Offer? | For more information about this Prospectus or the Offer, call Morgans Corporate Limited on 1800 658 206 (within Australia) from 8:30am to 5:30pm (Melbourne time), Monday to Friday (Business Days only). If you are unclear in relation to any matter or are uncertain as to whether Redbubble is a suitable investment for you, you should seek professional guidance from your accountant, financial adviser, stockbroker, solicitor or other independent and qualified professional adviser before deciding whether to invest in Redbubble. | |

# 2

# INDUSTRY OVERVIEW

# 2 Industry Overview

## 2.1. Introduction

Redbubble operates a leading global online marketplace connecting independent Artists with Customers and a global network of third party fulfillers utilising print-on-demand technology to fulfil Customer orders. As such, Redbubble operates in the retail e-commerce industry, in addition to the specific sub-segments of print-on-demand and online marketplaces for artists and designers.

## 2.2. Market overview

### 2.2.1. Retail e-commerce market

Retail e-commerce is a large and rapidly expanding industry sector. This segment encompasses a broad range of business models which either sell or facilitate the sale of goods between consumers and businesses. Redbubble primarily operates through "Business-to-Consumer" online transactions whereby businesses transact directly with consumers.

Global retail e-commerce sales were US$840 billion in 2014 (an increase of 21% from 2013) and are predicted to grow at more than 10% per annum until 2018. The United States was the world's largest retail e-commerce market in 2015 (US$238 billion in 2014) followed by China, United Kingdom, Japan, Germany and France.[6]

The global online apparel and footwear market in 2014 was estimated to be worth approximately US$81 billion and is growing at three times that of the apparel and footwear market overall.[7] The global apparel market is expected to generate double digit growth between 2014 and 2020.[8]



The global online market for furniture, kitchens and household goods (such as kitchen and bathroom accessories, textile furnishings, office supplies and stationery) in 2016 is expected to be worth approximately US$131 billion and is expected to grow at approximately 14% per annum over the period 2016 to 2020.

### 2.2.2. Retail e-commerce market growth drivers

Recent growth in global retail e-commerce market has been underpinned by material changes in consumer behaviour, including increasing customer willingness and ability to buy online compared to visiting traditional bricks and mortar stores.

This has been supported by:

- increased convenience versus traditional bricks and mortar outlets;
- expansion of available products and segments online;
- availability of better pricing and comparability online;
- increased technological sophistication allowing mass customisation of one-off products;
- global shipping reducing geographical boundaries;
- increasing world-wide adoption of mobile internet which, in turn, increases the opportunity for people to research and transact online; and
- a "tipping-point" in the industry as online shopping moves into mass-market acceptance phase.

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6. A.T. Kearney, *The 2015 Global Retail E-Commerce Index, Global Retail E-Commerce Keeps on Clicking (2015)*. A.T. Kearney has not provided their consent for the statement to be included in the Prospectus.
7. Reflecting €74 billion converted at €1: US$1.10. McKinsey & Company, *Succeeding in tomorrow's global fashion market, Consumer and Shopper Insights (2014)*. McKinsey & Company has not provided their consent for the statement to be included in the Prospectus.
8. McKinsey & Company, *Succeeding in tomorrow's global fashion market, Consumer and Shopper Insights (2014)*, page 1. McKinsey & Company has not provided their consent for the statement to be included in the Prospectus.

## 2.3. Industry participants and trends

### 2.3.1. Consumers

Redbubble is taking advantage of the rise in consumers seeking to express their personal style and move away from branded, mass produced goods. This is a new consumer, who is more concerned with standing out than fitting in and who sees individuality as the new cool.

This mindset is driving increasing proliferation of choice, from the beers that people drink to the television programs that they watch. The limited choices of previous generations – a factor of mass production and mass marketing – no longer apply in the world of the internet and micro-production. The pursuit of personal style is seen also in the increasing prevalence of tattoos. Some 36% of Americans between the ages of 18 and 25 and 40% aged between 26 and 40 have a tattoo.

While many of these consumers are Millennials (currently aged 17 to 34 years old), this mindset spans generations and demographics. Some existing brands that market products with prominent logos have been negatively impacted. In contrast, Redbubble with its vibrant Artist community, millions of images and expansive product range, is well-positioned to ride this wave.

### 2.3.2. Artists

The proportion of the population participating in the creation of the visual arts, the artistic medium currently represented on Redbubble, is both substantial and increasing.

According to a survey by the Australia Council in 2012 among Australians:

- 14% do some kind of craft activity, up from 9% in 2009;
- 12% do painting or drawing or street art, up from 8%;
- 12% do photography, up from 9%;
- 4% do sculpture or installation art, up from 2%; and
- 6% make digital or video art, up from 4%.

Such participation rates mirror those recorded in a similar survey in the United States. According to a 2012 survey by the National Endowment of the Arts among American adults:

- 19% used electronic media to share art that they themselves had created, edited, or remixed;
- 12.4% create artistic photographs; and
- 5.7% create visual arts.

Selling designs or creative works on products traditionally required independent artists to make an upfront investment in product inventory, market it themselves (often limited to a local market or group of friends), and deliver it to customers. This required artists to take on financial risk as artists may not sell their product, leaving them with stranded inventory. Redbubble exists to solve this problem for independent artists.

Redbubble has created a marketplace that removes the financial risk and the marketing and fulfilment tasks, freeing artists to simply create art. By enabling a "no hassle" global supply chain and customer service, Redbubble allows artists to create designs or works, upload them, set the price and earn passive income. On Redbubble, artists can instantly create and manage a global business and be part of a large community of their peers.

### 2.3.3. Fulfillers and technology

Redbubble's growth has benefitted from a paradigm shift in production technology in the printing and textiles sector. The emergence of "mass customisation" has changed the profitability dynamic of small batch production of printed goods. Until the turn of the 21st century, small batch production was inefficient and economically unviable and, as a result, large-scale product printers had little choice but to produce large batches of individual items which they would mass distribute through their retail distribution networks. This exposed fulfillers to inaccurate projections of customer demand and the associated costs of markdowns and write-offs of unsold goods.

In the last two decades, advancements in both fulfilment technology and e-commerce have enabled a rise in mass customisation. Fulfillers are now able to efficiently produce in very small or even single unit volumes, allowing them to delay production until much later in the buying process, ultimately until after the customer has placed their order. This allows matching of production to demand. With current integrated digital printing technologies, fulfillers can receive a customer order online and quickly produce that specific order for that specific customer. They can then deliver the order via drop shipment at a cost and in a timeframe that is both economically viable and price-competitive.

From the customer's point of view, print-on-demand (**POD**) capability presents the opportunity for near-infinite choice. Design options can be digitally catalogued and then selected for individual purchase through marketplaces such as Redbubble. This change in production capability has supported the growing wave of consumers seeking personal expression through the products they purchase. Their desire and ability to buy affordable, distinctive and personally relevant items has been the primary driver of Redbubble's growth.

When Redbubble was founded in 2006, POD technology was largely confined to a limited range of paper and wall art products. Since then, technology has rapidly evolved to cover a wide range of products, with substantial gains in speed and efficiency. With the direct-to-garment printing technology available in 2006, fulfillers could offer maximum throughputs per machine of 10 to 20 garments per hour. Now machine throughput is in excess of 100 garments per hour.



Beyond the garment sector, new technology is driving down the economic production volume of a wide variety of other products, including phone cases, notebooks and even doona covers. The long term potential of 3D printing represents a further expression of this revolution. With decreasing unit costs and increasing speed of production and delivery, the range of products that can be made available on Redbubble's website is continually growing.

## 2.4. Addressable market and penetration

Redbubble competes in multiple online retail market sectors including apparel, stationery, art, electronic accessories and home decor. Every time a new product is available on Redbubble, it attracts new customers searching for that product on the internet.

Redbubble's geographic markets are predominantly the United States, United Kingdom, Australia and Canada, given that the website is in English and the third party supply chain is established to serve these markets and Western Europe. Redbubble is expanding to cover additional languages and geographies, thus expanding the addressable market. Redbubble's German language website went live in February 2016.

The Customers in the Redbubble marketplace are more likely than the average consumer to express their individual creativity and thoughtfulness in what they buy, whether for themselves or as gifts. According to a survey commissioned by Redbubble in 2015, this sentiment is shared by 58% of all Millennials. Millennials with this sentiment is Redbubble's largest customer segment and represents its "Bull's-Eye" (i.e., target) market. Beyond this Bull's Eye are the 35% of Redbubble customers aged 35 and over.

As noted in Section 2.2, Redbubble competes in a number of large global markets with strong underlying growth, including the global online apparel and footwear market (estimated to be worth approximately US$81 billion in 2014) and the global online market for furniture, kitchens and household goods (expected to be worth approximately US$131 billion market in 2016). These figures show the scale of the overall markets in which Redbubble operates. With GTV of $88.4 million in FY2015, Redbubble is only a small portion of the overall market, but the scale of the market provides Redbubble with significant opportunities to grow its business.

## 2.5. Regulatory environment

Redbubble is subject to a variety of laws and regulations in Australia, the United States, Europe and around the world. These laws and regulations cover areas which apply to many traditional businesses (such as employment, taxation, consumer protection and intellectual property), as well as newer laws and regulations focused on the internet and online e-commerce (such as payment systems, privacy, anti-spam and data protection).

Like other companies operating on the internet, Redbubble must comply with a growing number of local, national and international laws and regulations in these areas, and these laws are often complex and are frequently still evolving. Redbubble has a strong focus on ensuring compliance with its regulatory obligations and regularly reviews its operations in light of regulatory developments that may impact its business. Where necessary, Redbubble modifies its policies and procedures to ensure compliance.

# 3

# COMPANY OVERVIEW

# 3 Company Overview

## 3.1. Redbubble's business

Redbubble is a three-sided global online marketplace where independent artists upload their designs and creative works and, only when it is ordered by a Customer, the product is produced on demand by one of a network of third party fulfillers.

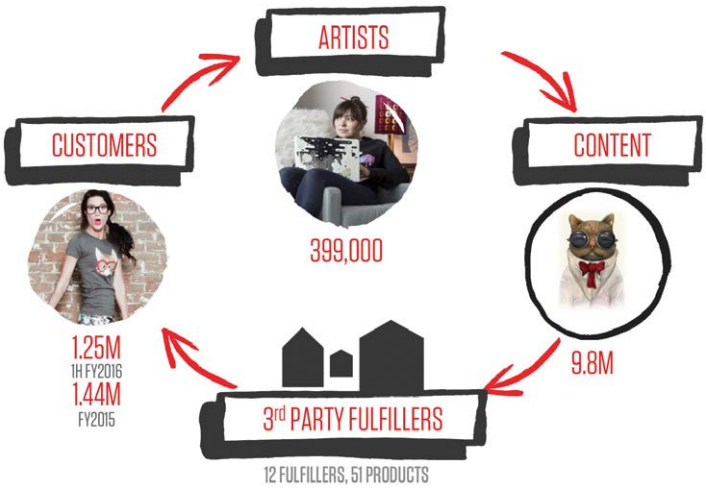
Exhibit 3.1: The Redbubble mission

**REDBUBBLE IS CREATING THE WORLD'S LARGEST MARKETPLACE FOR INDEPENDENT ARTISTS, BRINGING MORE CREATIVITY INTO THE WORLD.**

More than 399,000 independent Artists[9] currently use the Redbubble platform. Artists have earned a total of $44.1 million through sales on the Redbubble marketplace since its launch. The highest earning Artist in FY2015 made over $54,000 from sales on the Redbubble marketplace.



Exhibit 3.2: The Redbubble marketplace




Since its launch, more than 4.2 million Customers from over 200 different countries have shopped on Redbubble, finding designs and creative works that reflect their individual interests, passions and creativity. In total, these Customers have purchased over 1.9 million different designs and creative works.[10]

9. Artists who had designs or creative works available for sale on the website as at 1 March 2016.
10. As at 31 December 2015.

Redbubble currently works with 12 fulfillers in the United States, the United Kingdom, Europe, Australia and Hong Kong. They operate 18 different production centres to fulfil the 51 different product types currently sold over the Redbubble marketplace. The number of fulfillers and production centres working with Redbubble continues to increase, improving local sourcing and reducing delivery times for Customers.

Redbubble's business model differs from the average retailer or online store because of the vast range of available designs and creative works made possible by the independent Artists who sell in the Redbubble marketplace. Redbubble appeals to consumers who are seeking affordable, distinctive and high-quality products. With consumers increasingly wanting to express their personal style and demanding customised experiences, Redbubble is strongly positioned for growth.

## 3.2. Redbubble's history

| Financial Year | Event |
|---|---|
| 2006 | Redbubble founded by Martin Hosking, Paul Vanzella and Peter Styles in Melbourne, Australia |
| 2007 | Initial design concepts for the website created |
| 2007 | Seed funding raised from high-net worth individuals |
| 2007 | Internal development team recruited |
| 2007 | Redbubble.com launched on 2 February |
| 2007 | First orders shipped from first Australian fulfiller: wall art and greeting cards |
| 2007 | First apparel products introduced: t-shirts from United States fulfiller |
| 2008 | Multi-currency capability provided |
| 2008 | Canvas prints, posters, calendar launched |
| 2008 | First mission statement published: "We stand for artists and ... the buyers they move." |
| 2008 | First United States fulfiller added |
| 2009 | Winner of Two Cool Company Awards from Anthill |
| 2009 | Expanded range of wall art products and launched calendars |
| 2009 | Nine staff at 30 June |
| 2010 | Stickers launched |
| 2010 | Richard Cawsey joined the Board |
| 2010 | Martin Hosking became CEO |
| 2010 | First European fulfiller added |
| 2011 | First Bay Area office opened in Mountain View, California |
| 2011 | Winner of Smart Company Award for Best Website under 20 Employees |
| 2012 | Seven new products launched, mainly apparel |
| 2012 | First million dollar GTV month in November 2011 |
| 2012 | First electronic accessory case product launched |
| 2013 | Mobile responsive website launched |
| 2014 | First million dollar GTV day in December 2013 |
| 2014 | Ten new products launched |
| 2014 | 90 staff at 30 June |
| 2014 | First Facebook ads |
| 2015 | Winner of Pixel People Choice Award and Hermes Platinum Award for the Blog |
| 2015 | First cut-and-sew products launched (leggings and scarves) |
| 2015 | $15.5 million raised from institutional investors |
| 2015 | 12 new products launched |
| 2015 | 138 staff at 30 June |
| 2016 | First European employee hired |

## 3.3. The Redbubble marketplace

Redbubble is a leading global online marketplace for independent artists connecting:

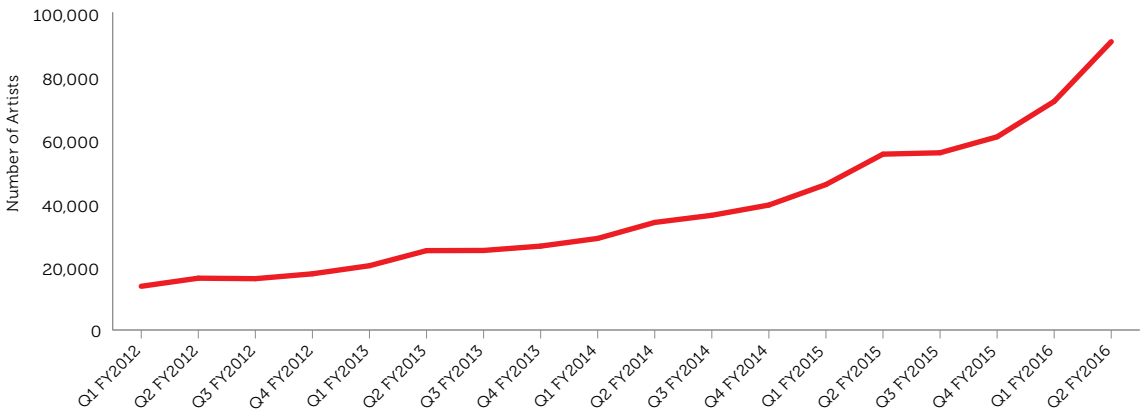
- a global community of independent artists and designers looking to showcase and sell their work;
- consumers seeking distinctive designs and creative works across a range of quality products including apparel, accessories, homewares, and other lifestyle categories; and
- third party fulfillers utilising leading edge capabilities to produce the products after they have been ordered by the Customer in a print-on-demand model and then arranging for their delivery to the Customer.

### 3.3.1. Artists

Redbubble was founded with a commitment to support independent artists and enable them to reach a global audience. Independent artists remain at the heart of the Company's culture and business practices. In the fourth quarter of FY2015, 60,801 Artists sold product on the Redbubble marketplace, an increase of 55% from the fourth quarter of FY2014.

Exhibit 3.3: Strong growth in selling Artists

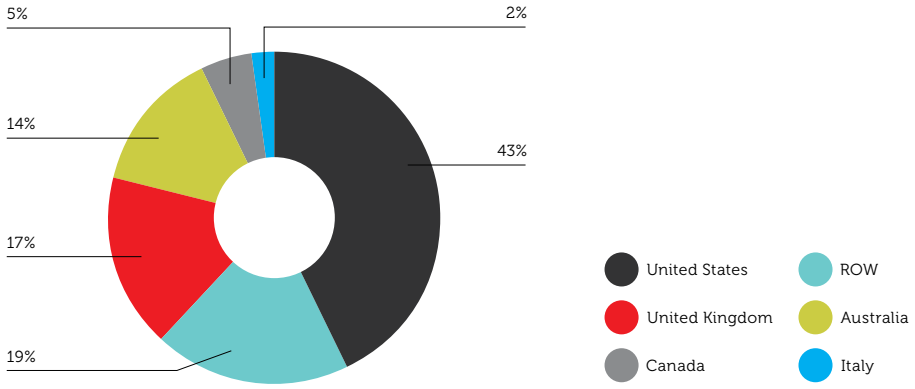
Artists with sales by quarter




Since Redbubble.com was launched in 2007, Artists have earned $44.1 million on the Redbubble marketplace from sales of 1.9 million designs and creative works.[11] In FY2015, 90,000 new Artists joined Redbubble, with the highest earning Artist for FY2015 earning over $54,000 from sales on the Redbubble marketplace. As shown in Exhibit 3.4, Artists on the Redbubble marketplace are widely distributed throughout the world.

Exhibit 3.4: Artists are geographically spread

Geographical spread of selling Artists (FY2015)




11. As at 31 December 2015.

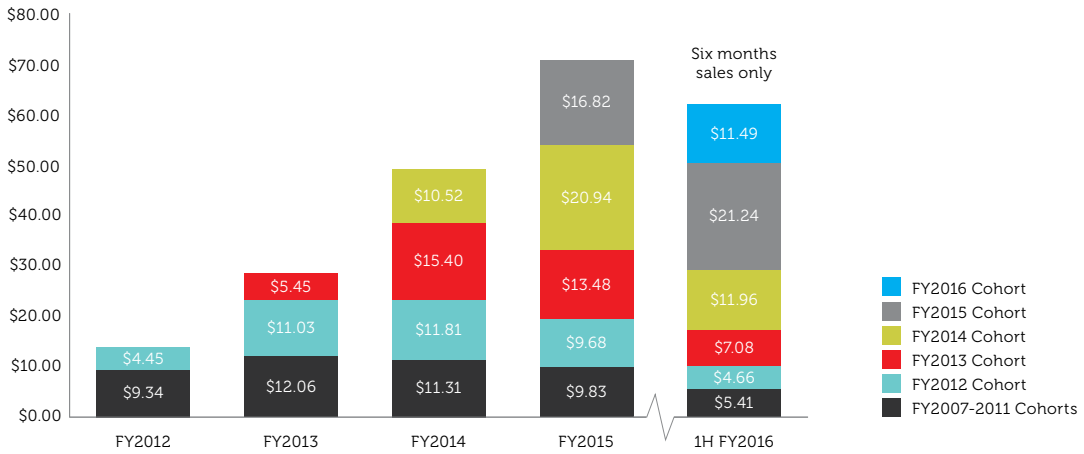
The core to Redbubble's marketplace is the depth and breadth of selling Artists. They create the diversity and richness of the marketplace through the designs and creative works they upload. The number of Artists selling has increased with overall growth in GTV, and so has the number of items sold by each selling Artist and their individual overall sales.

An additional dynamic of individual Artist contribution to GTV is longevity. When GTV is allocated to cohorts[12] of Artists (grouped by their first year of sale), it shows that Artists continue to contribute to GTV long after their first sale. Artists enjoy a long selling life with Redbubble, extending over many years and with no arbitrary endpoint. Sales from the cohort of Artists who first sold in FY2015 contributed $16.82 million of GTV in that financial year. In the first half of the following financial year, 1H FY2016, sales from this same cohort of Artists contributed $21.24 million of GTV. Similarly, Artists who first sold in FY2012 contributed $4.45 million of GTV that financial year, and contributed a further $4.66 million of GTV in 1H FY2016. This ongoing contribution to future sales forms a basis of growth for Redbubble.

Exhibit 3.5: Artist retention is strong

Artist contribution to total Sales by first sales year cohort

(Excludes shipping and self purchases)

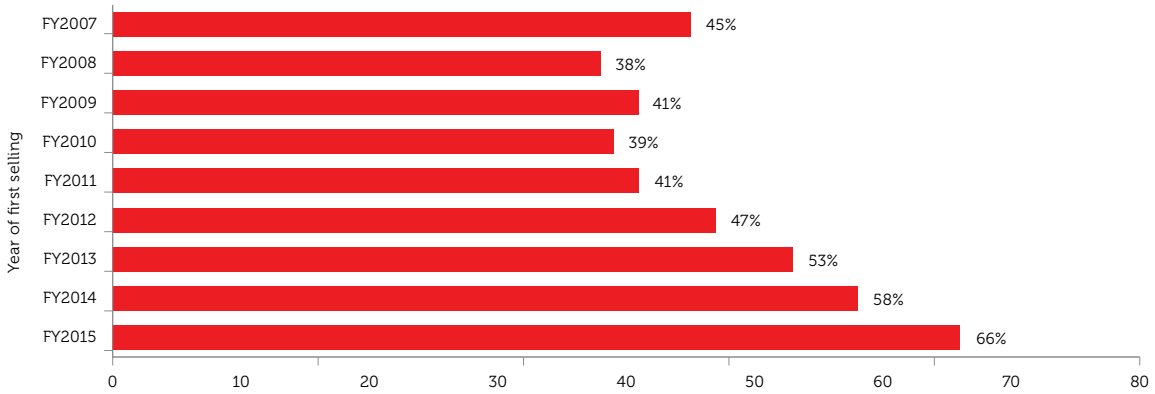



A key value proposition of Redbubble's ecosystem is that once Artists join Redbubble and upload their designs and creative works, no further work is required by them and they can continue to sell that design going forward. Of those Artists who first sold in FY2013, 53% also made sales in FY2016. Of those Artists who made sales in FY2007 (Redbubble's first year), 45% also made sales in FY2016. Further illustrating the high Artist loyalty Redbubble enjoys is the proportion of Artists who only sell online via the Redbubble marketplace. A 2014 Redbubble survey of Artists found that 45% of them did not sell on any other website.

Exhibit 3.6: Artists continue to sell for many years

Artist retention

% of Artists who made sales in FY2016 (up to 1 March 2016)




12. A "cohort" is a group of Artists whose first sale on Redbubble occurred in the same period of time.

Each Artist who elects to offer their designs and creative works for sale on the Redbubble marketplace must enter into a User Agreement with Redbubble before doing so (**Redbubble User Agreement**), The key terms of the Redbubble User Agreement provide for the following.

- The Artist retains the copyright in all designs and creative works that they make available on the Redbubble marketplace, although they grant to Redbubble a royalty-free, non-exclusive licence to use that copyright in the provision of services via the Redbubble marketplace.
- The Artist acknowledges that they own or have the right to use the intellectual property rights in the designs and creative works they upload and sell via Redbubble and agrees to indemnify Redbubble and third party fulfillers for any claims arising out of their activities in connection with the website.
- The Artist sets the price at which each product bearing their design or creative work is made available for sale. The price is equal to a base fee (equal to the manufacturing fee charged by the relevant fulfiller plus Redbubble's fee for hosting the marketplace and facilitating the transaction) plus the margin specified by the Artist. The base fee is, effectively, a fixed amount per product and the Artist has control over the margin they wish to charge – giving the Artist ultimate control over the price for the product bearing their design or creative work. The Artist may vary the margin at any time.
- Upon a Customer placing an order on Redbubble for a product bearing the Artist's design or creative work, the order is forwarded to the relevant fulfiller to produce the product on behalf of the Artist and arrange for its shipment to the Customer.
- Redbubble receives the payment from the Customer for each product sold. Redbubble then deducts the base amount (paying it to the relevant fulfiller and retaining its fee) and remits the balance to the Artist within the first 10 days of the month following the month in which the sale was made.
- The Artist is responsible for the payment of all taxes associated with the sales they make via the Redbubble marketplace.
- The Artist is not subject to any exclusivity restrictions, the Redbubble User Agreement has no fixed term and both Redbubble and the Artist are able to terminate the Redbubble User Agreement without the requirement for any minimum notice period.



### 3.3.2. Customers

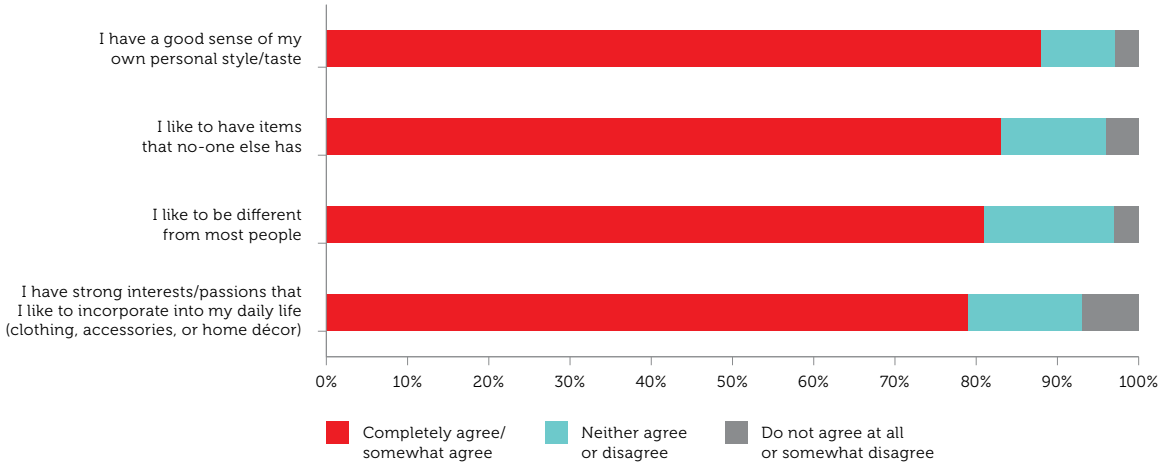
With 9.8 million Saleable Designs on the Redbubble marketplace,[13] Customers are able to find designs and creative works that resonate with them. As a result, Redbubble attracts a large number of Customers, 1.44 million in FY2015 and 1.25 million in 1H FY2016. The diversity of Customers and creative content is reflected in purchasing behaviours: in FY2015 65% of sales by value came from works that sold 50 times or less, and the top five selling works accounted for only 0.29% of total sales.

The most important reasons cited by Customers for purchasing are self-expression, creativity and finding products not readily available elsewhere. The psychology that motivates this group is more noticeable amongst Millennials who comprise 52% of Redbubble Customers. But with 35% of Redbubble Customers older than this segment, the psychology is clearly not confined to Millennials and Redbubble expects that over time, as with so many "youth" trends, personalisation and self-expression will grow in appeal.

13. As at 1 March 2016.

Exhibit 3.7: Redbubble Customers pursue individual style

Redbubble Customer survey

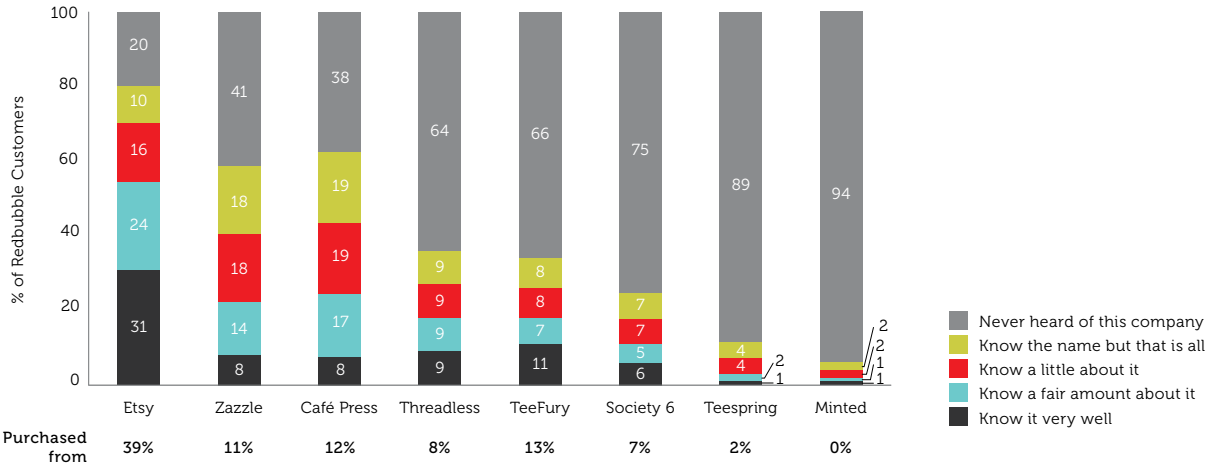



Some 57% of Redbubble Customers are female, and gifting behaviours are important with 28% of all Customers surveyed citing gifting as a reason for purchase. Customers perceive they get a distinctively different shopping experience from Redbubble than traditional retailers with more creative products available.

Based on a Customer survey in 2014, Redbubble Customers had little perception of direct online competitors. The most commonly cited direct competitor is the United States company, Etsy, with 71% of Redbubble Customers being aware of this website. There was little awareness of other major print-on-demand offerings.



Exhibit 3.8: Redbubble Customers perceive no clear competitor




Source: Redbubble Buyer Survey 2014.

In recent years, Redbubble has implemented a number of initiatives related to driving repeat purchasing behaviour. These initiatives have had a noticeable impact on sales, with the number of Repeat Customers in 1H FY2016 increasing by 96% from 1H FY2015. Repeat Customers accounted for 34% of GTV in 1H FY2016, an increase from 31% of GTV in 1H FY2015.

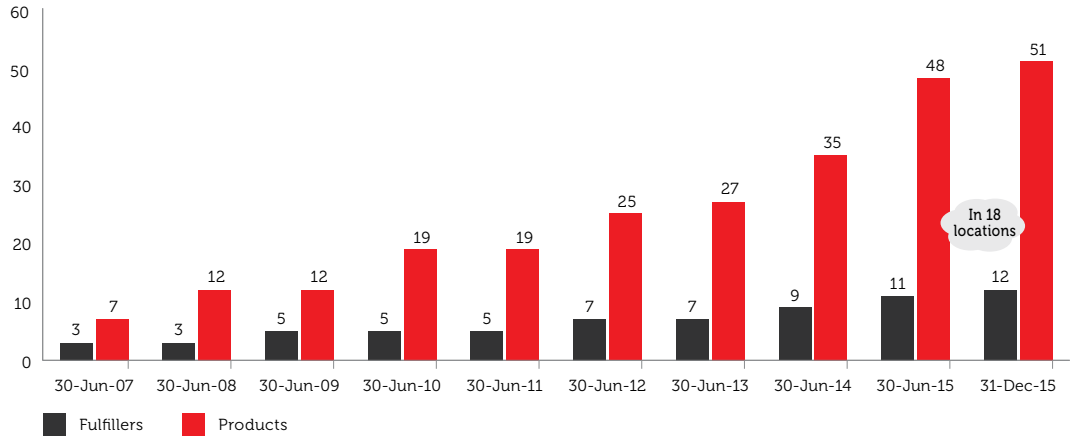
### 3.3.3. Fulfillers

The third component of the Redbubble marketplace is the global network of third party fulfillers, who print the designs and creative works on the individual products after they have been ordered by the Customer, and then arrange drop shipment of the order directly to the Customer.

Redbubble currently works with 12 fulfillers across 18 locations in four continents to provide 51 different product options on its marketplace, ranging from postcards to doona covers. Once orders are placed, they are digitally forwarded to an appropriate fulfiller via Redbubble's transaction management platform. Orders are matched to specific fulfiller locations based on product type and the delivery destination of the Customer. Using state-of-the-art printing techniques, fulfillers print products generally within one to two business days, package the order, and arrange shipment of the finished products via a network of third party shippers. This complex network and sophisticated infrastructure has been developed by Redbubble over 10 years and represents a significant barrier to entry to competitors trying to replicate Redbubble's value proposition. The management capability provided by Redbubble's internal supply chain team is a core competency and strategic asset of the business model.

Exhibit 3.9: The fulfilment network has grown steadily

Number of Redbubble fulfillers and products




From the fulfiller's perspective, Redbubble is a lead generation tool, aggregating millions of customers and delivering thousands of orders directly to them. As a result, fulfillers do not need to make any investment in customer acquisition and can focus on production. In return, they provide all necessary capital investment and skill development necessary to match capacity and quality requirements of the Redbubble marketplace.

Redbubble maintains close working relationships with the fulfillers in the network, yielding benefits in terms of quality assurance and superior products. Currently, Redbubble has limited contractual relationships with its fulfillers. Under the informal arrangements that are in place, upon receipt of an order placed via the Redbubble website, that fulfiller agrees to produce the relevant product for the Artist, based on prices provided by the fulfiller from time to time, and provide the product to the drop shipment provider. The extent of any formality within these arrangements extends to the price per product (specified by the fulfiller from time to time) and key performance indicators for processing orders. The fulfillers are not subject to any exclusivity restrictions, the arrangements have no fixed term and both Redbubble and the fulfiller are able to terminate the arrangements without the requirement for any minimum notice period. This approach to fulfiller engagement provides Redbubble with the flexibility to introduce new fulfillers and manage capacity accordingly. Redbubble considers that this approach gives it operational flexibility, but recognises that it exposes the Company to risks if any of the fulfillers seek to alter the terms on which they currently provide services (see Section 5.2.12). Redbubble considers that the operational flexibility benefits presented by its approach and the strength of the relationships outweigh the risks.

## 3.4. Redbubble's business model

The Redbubble business model is that of a marketplace facilitating the transactions between independent artists and customers looking for distinctive products. For every product sold on the Redbubble marketplace, Redbubble receives a service fee for connecting the Artist, Customer and fulfiller.

Artists and designers from almost anywhere in the world create their own designs and creative works using a wide range of techniques and digital design tools. Artists then:

- upload their designs and creative works to Redbubble;
- choose the products on which they would like their designs and creative works to appear;
- set their mark-up over a base price for each product, which includes Redbubble's service fee and the manufacturing fee; and
- offer their designs and creative works for sale on the Redbubble marketplace.

All image ownership rights are retained by the Artists.

Customers seeking personal and distinctive products visit the Redbubble website on their desktop computer, tablet or mobile device. They can search (by product, theme, or Artist) or browse for the specific items that they are looking for and that most resonate with them. Once the Customer has found a design and selected the product they wish to buy, they proceed to checkout and pay via credit card or other industry standard payment methods.

Once orders are placed, the order information is immediately sent to one of the third party fulfillers via Redbubble's online platform, and enters the fulfiller's production queue. The chosen design is then printed on the selected product using state-of-the-art print-on-demand techniques, packaged, and shipped directly to the Customer's chosen address. Redbubble handles any customer support issues that may arise.



Redbubble is neither the seller (Artists have that role), nor the producer of the product (fulfillers and suppliers have that role). Redbubble's business model differs from some marketplaces in that it collects the gross value of the products sold (including Artist Margin) upfront and distributes payment to the Artists, tax authorities and fulfillers, generally 21 to 30 days after the product is shipped. This model provides Redbubble with the benefits of a favourable cash flow cycle as it grows. With the exception of CRPS and Convertible Notes (which will convert into Shares on Completion of the Offer), Redbubble has no debt financing arrangements.

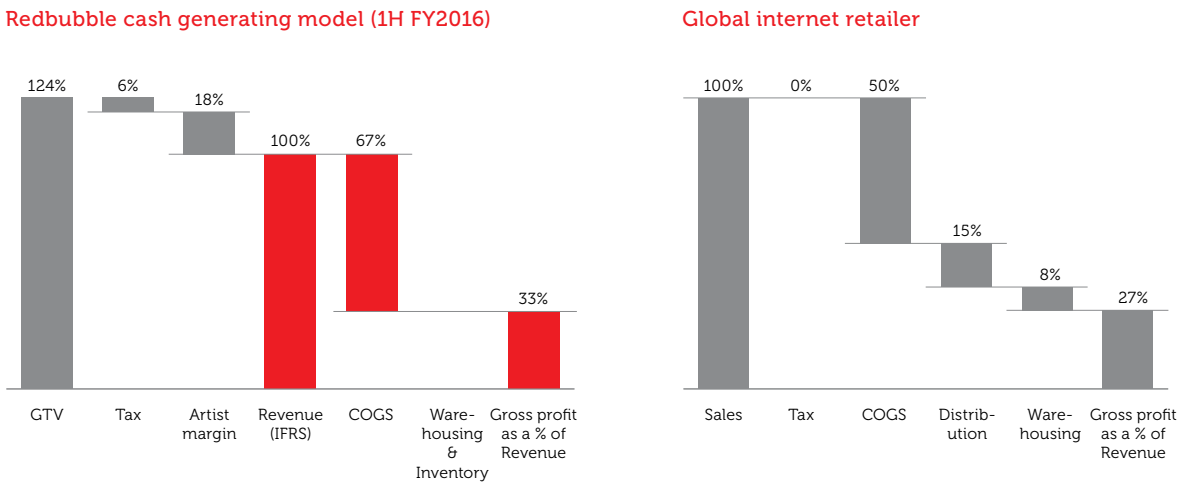
Redbubble is a global business with over 94% of GTV from outside Australia. Receipts are in local currency: predominantly in US Dollars, but also in British Pounds, Euros, Canadian dollars and Australian dollars. Redbubble is therefore exposed to any movements in foreign exchange rates of the selling currencies relative to the Australian dollar.

At the profit level, this exposure is partly offset by fulfilment expenses also being incurred predominantly in US Dollars and British Pounds. The sensitivity analysis set out in Section 4.8 provides guidance on the impact of foreign exchange movements based on the forecast FY2017 financial results.

The breakdown of the 1H FY2016 cash flows, outlined in Exhibit 3.10, illustrates the business model. Redbubble's revenue is derived from deducting tax and the Artist Margin from GTV such that revenue is approximately 80% of GTV (with revenue being 24% less than GTV in 1H FY2016). The gross profit is derived by deducting the cost of fulfilment (including shipping and transaction costs) from revenue (with gross profit being 33% of revenue in 1H FY2016). Given the business model and the cash flow cycle described above, while Redbubble's revenue grows, negative working capital is generated.

This cash flow model differs from traditional and bricks-and-mortar retailers that are dependent upon sizeable outlays in working capital for cost of sales, inventory and warehousing. As shown in Exhibit 3.10, for one such retailer 73% of their revenue was devoted to these outlays.

Exhibit 3.10: Redbubble's business model has a positive cash cycle




Redbubble's business model allows it to grow sales without the requirement for deep working capital and frees up capital to enable growth initiatives such as expanding the product range.

## 3.5. Redbubble's marketplace growth

The dynamics of the Redbubble marketplace have driven strong, consistent growth. In FY2015, the top line growth metric for the Company, GTV, [14] grew by 37.9% on a constant currency [15] basis from FY2014 and totalled $88.4 million. Given that Redbubble is a global marketplace, constant currency GTV growth is the best reflection of overall growth of the business. On a floating currency basis, the growth in GTV in FY2015 was 49%. Over the same period, revenue grew by 46.4% to $71.1 million. On a constant currency basis, the growth in revenue was 35.5%.



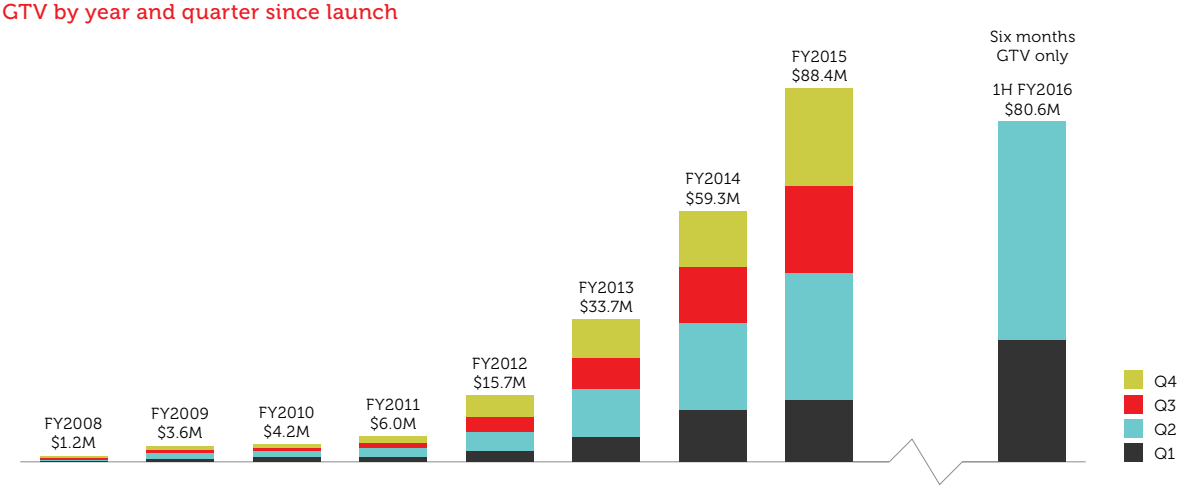
GTV has grown at a CAGR of 91% on a constant currency basis between FY2011 and FY2015. Solid GTV growth continued in 1H FY2016, with GTV growing by 55.4% on a constant currency basis over 1H FY2015 (and 80% on floating currency basis). Revenue grew by 71.4% to $62.3 million. On a constant currency basis, the growth in revenue was 47.9%.

The Redbubble marketplace has material seasonality. The second quarter of the financial year (October to December) includes the Christmas season and over the last three years has averaged 42% of total GTV for the financial year.

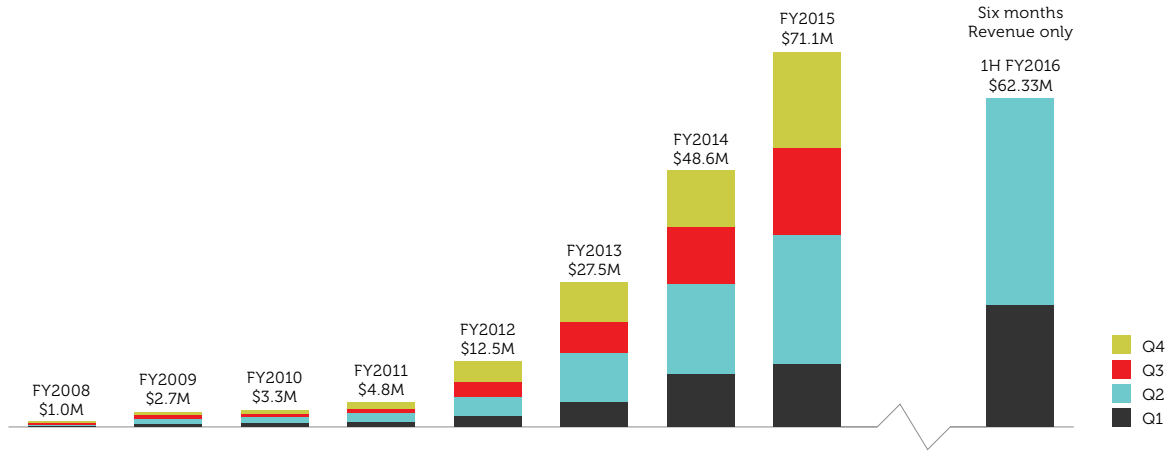
14. GTV is calculated as the total amount of sales processed through Redbubble less refunds, fraudulent transactions and Chargebacks. GTV therefore equates to the value of cash receipts from customers (as defined in AASB107 Statement of Cash Flows published by the Australian Accounting Standards Board) as represented in Redbubble's statutory and pro forma historical and forecast cash flows.
15. Constant currency numbers are derived by converting the underlying historical GTV and revenue, generated in the four currencies other than Australian dollars, into Australian dollars at the same rates assumed for the forecast instead of the rates used in preparing the IFRS financial statements. The exchange rates used for the forecast are set out in the third column of the foreign exchange rates table in Section 4.7.2.3. Management believes inclusion of constant currency numbers for GTV and revenue enables a clearer understanding of the underlying growth of the business by removing the impact of historical fluctuations in foreign exchange rates.

Exhibit 3.11: Strong growth in GTV and revenue

GTV by year and quarter since launch




Revenue by year and quarter since launch






GTV is a function of three factors: the number of website visits, the rate at which those visits convert into sales, and the order value of transactions. The first two factors have been the primary drivers of growth for Redbubble, of both year-on-year growth and growth over the last half year.

Redbubble is also focused on Customer loyalty as evidenced by Repeat GTV which has increased by 69.7% on a constant currency basis from 1H FY2015 to 1H FY2016.

Exhibit 3.12: Strong year on year growth

| | FY2014 | FY2015 | Year On Year Growth |
|---|---|---|---|
| Constant currency GTV (millions) | $69.2 | $95.5 | 37.9% |
| GTV (millions) | $59.3 | $88.4 | 49.0% |
| Repeat GTV (millions) | $16.0 | $28.8 | 79.4% |
| Constant currency revenue (millions) | $56.7 | $76.8 | 35.5% |
| Revenue (millions) | $48.6 | $71.1 | 46.4% |
| Visits (millions) | 97.4 | 103.1 | 5.8% |
| Conversion Rate | 1.24% | 1.75% | 40.5% |
| Average Order Value | $48.91 | $49.03 | 0.2% |

Exhibit 3.13: Strong half-year on half-year growth

| | 1H FY2015 | 1H FY2016 | Half-Year On Half-Year Growth |
|---|---|---|---|
| Constant currency GTV (millions) | $50.2 | $78.0 | 55.4% |
| GTV (million) | $44.8 | $80.6 | 80.0% |
| Repeat GTV (millions) | $13.9 | $27.4 | 97.1% |
| Constant currency revenue (millions) | $40.8 | $60.3 | 47.9% |
| Revenue (millions) | $36.4 | $62.3 | 71.4% |
| Visits (million) | 48.2 | 75.2 | 56.0% |
| Conversion Rate | 1.88% | 2.00% | 6.2% |
| Average Order Value | $49.30 | $53.54 | 8.6% |

## 3.6. Customer acquisition

Redbubble has low cost customer acquisition channels. Traditional internet retailers typically focus on acquiring customers at a cost below their estimate of the customer's lifetime value and accordingly deploy large marketing budgets in order to scale their businesses. This is not the case for Redbubble with approximately 70% of GTV generated from free sources (such as organic search, [16] direct [17] and email). Combined with its attractive cash flow cycle, this has enabled the Company to scale with low invested capital.

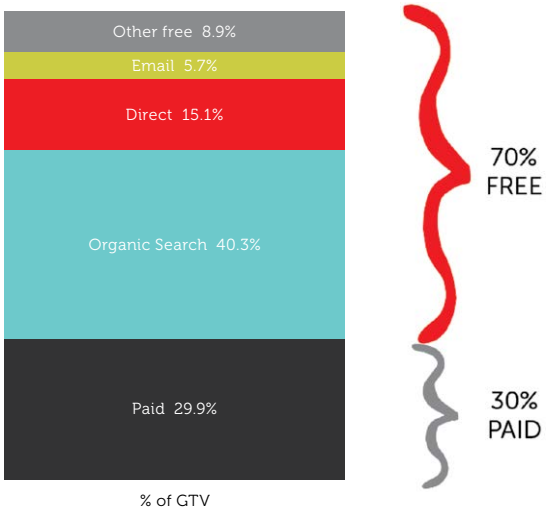
Redbubble has a range of customer acquisition channels at a lower marketing cost than traditional retailers. Organic search, at a little over 40% of GTV, is the largest source of free traffic. The high quality and diversity of the content on the Redbubble website attracts customers through this channel. A well-developed information architecture, the website's longevity and content ranking facilitate this. Other sources of free traffic reflect word-of-mouth in various forms: people coming directly to Redbubble.com, social referrals and referrals from other websites. Email remains a relatively undeveloped channel for Redbubble at only 5.7% of GTV.

Paid channels [18] have been showing solid growth, matching that of the organic channels, and are currently profitable on a Customer's first purchase. The diversity and depth of the content in the Redbubble marketplace has enabled the Company to utilise the power of online search and social networks to target customers, reducing ad spend and increasing its effectiveness.



16. Organic search is a reference to visits to the Redbubble website from clicks on listings on search engine results pages that appear because of their relevance to the search terms, as opposed to their being advertisements.
17. Direct is a reference to visits to the Redbubble website from entering the website address directly in a browser or through browser bookmarks.
18. Paid channels is a reference to visits to the Redbubble website from clicks on paid advertisements. Examples include pay per click advertising on search engines like Google and advertising on Facebook.

Exhibit 3.14: 70% of Customers from free sources



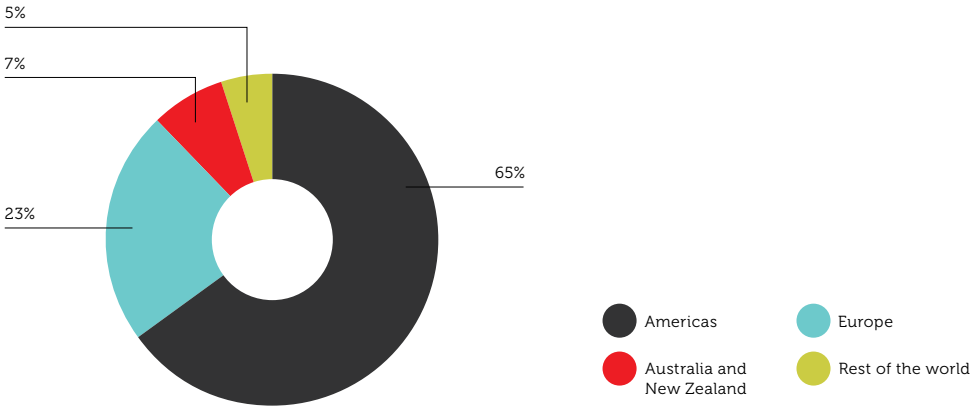

## 3.7. Geographic expansion

Redbubble is a global company with 94% of GTV in 1H FY2016 from outside Australia. Exhibit 3.15 shows the breakdown of GTV by geography in 1H FY2016.

Exhibit 3.15: 93% of sales outside Australia and New Zealand



GTV by geography in 1H FY2016




This global reach seems set to continue with the United States and the United Kingdom as Redbubble's strongest growing markets in 1H FY2016. Despite the lack of a German language website, Germany was the third fastest growing market. This was a key factor in management's decision to launch a German language version of the website in February 2016 as Redbubble's first foray into a non-English language version of the website.

## 3.8. Mobile delivery

Mobile traffic to Redbubble has been growing at two to three times that of desktop traffic and in 1H FY2016 represented 43% of all traffic. In line with broader industry trends, mobile traffic converts at a lower rate than desktop and as a result it represented only 25% of GTV in 1H FY2016.

Currently, Redbubble serves mobile traffic through a responsive website. The Company has a mobile first approach to the development of the website, meaning that its appearance and functionality for mobile users is the starting point

for developing the user experience. This has provided a good mobile experience for Customers and has allowed them to engage with the website without the need to download a mobile app.

Mobile uptake is continuing to grow. Creating and improving the mobile experience for Repeat Customers and Artists is a strategic priority. App functionality, to take advantage of the distinctive capabilities of smart-phones for these loyal users, is under active investigation. This will allow Redbubble to further enhance Artist and Customer retention.

## 3.9. Redbubble's technology platform

Redbubble utilises the latest software engineering practices such as continuous deployment, rapid iteration cycles, high degrees of automated test coverage and user data driven decision-making. This enables a fast-moving product development cycle that adapts quickly to marketplace and competitive landscape changes. Redbubble's infrastructure uses a cloud-based, modular architecture allowing automated tooling which can handle high variances in traffic demands from Artists, Customers and fulfillers.

For the Artist, Redbubble has created a set of tools for the upload, customisation and management of Artist portfolios. Based on Artist feedback, these tools set Redbubble apart from its competition. Redbubble is constantly evolving and upgrading these Artist features.

For the Customer, Redbubble continues to refine its state-of-the-art search, browsing and outbound engagement recommendation engine to best match users with products.

For the fulfiller, Redbubble is enabling more automated processes to bring new fulfillers and new product lines into the Redbubble marketplace. This includes advanced tools for rollout of new product offerings throughout the designs and creative works already on the platform. The Company is creating this platform as an API to enable easier integration of third party fulfillers into the Redbubble marketplace.

Redbubble is enabling its platform to be globally scalable from the ground up and takes a "mobile first" approach to development.



The Redbubble website is built by a diverse, experienced and product-focused engineering team with particular expertise in the fields of data science, machine learning and artificial intelligence, specialised customer insights, platforms and APIs, and resilient large-scale image-heavy applications and systems.

Customers can currently pay for orders by credit cards, Amazon or PayPal. To protect Redbubble Customers' financial data, the Company maintains a Payment Card Industry Data Security Standard (**PCI DSS**) compliant system through its hosting and payment providers. Payment acceptance and processing are entirely outsourced to PCI DSS validated third party service providers: GlobalCollect/Cybersource, PayPal and Amazon. No cardholder data is stored, processed or transmitted on Redbubble systems or premises.

## 3.10. Product categories

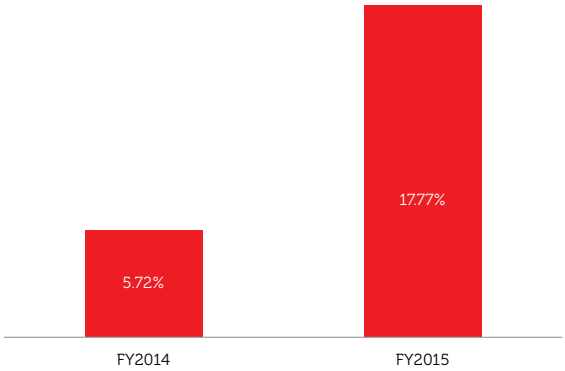
Redbubble has a category-driven approach to new products with a focus on apparel, home decor, wall art, electronic device cases, stationery and accessories. The Company has worked with product manufacturers and fulfillers to develop a diverse product portfolio that is available on the Redbubble marketplace, enabling Artists to expand their offering on the marketplace through affordable, high-quality products that appeal to customers.

The most mature product categories on Redbubble are t-shirts (with 13 styles for men, women and children), wall art and stickers, which continue to see strong year-on-year growth. The home decor category, which includes cushions, doona covers and mugs, is one of the biggest growth categories.

Redbubble has an in-house product development team working with third party fulfillers to launch new products that suit the wide range of designs and creative works on the website. Recent product launches include scarves, hardcover journals, women's leggings and bags.

Exhibit 3.16: New products are a major contributor to sales growth

New products* share of Sales




* A product is defined as "new" for 12 months from launch.

The table below shows the range of 51 different products that are available on the Redbubble marketplace:

Exhibit 3.17: 51 products are currently available on the Redbubble marketplace

| Apparel | Accessories | Homewares | Stationery | Art/Prints |
|---|---|---|---|---|
| Unisex t-shirt | iPhone Case Snap | Throw pillow | Greeting card | Poster |
| V-neck t-shirt | iPhone Case Tough | Doona cover | Postcard | Canvas |
| Baseball ¾ t-shirt | iPhone skin | Travel mug | Calendar | Photographic print |
| Long sleeve t-shirt | Samsung Galaxy Snap | Standard mug | Spiral notebook | Art print |
| Graphic t-shirt | Samsung Galaxy Tough | Tall mug | Hardcover journal | Framed print |
| Pullover hoodie | Samsung Galaxy Skin | | | Metal print |
| Zip hoodie | iPad snap case | | | |
| Sweatshirt | iPad skin | | | |
| Unisex tank top | Laptop skin | | | |
| Women's t-shirt | Laptop case | | | |
| Fitted scoop t-shirt | Stickers | | | |
| Fitted v-neck t-shirt | Tote bag | | | |
| Relaxed fit t-shirt | Studio pouch | | | |
| Racerback tank | Drawstring bag | | | |
| Leggings | | | | |
| Scarf | | | | |
| Pencil skirt | | | | |
| Kids t-shirt | | | | |
| Baby t-shirt | | | | |
| Baby short sleeve one-piece | | | | |
| Baby long sleeve one-piece | | | | |

## 3.11. Customer satisfaction

Redbubble focuses on increasing repeat purchase behaviour and customer loyalty with their related word-of-mouth and social marketing benefits. In order to achieve this Redbubble has concentrated on the customer experience; delighting and surprising wherever possible.

The concept of Net Promoter Score (**NPS**) is a widely used customer loyalty metric. Thirty days after their purchase, every new Redbubble Customer is asked "How likely are you to recommend Redbubble to a friend?" on a scale of 1 to 10.

- A score of 9 or 10 is a promoter.
- A score of 7 or 8 is a passive.
- A score of 0 to 6 is a detractor.

An NPS score is calculated as the percentage of promoters minus the percentage of detractors. This gives a score which can be as low as –100 or as high as +100. An NPS score that is positive indicates more promoters than detractors. Redbubble uses an independent third party to administer the NPS questionnaire.

The following table shows the improvement in Redbubble's NPS scores from December 2014 to December 2015 in some key markets.

**Exhibit 3.18: Solid growth in Customer satisfaction**

| Region | NPS December 2014 | NPS December 2015 | Percentage Improvement |
|---|---|---|---|
| United States | 63 | 74 | 17% |
| United Kingdom | 63 | 69 | 10% |
| Germany | 41 | 55 | 59% |

A cross-functional team regularly reviews all Customer data and prioritises improvement opportunities. Initiatives that have significantly improved the customer experience include faster delivery to the United Kingdom and European Customers and technical image processing that improved print quality on t-shirts.

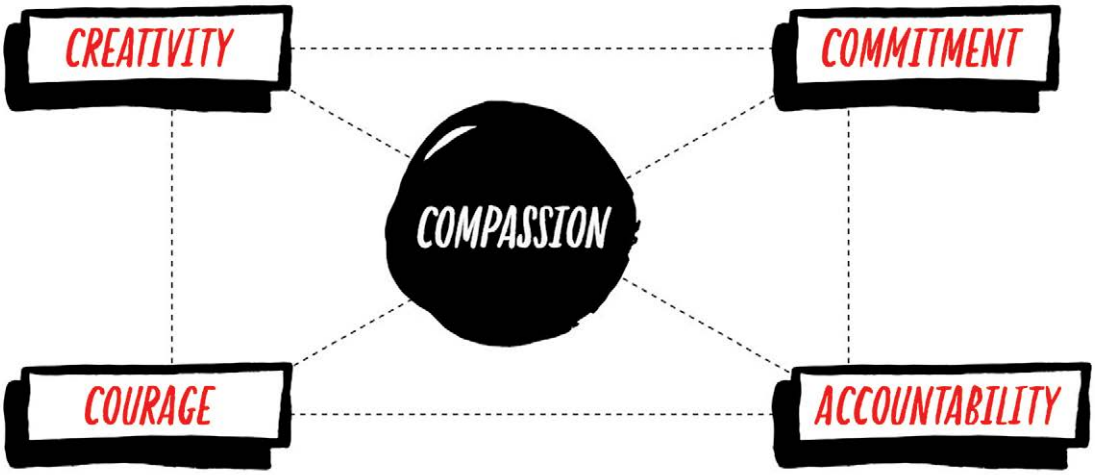
## 3.12. People and culture

Redbubble has established employee-related processes and policies which foster team member engagement and an ownership mindset. In 2014 and 2015, the Company participated in the Great Place to Work survey. In 2015, 81% of employees said that "Taking everything into account Redbubble was a Great Place to Work". Redbubble undertakes a fortnightly single question survey of all employees to track progress on people and culture issues and to create a "feedback loop".

The Company has established its People and Culture practices around the idea of a purpose driven company of enduring value. Mission and culture are central to all hiring and employment decisions. Redbubble also has Employee Equity Plans aligning long-term rewards to share value growth.

In 2016, the Company adopted its 5C's to define the behavioural attributes that Redbubble considers necessary for its success and the success of the individuals within it.

Exhibit 3.19: The "5Cs" of Redbubble Values




As at 1 March 2016, Redbubble had 158 team members across Australia, the United States and Western Europe. Redbubble's head office is located in Melbourne, Australia and it maintains an office in San Francisco, United States.

Redbubble has separated its business into the following reporting lines, which report either directly to the CEO and Managing Director or, in the case of Technology and Product Development, to the Chief Operating Officer.

- Finance;
- Fulfilment and Analytics;
- Legal;
- Technology; and
- Product Development.



## 3.13. Corporate responsibility

Redbubble is committed to sound corporate practices that reflect a sense of its obligations to the societies in which it works. Specific activities that follow from this include:

- Nurturing innovative programs, particularly in Australia, for the development of best-practices in technology and innovation. This follows from the Company's position as a global technology company and is reflected in such things as internship programs, active speaking programs and sponsoring of events.
- Developing up-and-coming artists. In addition to the website, which most comprehensively plays this role, Redbubble has an artist-in-residence in Melbourne (with an artist-in-residence program to be implemented in San Francisco soon) and maintains a program of speaking and other engagements for the local artist communities centred on these offices.
- A "major global tragedies" policy under which the profits relating to designs and works created around designated high-profile tragedies, such as the Charlie Hebdo massacre, are donated to charity.

## 3.14. Competitive advantages

Over a period of 10 years, Redbubble has built up a range of competitive advantages that create barriers to entry for any potential new entrant.

**Natural marketplace effect:** The natural marketplace effect describes the difficulty for a potential new entrant to replicate an already large and fast-growing marketplace. A marketplace typically has two sides, the seller and the buyer. In Redbubble's case, the sellers are the Artists and the buyers are the Customers. Without Sellers, it is hard to encourage Customers to purchase products, and without Customers, the marketplace cannot encourage Sellers to sell products. This network effect provides momentum for Customers, Sellers and third party fulfillers to continue to trade through the Redbubble marketplace.

Redbubble has over 399,000 selling Artists [19] with approximately 9.8 million Saleable Designs on the Redbubble marketplace from which its Customers can select. Redbubble also had 1.25 million Customers acquire a product with one of these Saleable Designs during 1H FY2016. Accordingly, notwithstanding the lack of formal exclusivity arrangements with Artists (see Section 3.3.1):

- Artists are, and continue to be, willing to make their designs and creative works available on the Redbubble marketplace because they know that they will receive exposure to a large number of Customers.
- There is no cost for the Artist to upload their designs or creative works to the Redbubble marketplace, and the Artist retains control of pricing and the products on which their designs and creative works are made available.
- There is no reason for Artists to remove their designs or creative works from sale because once uploaded, the Artist has little more to do – they often will sell again, providing the Artists with recurring revenue with no additional effort. Of those Artists who joined in FY2013, 53% also made sales in FY2016. Of those Artists who joined in FY2007, 45% also made sales in FY2016.
- Redbubble is able to use its scale to negotiate rates of product supply the Artist could not achieve on their own.

Establishing, and then replicating, a marketplace of these dimensions would require significant investment (both of capital and time) and as a consequence, creates a barrier to entry.

**Fulfiller network:** The third leg to the Redbubble marketplace is the third party fulfiller network. Notwithstanding the informality of its arrangements with fulfillers (see Section 3.3.3), Redbubble:

- provides fulfillers with a high degree of certainty of the volume of orders they will receive year on year;
- has established mutually beneficial relationships of up to nine years with some fulfillers. Many of the fulfillers have grown in direct proportion to the growth of Redbubble; and
- currently has 12 fulfillers located in 18 locations across four continents, which are all intricately linked via Redbubble's technology platform such that order processing, transaction management, stock control, shipping control and management are automated.

Establishing, and then replicating, a fulfiller network would require significant investment (both of capital and time), and the ability to attract a fulfiller network is made more difficult for a potential new entrant as fulfillers will be less inclined to invest their own time and capital in becoming a key part of a marketplace that does not have an established customer base.

Redbubble's competitive position is further enhanced by the following:

- **The breadth and quality of Artists' content:** Redbubble's ever-growing content library allows Redbubble to provide high quality and relevant content to platforms such as Google which recognise this content in the way they rank their searches. This delivers organic and low-cost paid traffic to Redbubble, enabling profitable customer acquisition on first purchase. This search effectiveness is only possible at scale. Establishing a comparable content library would require significant investment (both of capital and time) for any new entrant.
- **High quality website:** Another deterrent for potential new entrants is the investment already made by Redbubble in the high quality website and underlying technical competency in searching its content library. Establishing a comparable technology platform would require significant investment (both of capital and time) for any new entrant.

19. Artists who had designs or creative works available for sale on the website as at 1 March 2016.

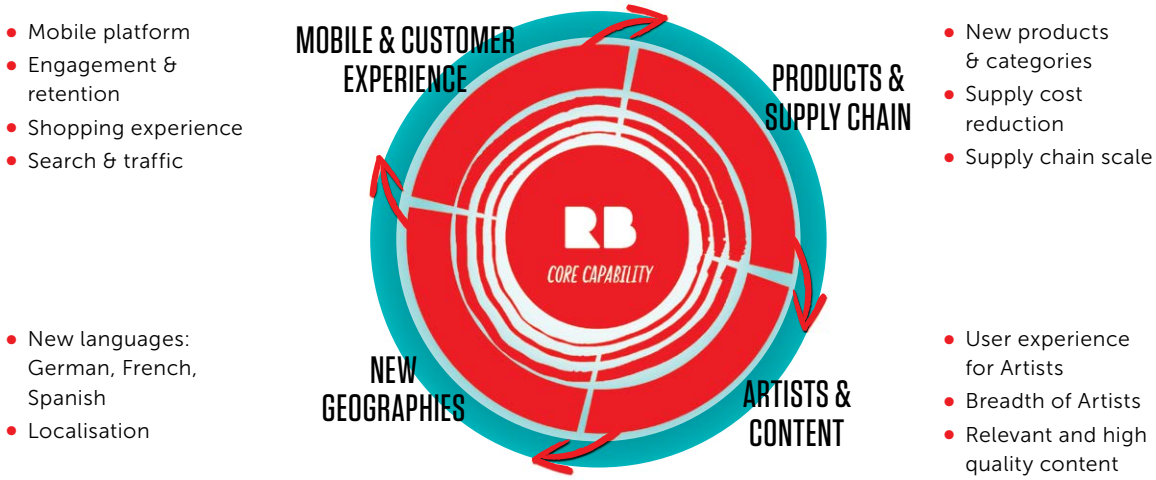
## 3.15. Redbubble's growth strategy

Redbubble's strategic priority is to establish itself as the largest global online marketplace for independent artists by continuing to invest in the marketplace dynamics that provide for low cost scaling and customer acquisition, with strong Customer and Artist retention.

As a marketplace, Redbubble attracts Artists and Customers through the dynamic network effect as more of one attracts more of the other. The growth strategy is all about enhancing this effect. There are four reinforcing areas of investment, chosen as having maximum impact on extending Redbubble's market position.

- Attracting and retaining Customers by enhancing the website experience. Specific initiatives include: improving the mobile platform, enhancing the discovery of relevant content, greater personalisation, and further developing profitable paid acquisition on the social and search ad platforms.
- Bringing in new Customers and increasing Customer purchase frequency by strengthening the product offering through increasing the number of products available, scaling the supply chain and reducing costs.
- Sustaining strong growth in selling Artists and in the content library by improving the Artist's experience and increasing Artist-related marketing and promotional activities.
- Expanding Redbubble's marketplace into new geographies and languages with a near term focus on Europe and improved delivery services for Australia and Canada.

Exhibit 3.20: Marketplace growth driven by reinforcing initiatives



## 3.16. Competitive landscape

Redbubble competes in several major retail sectors including apparel, electronic accessories, wall art, home accessories and stationery. The competitive landscape in each of these sectors includes:

- Pure online marketplaces that provide customers with an array of content on products created or designed by the artist, designer or craftsperson. There are two variants of such marketplaces, being:
  - multi-category with a broad product range. Redbubble is an example of this along with Society6 (owned by Demand Media). Etsy has a similar customer orientation but lacks access to a fulfilment network; and
  - specialists offering a limited number of products within one or more major categories: t-shirts, stationery and wall art. Examples include Minted, Threadless, Teepublic, TeeFury, Teespring, Woot, Qwerty, and FineArt America.
- Online print-on-demand services that provide customers with the ability to buy from a wide array of products printed with their own images (such as family photos), licensed content (such as Disney), out-of-licence content (expired intellectual property rights) and, to a lesser extent, images from independent artists. To the extent they sell the work of independent artists, they have marketplace characteristics. Typically, they compete on technology and cost. Examples of these competitors include Zazzle, CafePress, Spreadshirt, art.com, Snapfish and smaller print-on-demand services.
- Traditional general retailers with bricks and mortar stores and an online e-commerce platform who sell similar products, but with far less content for customers. These businesses compete in traditional ways on price, fashion, brand, marketing spend and location. Examples of these competitors include H&M, Cotton On, Uniqlo, Ikea, Typo and Target.
- Branded retailers with bricks and mortar stores and an online e-commerce platform who sell similar products (primarily in apparel and homewares) that carry a specific brand and often display a brand logo. They compete on brand value. Examples include Nike, Converse and Ralph Lauren.



Redbubble differentiates itself from other competitors through:

- **Vast, creative content selection:** providing consumers with products that are specific to their interests from millions of possible product-image combinations. This content selection persists in the marketplace and grows with artist activity and the addition of new products.
- **Affordable prices:** made possible by the efficiency of print-on-demand technologies and low-cost online customer acquisition and servicing.
- **Global scale:** made possible by the network of fulfillers, allowing for local fulfilment and local pricing in the major markets.
- **Broad product categories:** enabling consumers to find and buy a wide range of products in one marketplace. Artists can upload a design or creative work and have it easily available on dozens of products so they can direct their customers to an entire portfolio in one place.
- **Broad brand reach:** as a result of the "brand" reflecting the work of the artists rather than that of an in-house creative and marketing team. This means online marketplaces are not dependent on a specific brand or design fad.

Within this sector, Redbubble and Society6 are the most directly similar businesses. They differentiate themselves from Etsy by the fact that they provide access to third party product fulfilment. This reduces the labour effort and financial risk for the artist/seller and provides consumers with a consistent purchasing experience.

# 4

# FINANCIAL INFORMATION

# 4 Financial Information

## 4.1. Introduction

The financial information contained in this section has been prepared by the Company on a consolidated basis, including all of its subsidiaries (Redbubble), in connection with the Offer and includes:

- statutory historical financial information for Redbubble, being the:
  - statutory historical consolidated income statements for FY2013, FY2014, FY2015, 1H FY2015 and 1H FY2016;
  - statutory historical consolidated cash flows for FY2013, FY2014, FY2015, 1H FY2015 and 1H FY2016; and
  - statutory historical consolidated balance sheet as at 31 December 2015,

(**Statutory Historical Financial Information**);

- pro forma historical financial information for Redbubble, being the:
  - summary pro forma historical consolidated income statements for FY2013, FY2014, FY2015, 1H FY2015 and 1H FY2016 (**Pro Forma Historical Income Statements**);
  - summary pro forma historical consolidated cash flows for FY2013, FY2014, FY2015, 1H FY2015 and 1H FY2016 (**Pro Forma Historical Cash Flows**); and
  - pro forma historical consolidated balance sheet as at 31 December 2015,

(**Pro Forma Historical Financial Information**);

(together the Statutory Historical Financial Information and the Pro Forma Historical Financial Information are referred to as the **Historical Financial Information**);

- statutory forecast financial information for Redbubble, being the:
  - statutory forecast consolidated income statements for FY2016 and FY2017; and
  - statutory forecast consolidated cash flows for FY2016 and FY2017,

(**Statutory Forecast Financial Information**);

- pro forma forecast financial information for Redbubble, being the:
  - pro forma forecast consolidated income statement for FY2016; and
  - pro forma forecast consolidated cash flow for FY2016,

(**Pro Forma Forecast Financial Information**);

(together the Statutory Forecast Financial Information and the Pro Forma Forecast Financial Information are referred to as the **Forecast Financial Information**).

Redbubble has a 30 June financial year end. As such, any references in this Section 4 to FY refer to a 30 June financial year end and references to 1H FY refer to a 31 December financial half-year interim period.

The Historical Financial Information and Forecast Financial Information together form the **Financial Information**. The Statutory Historical Financial Information and Statutory Forecast Financial Information together form the Statutory Financial Information. The Pro Forma Historical Financial Information and the Pro Forma Forecast Financial Information together form the Pro Forma Financial Information.

The Historical Financial Information and the Forecast Financial Information are presented on a consistent basis. The Financial Information as defined above has been reviewed in accordance with the Australian Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and or Prospective Financial Information* by Ernst & Young Transaction Advisory Services Limited as stated in its Independent Limited Assurance Report on the Financial Information set out in Section 8. Investors should note the scope and limitations of that report.

The Financial Information presented in this Section should be read in conjunction with the risk factors set out in Section 5 and other information contained in this Prospectus. Investors should note that past results are not a guarantee of future performance.

All amounts disclosed in this Section are presented in Australian dollars and unless otherwise noted, are rounded to the nearest 1,000 dollars.

Table 4.1 below provides an overview of the information contained in this Section.

Table 4.1: Overview of Financial Information


| Section | Heading | Page |
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## 4.2. Basis of preparation and presentation of the Financial Information

### 4.2.1. Overview

The Directors are responsible for preparation and presentation of the Financial Information.

The Financial Information included in this Prospectus is intended to present potential investors with information to assist them in understanding the historical financial performance, cash flows and financial position of Redbubble together with Forecast Financial Information for FY2016 and FY2017.

The Statutory Financial Information has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards (**AAS**) (including the Australian Accounting Interpretations), issued by the Australian Accounting Standards Board, which are consistent with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board.

The Pro Forma Financial Information has been prepared in accordance with the recognition and measurement requirements of AAS other than it includes certain adjustments which have been prepared in a manner consistent with AAS, that reflect (a) the recognition of certain items in periods different from the applicable period under AAS (b) the exclusion of certain transactions that occurred in the relevant periods and (c) the impact of certain transactions as if they had occurred on or before 31 December 2015 in the Pro Forma Historical Financial Information or on or after 30 June 2015 in the Pro Forma Forecast Financial Information.

Due to its nature, the Pro Forma Financial Information does not reflect the actual financial performance and cash flows of Redbubble for the periods indicated. Redbubble believes that it provides useful information as it permits investors to examine what it considers to be the financial performance and cash flows of the business presented on a consistent basis with the Forecast Financial Information.

The Financial Information is presented in an abbreviated form and does not include all of the presentation, disclosures, statements or comparative information required by AAS applicable to annual financial reports prepared in accordance with the Corporations Act.

Key accounting policies of Redbubble relevant to the Financial Information are set out in Appendix A. The accounting policies have been consistently applied throughout the periods presented. The 30 June 2015 financial statements include a change in the presentation of certain expenses. These changes have been applied consistently throughout the historical periods presented within this Prospectus such that the presentation of expenses is consistent across all periods.

In accordance with AASB 8: Operating Segments, Redbubble has one reportable segment; that of a global online marketplace.

### 4.2.2. Preparation of Historical Financial Information

The Historical Financial Information is presented on both a statutory and pro forma basis.

The Statutory Historical Financial Information for Redbubble has been derived from:

- the FY2015 general purpose audited statutory consolidated financial statements of Redbubble Limited (including FY2014 comparative financial information);
- the FY2013 special purpose audited statutory consolidated financial statements of Redbubble Limited; and
- the 1H FY2016 interim condensed consolidated financial statements of Redbubble Limited (including 1H FY2015 comparative financial information).

The FY2015 general purpose statutory consolidated financial statements of Redbubble have been audited by Ernst & Young, who have issued an unqualified audit opinion in respect of this period. During the completion of the audit of the FY2015 financial statements, it was determined that the prior period financial statements for FY2014 contained some errors and required adjustments to the deferred tax asset and to account for an employee loan. These items were restated in the FY2014 comparative information presented in the FY2015 financial statements. Accordingly, the statutory historic financial information for FY2014 has been extracted from these restated comparatives. The FY2014 general purpose statutory consolidated financial statements and the FY2013 special purpose statutory consolidated financial statements have been audited by ShineWing Australia (formerly known as Moore Stephens) who issued unqualified audit opinions in respect of these periods. The historical interim condensed consolidated financial statements of Redbubble Limited for 1H FY2016 have been reviewed by Ernst & Young, who issued an unqualified review conclusion.



The Pro Forma Historical Financial Information has been prepared for the purpose of inclusion in this Prospectus and has been derived from the Statutory Historical Financial Information and adjusted for the effects of pro forma adjustments described in sections 4.3.4, 4.4.1 and 4.5.2 of this Prospectus. The pro forma historical consolidated income statements have been presented down to earnings before interest and income tax because Redbubble's capital structure following Completion of the Offer will be materially different from that in place during the period prior to Listing.

Specifically, Redbubble has on issue (since May 2015) cumulative redeemable preference shares (**CRPS**) on which interest coupon has been accrued and expensed as finance costs in the income statement. Until December 2015, Redbubble also had available a debt facility, which, whilst never drawn, had establishment costs that were charged to the income statement. The CRPS will convert to equity on Completion of the Offer and the debt facility has expired.

Furthermore, Redbubble Limited had taxable income for FY2013 and FY2014 but incurred income tax losses in FY2015. In FY2014, it first recognised a deferred tax asset in relation to tax losses prior to FY2013 and R&D offset.

Accordingly, the historical finance income, financing costs and income tax are not a meaningful representation of Redbubble's future earnings profile. Similarly, the pro forma historical consolidated cash flows have been presented to net cash flow from operations after capital expenditure (before interest and tax). Pro forma adjustments have been made to the Statutory Historical Financial information to reflect Redbubble's position following Completion of the Offer, namely the inclusion of estimated incremental costs associated with being a publicly-listed company.

The pro forma historical consolidated balance sheet as at 31 December 2015 has been derived from the statutory historical consolidated balance sheet of Redbubble as at 31 December 2015 as if the Offer occurred on that date.

### 4.2.3. Preparation of Forecast Financial Information

The Forecast Financial Information has been prepared by the Directors solely for inclusion in this Prospectus. For FY2016, the forecast financial information is based on the first seven months of actual trading to 31 January 2016 and five months of forecast from 1 February 2016.

The Forecast Financial Information is based on an assessment of present economic and operating conditions and on a number of best estimate assumptions regarding future events and actions, as set out in Sections 4.7.1 and 4.7.2. The information is designed to assist investors in assessing the reasonableness and the likelihood of the assumptions occurring and is not intended to be a representation that the assumptions will occur.

At the time of preparing this Prospectus, Redbubble believes the best estimate assumptions to be reasonable, when taken as a whole. However, this information is not fact and investors are cautioned not to place undue reliance on the Forecast Financial Information. Where Redbubble cannot control or influence an assumption, for example foreign exchange rates and the general level price or wage inflation, the best estimate has been assumed to be the recently experienced values of those assumptions and have been held constant throughout the forecast period.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information and that this may have a material positive or negative impact on Redbubble's actual financial performance, financial position or cash flows. Accordingly, neither Redbubble nor any other person can give investors any assurance that the outcomes presented in the Forecast Financial Information will arise.

The information in this Section should be read in conjunction with the general assumptions as set out in Section 4.7.1, the specific assumptions as set out in Section 4.7.2, the sensitivities as set out in Section 4.8, the risk factors as set out in Section 5 and other information contained in this Prospectus.

Redbubble has no intention to update or revise the Forecast Financial Information or other forward looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.



The Statutory Forecast Financial Information has been prepared on the same basis Redbubble expects to report the results of the business under AAS. The Statutory Forecast Financial Information represents the best estimate of the financial performance and cash flows that the Directors expect to report in Redbubble's financial statements.

The pro forma forecast consolidated income statement and cash flow for FY2016 is derived from the statutory forecast consolidated income statement for FY2016, after adjusting for the effects of pro forma adjustments which reflects the forecast full-year effect of the operating and capital structure that will be in place upon Completion of the Offer. The differences include items such as the inclusion of estimated costs associated with being a publicly-listed company and finance income as though the cash raised from the Offer and Convertible Notes will earn finance income from 1 July 2015, but after exclusion of the one-off costs of the Offer and finance costs associated with the CRPS and Convertible Notes which convert into Shares upon Completion of the Offer.

Refer to Table 4.8 for the reconciliation between the statutory and pro forma forecast income statements for FY2016. There is no difference between the statutory and proforma forecast consolidated income statement and consolidated cash flows for FY2017.

### 4.2.4. Explanation of certain non-IFRS and other financial measures

Redbubble uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards or IFRS. These measures are referred to as 'non-IFRS financial information' under Regulatory Guide 230 *Disclosing non-IFRS financial information* published by ASIC. Redbubble believes that this non-IFRS financial information provides useful information to readers in measuring the financial performance and position of Redbubble. As non-IFRS measures are not defined by recognised standard setting bodies, they do not have a prescribed meaning. Therefore, the way in which Redbubble calculates these measures may be different to the way other companies calculate similarly titled measures. Investors are cautioned not to place undue reliance on any non-IFRS financial information and ratios.

The principal non-IFRS financial measures used in this Prospectus are described below together with certain other measures that management uses to assess the business and to communicate with investors regarding its performance and financial condition.

- EBITDA, which is earnings before finance income, finance costs, income tax, and depreciation and amortisation expense;
- EBIT, which is earnings before finance income, finance costs and income tax;
- EBITDA margin, which is EBITDA as a percentage of revenue from services in the corresponding financial period;
- EBIT margin, which is EBIT as a percentage of revenue from services in the corresponding financial period;
- Gross Transaction Value (GTV), which is calculated as the total amount of sales processed through Redbubble less refunds, fraudulent transactions and Chargebacks. GTV therefore equates to the value of cash receipts from customers (as defined in AASB107 Statement of Cash Flows published by the Australian Accounting Standards Board) as represented in Redbubble's statutory and pro forma historical and forecast cash flows;
- Gross Profit, which is revenue from services minus fulfiller expenses;
- Gross Profit margin, which is gross profit as a percentage of revenue from services in the corresponding financial period;
- Working Capital, which is the sum of trade and other receivables, inventories and other current assets, less the sum of trade and other payables, employee benefit liabilities and unearned revenue; and
- AOV is defined as the value derived from dividing Gross Transaction Value (GTV) by total transaction count.

## 4.3. Historical and forecast consolidated income statements

### 4.3.1. Pro forma historical, pro forma forecast and statutory forecast consolidated income statements

Table 4.2 presents the summary pro forma historical consolidated income statements for FY2013, FY2014, FY2015, the pro forma forecast consolidated income statement for FY2016 and the statutory forecast consolidated income statement for FY2017.

Table 4.2: Pro forma historical, pro forma forecast and statutory forecast consolidated income statements

| | | Pro forma Historical | | | Pro forma Forecast | Statutory Forecast |
|---|---|---|---|---|---|---|
| June year end $'000 | Notes | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 |
| Revenue from services | | 27,467 | 48,561 | 71,070 | 114,540 | 172,160 |
| Fulfiller expenses | | (17,992) | (32,068) | (46,998) | (76,040) | (113,510) |
| Gross profit | | 9,475 | 16,493 | 24,072 | 38,500 | 58,650 |
| Operating expenses | | | | | | |
| Employee benefits | | (4,458) | (6,627) | (12,778) | (20,711) | (25,660) |
| Marketing | | (1,593) | (3,535) | (7,301) | (11,329) | (14,027) |
| Operations and administration | 1 | (4,154) | (5,035) | (10,577) | (17,055) | (20,281) |
| Total operating expenses | | (10,205) | (15,197) | (30,656) | (49,095) | (59,968) |
| Other income | | 429 | 408 | 119 | 29 | – |
| Other expenses | | (212) | (138) | (669) | – | – |
| EBITDA | | (513) | 1,566 | (7,134) | (10,566) | (1,318) |
| Depreciation and amortisation | | (319) | (859) | (2,027) | (3,999) | (7,339) |
| EBIT | 2 | (832) | 707 | (9,161) | (14,565) | (8,657) |
| Finance income | 3 | | | | 994 | 825 |
| Finance costs | 4 | | | | (113) | – |
| Net (Loss) before tax | | | | | (13,684) | (7,832) |
| Income tax (expense)/ benefit | | | | | (4,776) | 1,153 |
| **Net (Loss) after tax** | **5** | | | | **(18,460)** | **(6,679)** |

1 Operations and administration expenses include the incremental costs as though Redbubble was a publicly-listed company in each of the reporting periods. Further details on the pro forma adjustments are provided in Tables 4.7 and 4.8.

2 The Pro Forma Historical Income Statements have been presented down to the EBIT line only because Redbubble's capital structure following Completion of the Offer will be materially different from that in place during the period prior to Listing. The historical finance income, financing costs and income tax are not a meaningful representation of Redbubble's future earnings profile. See Table 4.5 for a summary of the statutory historical consolidated income statements.

3 Finance income in the pro forma forecast consolidated income statement for FY2016 assumes that all cash raised in the Offer as a primary raising, and cash raised from Convertible Notes, net of transaction costs, will earn interest as though it was held in a cash account from 1 July 2015, the beginning of that financial period. Further details on the pro forma adjustments are provided in Tables 4.7 and 4.8.

4 Finance costs in FY2016 represent costs in relation to a loan facility with the Commonwealth Bank of Australia which was never drawn and which expired on 8 December 2015.

5 A reconciliation of pro forma forecast NPAT for FY2016 to statutory forecast NPAT for FY2016 is set out in Table 4.8.

Table 4.3 presents the summary pro forma historical consolidated income statements for 1H FY2015 and 1H FY2016.

Table 4.3: Pro forma historical consolidated income statements for half years

| | | Pro forma Historical | |
|---|---|---|---|
| December half<br>$'000 | Notes | 1H FY2015 | 1H FY2016 |
| Revenue from services | | 36,372 | 62,328 |
| Fulfiller expenses | | (23,756) | (41,827) |
| Gross profit | | 12,616 | 20,501 |
| Operating expenses | | | |
| Employee benefits | | (4,498) | (9,775) |
| Marketing | | (3,859) | (6,528) |
| Operations and administration | 1 | (4,453) | (8,332) |
| Total operating expenses | | (12,810) | (24,635) |
| Other income | | – | – |
| Other expenses | | (262) | (339) |
| EBITDA | | (456) | (4,473) |
| Depreciation and amortisation | | (889) | (1,689) |
| **EBIT** | 2 | **(1,345)** | **(6,162)** |

Notes: Refer to Table 4.2 notes

### 4.3.2. Key operating metrics

Table 4.4 presents a summary of Redbubble's key financial and other operational metrics for FY2013, FY2014 and FY2015 derived from the pro forma historical income statements, key financial metrics for FY2016 derived from the FY2016 pro forma forecast income statement and for FY2017 derived from the statutory forecast income statement and other operational metrics for Redbubble for these periods.

Table 4.4: Key operating metrics

| | Pro forma Historical | | | | Pro forma Forecast | Statutory Forecast |
|---|---|---|---|---|---|---|
| June year end (except 1H FY2016) | FY2013 | FY2014 | FY2015 | 1H FY2016 | FY2016 | FY2017 |
| Constant currency GTV ($'000s) | 44,154 | 69,243 | 95,493 | 78,016 | 141,799 | 214,940 |
| Constant currency GTV growth % | N/A | 56.8% | 37.9% | 55.4% | 48.5% | 51.6% |
| GTV ($'000s) | 33,689 | 59,321 | 88,367 | 80,578 | 143,468 | 214,938 |
| GTV growth % | N/A | 76.1% | 49.0% | 80.0% | 62.4% | 49.8% |
| Constant currency revenue ($'000s) | 35,999 | 56,683 | 76,801 | 60,344 | 113,207 | 172,160 |
| Constant currency revenue growth % | N/A | 57.5% | 35.5% | 47.9% | 47.4% | 52.1% |
| Revenue ($'000s) | 27,467 | 48,561 | 71,070 | 62,328 | 114,540 | 172,160 |
| Revenue growth % | N/A | 76.8% | 46.4% | 71.4% | 61.2% | 50.3% |
| Gross Profit margin % | 34.5% | 34.0% | 33.9% | 32.9% | 33.6% | 34.1% |
| Gross Profit growth % | N/A | 74.1% | 46.0% | 62.5% | 59.9% | 52.3% |
| EBITDA margin % | (1.9)% | 3.2% | (10.0)% | (7.2)% | (9.2)% | (0.8)% |
| EBITDA growth % | N/A | 405% | (555.6)% | (880.9)% | (48.1)% | 87.5% |
| Visits ('000s) | 83,127 | 97,426 | 103,060 | 75,200 | 148,718 | 195,154 |
| Conversion Rate % | 0.9% | 1.2% | 1.8% | 2.0% | 1.9% | 2.2% |
| AOV ($) | 44.9 | 48.9 | 49.0 | 53.4 | 51.7 | 49.8 |
| Visits growth % | N/A | 17.2% | 5.8% | 56.0% | 44.3% | 31.2% |
| Conversion Rate growth % | N/A | 37.8% | 40.5% | 6.2% | 6.7% | 18.4% |
| AOV growth % | N/A | 9.0% | 0.2% | 8.6% | 5.4% | (3.6)% |

### 4.3.3. Statutory historical and statutory forecast consolidated income statements

Table 4.5 presents the statutory historical consolidated income statements for FY2013, FY2014, FY2015 and statutory forecast consolidated income statements for FY2016 and FY2017.

Table 4.5: Statutory historical and forecast consolidated income statements

| | | Statutory Historical | | | Statutory Forecast | Statutory Forecast |
|---|---|---|---|---|---|---|
| June year end $'000 | Notes | FY2013[1] | FY2014 | FY2015 | FY2016 | FY2017 |
| **Revenue from services** | | **27,467** | **48,561** | **71,070** | **114,540** | **172,160** |
| **Operating expenses** | | | | | | |
| Fulfiller expenses | | (17,992) | (32,068) | (46,998) | (76,040) | (113,510) |
| Employee benefits | | (4,458) | (6,627) | (12,778) | (20,711) | (25,660) |
| Marketing | | (1,593) | (3,535) | (7,301) | (11,329) | (14,027) |
| Operations and administration | 2 | (3,371) | (4,298) | (9,974) | (18,784) | (20,281) |
| Depreciation and amortisation | | (319) | (859) | (2,027) | (3,999) | (7,339) |
| Finance costs | 3 | (10) | (9) | (235) | (1,762) | – |
| **Total operating expenses** | | **(27,743)** | **(47,396)** | **(79,313)** | **(132,625)** | **(180,817)** |
| Other income | | 436 | 433 | 178 | 314 | 825 |
| Other expenses | | (212) | (138) | (669) | – | – |
| **(Loss)/profit before income tax** | | **(52)** | **1,460** | **(8,734)** | **(17,771)** | **(7,832)** |
| Income tax (expense)/ benefit | | (82) | 1,282 | 2,466 | (4,104) | 1,153 |
| **Total (loss)/profit for the year attributable to owners** | | **(134)** | **2,742** | **(6,268)** | **(21,875)** | **(6,679)** |

1 $1.0 million of expenses which were included in marketing expenses in the FY2013 statutory financial statements has been reclassified to operations and administration in the Statutory Historical Financial Information. This reclassification was made to correctly reflect the underlying nature of the expenses and to ensure consistency across the historical income statements presented in this Prospectus.

2 The expensed portion of one-off costs associated with the Offer of $2.2 million have been included in FY2016.

3 The finance costs for FY2016 include interest and amortised transaction costs in relation to CRPS and Convertible Notes that will convert into ordinary shares upon completion of the Offer.

Table 4.6 presents the statutory historical consolidated income statements for 1H FY2015 and 1H FY2016.

Table 4.6: Statutory historical consolidated income statements for half years

| | Statutory Historical | |
|---|---|---|
| December half<br>$'000 | 1H FY2015[1] | 1H FY2016 |
| **Revenue from services** | **36,372** | **62,328** |
| **Operating expenses** | | |
| Fulfiller expenses | (23,756) | (41,827) |
| Employee benefits | (4,498) | (9,775) |
| Marketing | (3,859) | (6,528) |
| Operations and administration | (4,103) | (8,100) |
| Depreciation and amortisation | (889) | (1,689) |
| Finance costs | (9) | (574) |
| **Total operating expenses** | **(37,114)** | **(68,493)** |
| Other income | 20 | 84 |
| Other expenses | (262) | (339) |
| **Net (Loss) before tax** | **(984)** | **(6,420)** |
| Income tax benefit/(expense) | 71 | (4,242) |
| **Total (Loss) for the year attributable to owners** | **(913)** | **(10,662)** |

1 There was a change in presentation of certain items of expenses subsequent to completion of review of 1H FY2015 financial statements. This change in presentation has been applied consistently throughout the historical period presented in this prospectus.



### 4.3.4. Pro forma adjustments to the historical and forecast consolidated income statements

Table 4.7 provides a reconciliation of statutory profit/(loss) before income tax, as presented in Tables 4.5 and 4.6 to pro forma EBIT, as presented in Tables 4.2 and 4.3 for the historical period and forecast FY2016.

Table 4.7: Pro forma adjustments to statutory consolidated income statements and reconciliation of (loss)/profit before income tax to pro forma EBIT

| | | Historical | | | | | Forecast |
|---|---|---|---|---|---|---|---|
| June year end<br>$'000 | Notes | FY2013 | FY2014 | FY2015 | 1H FY2015 | 1H FY2016 | FY2016 |
| **(Loss)/profit before income tax** | | **(52)** | **1,460** | **(8,734)** | **(984)** | **(6,420)** | **(17,771)** |
| **Add: Pro forma adjustments** | | | | | | | |
| Incremental public company costs | 1 | (783) | (737) | (603) | (350) | (232) | (472) |
| Offer transaction costs | 2 | – | – | – | – | – | 2,201 |
| **Total pro forma adjustments** | | **(783)** | **(737)** | **(603)** | **(350)** | **(232)** | **1,729** |
| Add: Finance costs | 3 | 10 | 9 | 235 | 9 | 574 | 1,762 |
| Less: Finance income | 4 | (7) | (25) | (59) | (20) | (84) | (285) |
| **Pro forma EBIT** | | **(832)** | **707** | **(9,161)** | **(1,345)** | **(6,162)** | **(14,565)** |

1 Management has estimated the incremental costs Redbubble will incur as a publicly-listed company. These costs include Chair and other Non-executive Directors remuneration, additional audit and legal costs, company secretarial, public relations and listing fees, directors and officers insurance premiums as well as investor relations

services, annual general meeting and annual report costs. The statutory forecast consolidated income statement for FY2016 includes the estimated annual costs of being a publicly-listed company from the assumed date of Listing so the adjustment to the pro forma forecast consolidated income statement represents the incremental costs of being listed from 1 July 2015. In the historical period, the pro forma adjustment represents the estimated incremental Chair and Non-executive Directors remuneration and other costs of being listed compared with the actual amount of expenses for each reporting period, assuming Redbubble was listed from 1 July 2012.

2 Offer transaction costs expensed – total costs of the Offer are estimated at $4.2 million of which $2.0 million (before tax) is directly attributable to the issue of new Shares under the Offer by Redbubble and will be offset against equity raised in the Offer. The remaining $2.2 million (before tax) relates to Listing and the sale of existing Shares by the Selling Shareholders and is expensed in the FY2016 statutory forecast income statement.

3 Finance costs for FY2015 and FY2016 include costs relating to the CRPS and a loan facility with the Commonwealth Bank of Australia which expired on 8 December 2015. Finance costs for FY2016 also include costs relating to the Convertible Notes. Both CRPS and Convertible Notes convert into ordinary shares upon Completion of the Initial Public Offering.

4 Represents finance income for each period, which is included within other income in the statutory financial statements.

Table 4.8 summarises the pro forma adjustments to statutory forecast NPAT for FY2016, as presented in Table 4.5, to reflect the operating, capital and ownership structure that will be in place on Completion of the Offer as if it were in place from 30 June 2015 and to eliminate certain non-recurring items.

### Table 4.8: Reconciliation of statutory forecast NPAT to pro forma NPAT

| | | Forecast |
|---|---|---|
| June year end<br>$'000 | Notes | FY2016 |
| **Statutory NPAT** | | **(21,875)** |
| Offer transaction costs | 1 | 2,201 |
| Finance costs | 2 | 1,649 |
| Incremental public company costs | 3 | (472) |
| Finance Income on capital raising | 4 | 709 |
| Tax effect of above adjustments | 5 | (672) |
| **Total pro forma adjustments** | | **3,415** |
| **Pro forma NPAT** | | **(18,460)** |

1 Offer transaction costs expensed – total costs of the Offer are estimated at $4.2 million of which $2.0 million (before tax) is directly attributable to the issue of new Shares under the Offer by Redbubble and will be offset against equity raised in the Offer. The remaining $2.2 million (before tax) relates to Listing and the sale of existing Shares by the Selling Shareholders and is expensed in the FY2016 statutory forecast income statement.

2 The finance costs for FY2016 include interest and amortised transaction costs in relation to CRPS and Convertible Notes, and the accelerated amortisation of capitalised transaction costs, which will convert into ordinary shares upon Completion of the Offer.

3 Management has estimated the incremental costs Redbubble will incur as a publicly-listed company. These costs include Chair and other Non-executive Directors remuneration, additional audit and legal costs, company secretarial, public relations and listing fees, directors and officers insurance premiums as well as investor relations services, annual general meeting and annual report costs. The statutory forecast consolidated income statement for FY2016 includes the estimated annual costs of being a publicly-listed company from the assumed date of Listing so the adjustment to the pro forma forecast consolidated income statement represents the incremental costs of being listed from 1 July 2015.

4 Incremental full year impact of finance income on the basis that all cash raised in the Offer as a primary raising and cash raised from Convertible Notes, net of transaction costs, will earn interest as though it was held in a cash account from 1 July 2015, the beginning of that financial period.

5 Tax effect represents the cumulative income tax effect of the pro forma adjustments, applying an effective tax rate of 30%, further adjusted to take into account the de-recognition of tax losses incurred up to May 2016.

## 4.4. Statutory historical and pro forma historical consolidated balance sheet

### 4.4.1. Overview

The pro forma adjustments made to the statutory historical consolidated balance sheet of Redbubble as at 31 December 2015 reflect the events and assumptions noted in Table 4.9 below that will be in place immediately following Completion of the Offer as if they occurred or were in place as at 31 December 2015.

Redbubble will issue new equity of $30 million as part of the Offer and will incur $4.2 million of Offer transaction costs. The Cumulative Redeemable Preference Shares, which are classified as non-current borrowings as at 31 December 2015, and Convertible Notes issued on 21 March 2016 will convert into Shares.

Redbubble is expected to have a pro forma cash balance of $57.4 million as at 31 December 2015 following the Offer. Redbubble intends to use this cash for the following purposes:

- to actively pursue its growth strategies and initiatives;
- to provide support for its balance sheet; and
- to maintain a suitable level of working capital.

The statutory historical consolidated balance sheet as at 31 December 2015 shows Redbubble had a net liability position of $10.6 million and a net current asset deficiency of $3.3 million. The total liabilities include CRPS of $15.6 million including accumulated interest which will convert into Shares on Completion of the Offer.

As set out in Table 4.5 and Table 4.6, Redbubble incurred a loss after tax in FY2015 and 1H FY2016 and has forecast a loss after tax for the second half of FY2016 and FY2017. Following Completion of the Offer, the pro forma historical consolidated balance sheet will show a net asset position and net current asset position as per Table 4.9. As described in Section 4.4.4, Redbubble expects to have sufficient cash resources and cash flow from operations to meet operational requirements and business needs during FY2016 and FY2017. The Directors believe Redbubble is able to continue as a going concern and realise its assets and extinguish its liabilities in the normal course of business. Accordingly, the Financial Information has been prepared on a going concern basis.

Table 4.9: Statutory historical balance sheet and pro forma historical balance sheet as at 31 December 2015

| As at 31 December 2015 $ 000 | Statutory 31 December 2015 | Convertible Notes[1] | Impact of the Offer[2] | Impact of conversion of Convertible Notes[3] | Impact of conversion of Cumulative Redeemable Preference Shares[4] | Pro forma 31 December 2015 |
|---|---|---|---|---|---|---|
| **Current assets** | | | | | | |
| Cash and cash equivalents | 19,891 | 11,668 | 25,803 | – | – | 57,362 |
| Trade and other receivables | 2,261 | – | – | – | – | 2,261 |
| Inventories | 650 | – | – | – | – | 650 |
| Other current assets | – | – | – | – | – | – |
| Current tax assets | – | – | – | – | – | – |
| Related party loan | 8 | – | – | – | – | 8 |
| **Total current assets** | **22,810** | **11,668** | **25,803** | **–** | **–** | **60,281** |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 1,375 | – | – | – | – | 1,375 |
| Intangible assets | 5,893 | – | – | – | – | 5,893 |
| Other non-current financial assets | 466 | – | – | – | – | 466 |
| Deferred tax assets | 738 | 175 | 1,259 | (175) | (285) | 1,712 |
| **Total non-current assets** | **8,472** | **175** | **1,259** | **(175)** | **(285)** | **9,446** |
| **Total assets** | **31,282** | **11,843** | **27,062** | **(175)** | **(285)** | **69,727** |
| **Current liabilities** | | | | | | |
| Trade and other payables | 20,335 | – | – | – | – | 20,335 |
| Unearned revenue | 4,926 | – | – | – | – | 4,926 |
| Employee benefit liabilities | 891 | – | – | – | – | 891 |
| **Total current liabilities** | **26,152** | **–** | **–** | **–** | **–** | **26,152** |
| **Non-current liabilities** | | | | | | |
| Non-current borrowings | 15,626 | 11,668 | – | (11,668) | (15,626) | – |
| Employee benefit liabilities | 64 | – | – | – | – | 64 |
| **Total non-current liabilities** | **15,690** | **11,668** | **–** | **(11,668)** | **(15,626)** | **64** |
| **Total liabilities** | **41,842** | **11,668** | **–** | **(11,668)** | **(15,626)** | **26,216** |
| **Net (liabilities)/assets** | **(10,560)** | **175** | **27,062** | **11,493** | **15,341** | **43,511** |
| **Equity** | | | | | | |
| Contributed equity | 10,320 | – | 28,603 | 12,250 | 15,974 | 67,147 |
| Share based payment reserve | 2,103 | – | – | – | – | 2,103 |
| Foreign exchange translation reserve | (948) | – | – | – | – | (948) |
| Accumulated losses | (22,035) | 175 | (1,541) | (757) | (633) | (24,791) |
| **Total equity** | **(10,560)** | **175** | **27,062** | **11,493** | **15,341** | **43,511** |

1 Subsequent to 31 December 2015, on 21 March 2016, Redbubble raised $12.25 million (face value) from the issuance of Convertible Notes. Transactions costs of $0.6 million ($0.4 million net of income tax) were incurred in relation to these Convertible Notes. The Convertible Notes are classified as debt instruments (liabilities) for financial statement classification purposes and are recognised at fair value, net of transaction costs incurred. Refer to section 4.4.2 for further details.

2 Impact of the Offer – $25.8 million increase in cash and cash equivalents due to the proceeds from the issue of new shares of $30 million, offset by total Offer transaction costs of $4.2 million. Offer transaction costs are assumed to be deductible for income tax purposes over a five year period, resulting in a deferred tax asset of $1.3 million. Contributed equity is forecast to increase by $28.6 million, being the proceeds from the issue of new Shares of $30 million offset by Offer transaction costs directly attributable to the issue of new Shares of $2.0 million ($1.4 million net of income tax). Accumulated losses increase as a result of expensed Offer transaction costs of $2.2 million ($1.5 million net of income tax).

3 The Convertible Notes convert into ordinary shares in the event of the Listing. Consequently, upon conversion, the contributed equity will increase by the face value of $12.25 million. Accumulated losses increase as a result of the accelerated amortisation of capitalised transaction costs of $0.6 million and reversal of deferred tax asset of $0.2 million. The net reduction of non-current borrowings represents the conversion of Convertible Notes to ordinary shares of $12.25 million offset by the accelerated amortisation of capitalised borrowing costs of $0.6 million.

4 The cumulative redeemable preference shares mandatorily convert into ordinary shares in the event of the Listing. Consequently, upon conversion, the contributed equity will increase by the aggregate of face value and dividend entitlement on CRPS of $15.9 million. Accumulated losses increase as a result of the accelerated amortisation of capitalised transaction costs of $0.3 million and reversal of deferred tax asset of $0.3 million. The net reduction of non-current borrowings represents the conversion of CRPS to ordinary shares of $15.9 million offset by the accelerated amortisation of capitalised borrowing costs of $0.3 million.

### 4.4.2. Terms of issue of CRPS and Pre-IPO Convertible Notes (Convertible Notes)

(a) The terms of issue of CRPS which will convert into ordinary shares upon Listing are summarised below:

(i) Dividend:

The CRPS are entitled to an initial dividend of $0.01 per share over the initial dividend period and 5% of face value thereafter. The payment of dividend is at the sole discretion of the Directors. The entitlement of dividend is cumulative in nature and has preference over dividend on any other capital.

(ii) Redemption:

The CRPS are redeemable at the discretion of the holders anytime after 3 years of the issue or under certain other circumstances. On redemption, they are entitled to receive the face value of the CRPS and any accumulated unpaid dividend thereon.

(iii) Conversion:

The CRPS can be converted into ordinary shares at the discretion of the holders. However, they mandatorily convert into ordinary shares upon the occurrence of certain liquidity events, including an IPO. In order to calculate the number of ordinary shares to be issued on conversion, both the face value and the accumulated unpaid dividends will be aggregated.

(iv) Voting rights:

The holders do not have any voting rights except in limited circumstances, for example when dividend entitlements are unpaid.

(v) General rights:

CRPS rank equally among themselves and are unsecured and subordinated to all creditors. In the event of winding up, they are entitled to receive face value and accumulated unpaid dividends in preference of ordinary shareholders. They have no further rights to participate in any surplus assets on winding up.

(b) On 21 March 2016, Redbubble raised $12.25 million (face value) from the issuance of Convertible Notes. Transactions costs of $0.6 million were incurred in relation to these Convertible Notes. The Convertible Notes are classified as debt instruments (liabilities) for financial statement classification purposes and will convert into ordinary shares upon Listing. The terms of issue are summarised below:

(i) Interest:

The Convertible Notes are entitled to an interest of 8% per annum, payable semi-annually in arrears or, at maturity or conversion, in shares at the Holder's election. However, no interest shall accrue or be paid if Redbubble Limited lists on ASX within 6 months following issue date.

(ii) Conversion:

The face value of Convertible Notes, together with accrued interest thereon, will convert upon:

| Event | Conversion Into |
|---|---|
| IPO | Ordinary shares |
| Qualified Financing (Unlisted equity capital raising of $25,000,000 or more) | Same class of securities as issued for Qualified Financing |
| Trade Sale | Convertible preference shares (unless they are redeemed at the election of the noteholder) |

(iii) Conversion Price:

The Convertible Notes are convertible into shares at lower of:

Price at which the conversion events occur, adjusted for a conversion discount depending on the timeframe in which the conversion events are achieved

OR

Valuation cap of $360,000,000 divided by the fully diluted total number of shares on issue

(iv) Conversion discount

| Period to Conversion event | Conversion Discount |
|---|---|
| <3 months | 10% |
| 3-6 months | 15% |
| 6-12 months | 20% |
| 12-18 months | 30% |



(v) Maturity:

The maturity date is 18 months following the issue date and on maturity date, the Convertible Notes convert into convertible preference shares at a valuation which is the lesser of:

6.4 * FY2017 Gross Profit

OR

$360,000,000

(vi) Redemption:

The Convertible Notes are redeemable at the election of the noteholder under following circumstances:

- in the event of Trade sale
- if the Company suffers any insolvency event
- an Event of default

(vii) Priority:

The Convertible Notes and any preference shares into which they convert rank equally with the CRPS for dividends and capital distributions.

### 4.4.3. Description of foreign exchange management

Redbubble collects funds from customers in five currencies (US dollars, Australian dollars, Euros, Canadian dollars and British pounds) and maintains bank accounts in these currencies. Redbubble has liabilities to fulfillers, suppliers and artists in these currencies. Redbubble settles its liabilities in the native currency hence mitigating its exposure to exchange differences which arise. Any surplus funds are converted to Australian dollars or US dollars in operating accounts when management feels it is prudent to do so. During FY2015, Redbubble began to utilise European suppliers for European sales. Redbubble is working with the network of third-party fulfillers to progressively allow for localisation of fulfilment which has the effect of further mitigating currency exposure.

### 4.4.4. Liquidity and capital resources

Following Completion of the Offer, Redbubble's principal source of liquidity will be its cash resources and cash flows from operations. Redbubble does not require material capital expenditure to support its business, although it does capitalise operating expenses relating to projects that deliver future economic benefit. In FY2017, Redbubble is forecast to have a small negative net cash flow from operations, after allowing for capitalised operating expenses, due to positive impact of growth in net working capital.

Redbubble expects it will have sufficient cash resources and cash flow from operations to meet operational requirements and business needs during the forecast period.

### 4.4.5. Indebtedness

Table 4.10 sets out the indebtedness of Redbubble as at 31 December 2015 on statutory and pro forma basis, adjusted for the pro forma effect of the Offer as if the transactions had occurred on 31 December 2015. Given the proximity of the date of this Prospectus to the completion of FY2016 the Directors have included the forecast net total indebtedness as at 30 June 2016 based on the Statutory Historical Cash Flows for 1H FY2016 and Statutory Forecast Cash Flows for FY2016. This information is extracted from the Statutory Historical Balance Sheet, the Pro forma Historical Balance Sheet and the Statutory Forecast Cash Flows.



**Table 4.10: Statutory historical indebtedness as at 31 December 2015, pro forma historical indebtedness as at 31 December 2015 and pro forma forecast indebtness as at 30 June 2016**

| | | Statutory | Pro forma | Forecast |
|---|---|---|---|---|
| $'000 | Notes | 31 December 2015 | 31 December 2015[1] | 30 June 2016 |
| Cash and cash equivalents | 2 | 19,891 | 57,362 | 40,181 |
| Non-current borrowings | 3 | (15,626) | – | – |
| Capitalised transaction costs | | (348) | – | – |
| **Net cash and cash equivalents** | | **3,917** | **57,362** | **40,181** |

1 Refer to Table 4.9 for a description of adjustments as at 31 December 2015.

2 Pro forma cash and cash equivalents as at 31 December 2015 are based on the pro forma historical balance sheet in Table 4.9. Forecast statutory cash and cash equivalents as at 30 June 2016 are calculated based on the statutory historical balance sheet as at 31 December 2015 set out in Table 4.9 and 2H FY2016 forecast cash flows derived from FY2016 statutory forecast cash flows and the 1H FY2016 statutory cash flows set out in Table 4.16 and Table 4.17.

3 The amount of non-current borrowings represents face value and dividend entitlement on CRPS and is net of capitalised transaction costs of $0.3 million at 31 December 2015.

Table 4.11 below provides a reconciliation of cash and cash equivalents between the Statutory Historical Balance Sheet as at 31 December 2015 and Redbubble's forecast cash position as at 30 June 2016.

### Table 4.11: Reconciliation of cash and cash equivalents

| $'000 | Notes | 2H FY2016 |
|---|---|---|
| **Cash and cash equivalents as at 31 December 2015** | | **19,891** |
| Net cash flow from operating activities before investing and financing activities | 1,2 | (15,889) |
| Capital expenditure | | (3,702) |
| Repayment of related party loan and interest | | 8 |
| Finance income | | 201 |
| Offer proceeds | | 30,000 |
| Capitalised Offer costs | | (1,996) |
| Gross proceeds from issue of Convertible Notes | | 12,250 |
| Transaction costs for Convertible Notes | | (582) |
| **Forecast cash and cash equivalents as at 30 June 2016** | | **40,181** |

1 Forward looking information should be read in conjunction with the assumptions set out in sections 4.7.1 and 4.7.2, the sensitivity analysis as set out in section 4.8, the risk factors as set out in section 5 and other information in this prospectus.

2 Forecast net cash flow from operating activities before investing and financing activities generated in 2H FY2016, including earnings, movement in net working capital and IPO transaction costs expensed.

## 4.4.6. Contractual obligations and commitments



Table 4.12 summarises Redbubble's contractual obligations and commitments.

### Table 4.12: Contractual obligations and commitments as at 31 December 2015

| As at 31 December 2015<br>$'000 | Less than<br>1 year | 1-5 years | More than<br>5 years | Total |
|---|---|---|---|---|
| **Operating lease commitments** | **973** | **2,406** | **181** | **3,560** |

## 4.4.7. Contingent liabilities

In the opinion of the Directors, Redbubble did not have any material contingent liabilities at the date of this Prospectus.

## 4.5. Historical and forecast consolidated cash flows

### 4.5.1. Pro forma historical, pro forma forecast and statutory forecast consolidated cash flows

Table 4.13 presents the pro forma historical consolidated cash flows for FY2013, FY2014 and FY2015, and the pro forma forecast cash flows for FY2016 and statutory forecast consolidated cash flows for FY2017.

Table 4.13: Pro forma historical cash flows, pro forma forecast cash flows and statutory forecast cash flows

| | | Pro forma Historical | | | Pro forma Forecast | Statutory Forecast |
|---|---|---|---|---|---|---|
| June year end $'000 | Notes | FY2013 | FY2014 | FY2015 | FY2016 | FY2017[2] |
| **EBITDA** | | **(513)** | **1,566** | **(7,134)** | **(10,566)** | **(1,318)** |
| Non-cash items in operating EBITDA | 1 | 162 | 200 | 2,167 | 2,566 | 2,488 |
| Changes in working capital | | 2,036 | 1,140 | 5,245 | 3,184 | 6,686 |
| **Net cash flow from operations (before finance income/costs and tax)** | | **1,685** | **2,906** | **278** | **(4,816)** | **7,856** |
| Capital expenditure | | (1,334) | (1,956) | (5,217) | (6,877) | (8,019) |
| **Net cash flow from operations after capital expenditure (before finance income/costs and tax)** | | **351** | **950** | **(4,939)** | **(11,693)** | **(163)** |
| Income tax paid | | | | | (635) | (1,442) |
| Proceeds from exercise of options | | | | | 389 | – |
| Repayment of related party loan | | | | | 331 | – |
| Finance income | | | | | 994 | 825 |
| **Net cash flow** | | | | | **(10,614)** | **(780)** |

1 The increase in non-cash items relates primarily to the amortisation of share options/performance rights issued to employees.

2 There is no difference between the pro forma and statutory forecast cash flows for FY2017.

#### Changes in working capital

Due to Redbubble's working capital cycle, as the business grows the negative working capital provides cash flow benefits across the year as a whole. However, this position is significantly affected by the seasonality of Redbubble's business with first half of the year being favourable due to the high volume of sales over the Christmas period and the second half generating negative cash flow from change in working capital as fulfiller expenses associated with December sales are paid in January each year. This situation prevails in both the pro forma historical and the forecast years above and can be seen in the comparison of 1H FY2015 and 1H FY2016 in Table 4.14 below.

#### Capital expenditure (Capitalised development expenses)

Certain employment related expenses are incurred to develop the Redbubble website and expand the Redbubble product range. These development expenses are capitalised in accordance with Redbubble's accounting policy noted in Appendix A (h) of this Prospectus where they are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably. Capitalised development costs have a finite useful life and are amortised on a straight-line basis based on the future economic benefits over the useful life of the project, typically between 2-5 years.

Table 4.14 presents the pro forma historical consolidated cash flows for 1H FY2015 and 1H FY2016.

### Table 4.14: Pro forma historical cash flows for half years

| | | Pro forma Historical | |
|---|---|---|---|
| December half<br>$'000 | Notes | 1H FY2015 | 1H FY2016 |
| EBITDA | | (456) | (4,473) |
| Non-cash items in operating EBITDA | 1 | 615 | 1,341 |
| Changes in working capital | | 6,710 | 11,609 |
| Net cash flow from operations (before finance income/costs and tax) | | 6,869 | 8,477 |
| Capital expenditure | | (1,993) | (3,175) |
| Net cash flow from operations after capital expenditure (before finance income/costs and tax) | | 4,876 | 5,302 |

1 The increase in non-cash items relates primarily to the amortisation of share options/performance rights issued to employees.

## 4.5.2. Pro forma adjustments to the statutory historical and statutory forecast consolidated cash flows

Table 4.15 sets out the pro forma adjustments to statutory consolidated cash flows for the historical period and forecast FY2016.

### Table 4.15: Pro forma adjustments to historical and forecast cash flows

| | | | | Historical | | | Forecast |
|---|---|---|---|---|---|---|---|
| June year end<br>$'000 | Notes | FY2013 | FY2014 | FY2015 | 1H FY2015 | 1H FY2016 | FY2016 |
| Statutory cash flow from operations | | 2,226 | 3,186 | 167 | 7,082 | 8,793 | (7,180) |
| Add: Taxes paid | | 239 | 473 | 754 | 148 | – | 635 |
| Add: Finance Costs | | 10 | 9 | – | 9 | – | – |
| Less: Capital expenditure | | (1,334) | (1,956) | (5,217) | (1,993) | (3,175) | (6,877) |
| Less: Finance income received | | (7) | (25) | (40) | (20) | (84) | – |
| Net cash flow from operations after capital expenditure (before finance income/costs and tax) | | 1,134 | 1,687 | (4,336) | 5,226 | 5,534 | (13,422) |
| Add: Pro forma adjustments | | | | | | | |
| Incremental public company costs | 1 | (783) | (737) | (603) | (350) | (232) | (472) |
| Offer transaction costs | 2 | – | – | – | – | – | 2,201 |
| Cash impact of pro forma adjustments | | (783) | (737) | (603) | (350) | (232) | 1,729 |
| Pro forma cash flow from operations after capital expenditure (before finance income/costs and tax) | | 351 | 950 | (4,939) | 4,876 | 5,302 | (11,693) |

Notes: Refer to Table 4.7 notes

### 4.5.3. Statutory historical consolidated cash flows

Table 4.16 sets out the statutory consolidated cash flows for FY2013, FY2014, FY2015 and statutory consolidated cash flows for FY2016 and FY2017.

**Table 4.16: Statutory historical and forecast cash flows**

| | Historical | | | Forecast | |
|---|---|---|---|---|---|
| June year end $'000 | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 |
| **(Loss)/Profit for the year** | **(134)** | **2,742** | **(6,268)** | **(21,875)** | **(6,679)** |
| Non-cash items | 324 | (584) | 1,122 | 11,214 | 7,232 |
| Classified as investing/financing activities[1] | – | – | (6) | 297 | (825) |
| Changes in working capital | 2,036 | 1,028 | 5,319 | 3,184 | 6,686 |
| **Net cash flow from operating activities** | **2,226** | **3,186** | **167** | **(7,180)** | **6,414** |
| Capital expenditure | (1,334) | (1,956) | (5,217) | (6,877) | (8,019) |
| Repayment of related party loan and interest | – | – | 53 | 331 | – |
| Finance income[1] | – | – | – | 285 | 825 |
| **Net cash flow from investing activities** | **(1,334)** | **(1,956)** | **(5,164)** | **(6,261)** | **(7,194)** |
| Proceeds from issue of share capital | – | 1,703 | 177 | 30,000 | – |
| Capitalised offer costs | – | – | – | (1,996) | – |
| Proceeds from exercise of options | 60 | – | – | 389 | – |
| Proceeds from issue of cumulative redeemable preference shares | – | – | 15,500 | – | – |
| Gross proceeds from issue of convertible notes | – | – | – | 12,250 | – |
| Transaction costs for cumulative redeemable preference shares | – | – | (437) | – | – |
| Transaction costs for convertible notes | – | – | – | (582) | – |
| Transaction costs for establishment of loan facility | – | – | (245) | – | – |
| Repayment of borrowings | (250) | – | – | – | – |
| Net cash flow from financing activities | (190) | 1,703 | 14,995 | 40,061 | – |
| **Net cash flow** | **702** | **2,933** | **9,998** | **26,620** | **(780)** |

1 Historically, interest earned on surplus funds generated from operating activities was classified as cash flow from operations. In the forecast period, the interest earned on surplus funds is primarily attributable to funds raised from the issue of Convertible Notes and the Offer and accordingly, is classified as cash flow from investing activities.

Table 4.17 presents the statutory consolidated cash flows for 1H FY2015 and 1H FY2016.

### Table 4.17: Statutory historical cash flows for half years

| | Historical | |
|---|---|---|
| December half<br>$'000 | 1H FY2015 | 1H FY2016 |
| **(Loss)/Profit for the year** | **(913)** | **(10,662)** |
| Non-cash items | 1,193 | 7,909 |
| Changes in working capital | 6,802 | 11,546 |
| **Statutory cash flow from operations** | **7,082** | **8,793** |
| Capital expenditure | (1,993) | (3,175) |
| Proceeds from exercise of options | 141 | 389 |
| Repayment of related party loan | – | 323 |
| Payments for establishment of loan facility | (182) | – |
| **Net cash flow** | **5,048** | **6,330** |

Table 4.18 provides a reconciliation of statutory net cash flow as presented in Table 4.16 to pro forma net cash flow, as presented in Table 4.13 for the forecast period FY2016.

### Table 4.18: Reconciliation of statutory forecast net cash flows to pro forma net cash flows

| | | Forecast |
|---|---|---|
| June year end<br>$'000 | Notes | FY2016 |
| **Statutory net cash flow** | | **26,620** |
| Gross proceeds from issue of shares | | (30,000) |
| Gross proceeds from issue of convertible notes | | (12,250) |
| Offer costs | 1 | 4,197 |
| Incremental public company costs | 2 | (472) |
| Transaction costs in relation to convertible notes | 3 | 582 |
| Finance Income on capital raising | 4 | 709 |
| **Pro forma net cash flow** | | **(10,614)** |

1 Offer transaction costs – total costs of the Offer are estimated at $4.2 million of which $2.0 million (before tax) is directly attributable to the issue of new Shares by Redbubble and will be offset against equity raised in the Offer. The remaining $2.2 million (before tax) relates to Listing and the sale of existing Shares by the Selling Shareholders and is expensed in the statutory forecast consolidated income statement for FY2016.

2 Incremental public company costs reflect Redbubble's estimates of the incremental annual costs Redbubble will incur as a publicly-listed company. These costs include Chair and other Non-executive Directors remuneration, additional audit and legal costs, company secretarial, public relations and listing fees, directors and officers insurance premiums as well as investor relations services, annual general meeting and annual report costs.

3 Transaction costs of $0.6 million incurred in relation to Convertible Notes are expensed in the statutory forecast consolidated income statement for FY2016.

4 Incremental full year impact of finance income on the basis that all cash raised in the Offer as a primary raising and Cash raised from Convertible Notes, net of transaction costs, will earn interest as though it was held in a cash account from 1 July 2015, the beginning of that financial period.

## 4.6. Management discussion and analysis of Financial Information

This Section 4.6 includes a discussion of the key factors that affected Redbubble's operations and relative financial performance over FY2013, FY2014 and FY2015 and a discussion of the key factors and assumptions underpinning the forecast financial performance in FY2016 and FY2017. Comments relating to the forecast financial performance in FY2016 and FY2017 should be read in conjunction with the key forecast assumptions set out in Section 4.7.

The discussion of the key factors is intended to provide a brief summary only and does not detail all factors that affected Redbubble's historical operating and financial performance or everything that may affect Redbubble's operations and financial performance in the future.

Table 4.19: Pro forma income statements for historic and forecast periods

| | Pro forma Historical | | | Pro forma Forecast | Statutory Forecast |
|---|---|---|---|---|---|
| June year end $'000 | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 |
| **Revenue from services** | **27,467** | **48,561** | **71,070** | **114,540** | **172,160** |
| Fulfiller expenses | (17,992) | (32,068) | (46,998) | (76,040) | (113,510) |
| **Gross profit** | **9,475** | **16,493** | **24,072** | **38,500** | **58,650** |
| **Operating expenses** | | | | | |
| Employee benefits | (4,458) | (6,627) | (12,778) | (20,711) | (25,660) |
| Marketing | (1,593) | (3,535) | (7,301) | (11,329) | (14,027) |
| Operations and administration | (4,154) | (5,035) | (10,577) | (17,055) | (20,281) |
| **Total operating expenses** | **(10,205)** | **(15,197)** | **(30,656)** | **(49,095)** | **(59,968)** |
| Other income | 429 | 408 | 119 | 29 | – |
| Other expenses | (212) | (138) | (669) | – | – |
| **EBITDA** | **(513)** | **1,566** | **(7,134)** | **(10,566)** | **(1,318)** |
| Depreciation and amortisation | (319) | (859) | (2,027) | (3,999) | (7,339) |
| **EBIT** | **(832)** | **707** | **(9,161)** | **(14,565)** | **(8,657)** |

### GTV and Revenue

GTV is calculated as the total amount of sales processed through Redbubble less refunds, fraudulent transactions and Chargebacks. GTV therefore equates to the value of cash receipts from customers (as defined in AASB107 Statement of Cash Flows published by the Australian Accounting Standards Board) as represented in Redbubble's statutory and pro forma historical and forecast cash flows.

Revenue represents GTV less taxes and Artist Margin.

GTV is a function of the number of visits to the Redbubble site, the conversion rate of those visits to a sales transaction and the resulting transaction's order value. Understanding these three key metrics is key to understanding GTV and revenue growth. The artists set their own margin on top of Redbubble's base price. Any change in artist margin whilst directly impacting GTV has no impact on Redbubble's revenue from services.

The following charts represent the historical and forecast trend of the above three key metrics.

Diagram 4.1: Annual visits FY2013-FY2017F

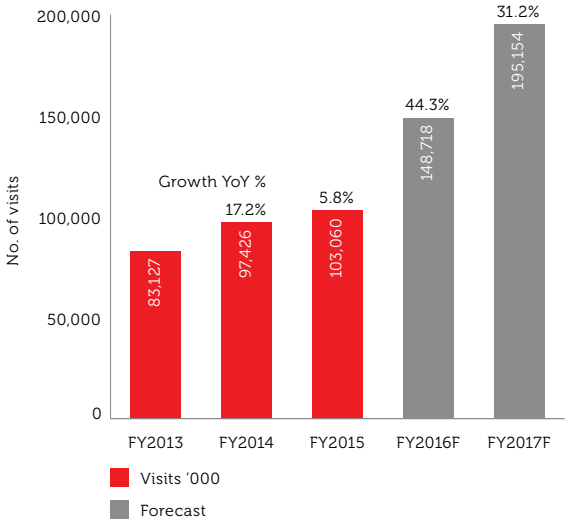



Diagram 4.2: Conversion rate FY2013-FY2017F

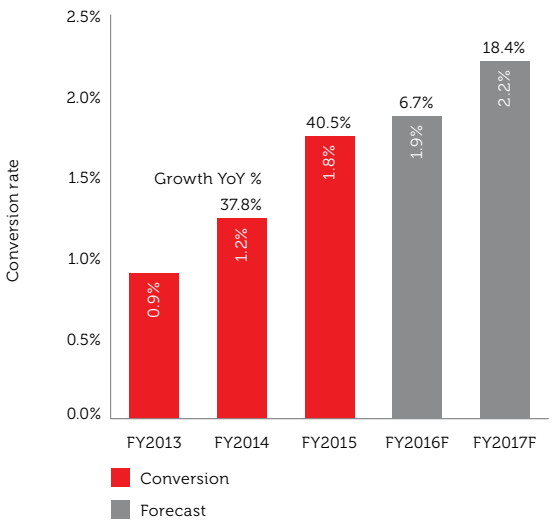
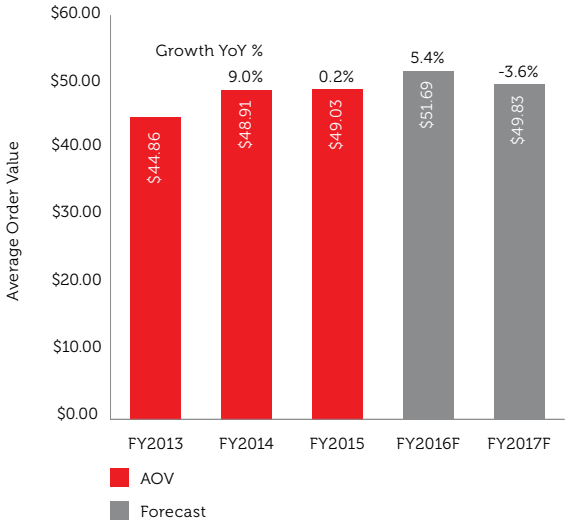



Diagram 4.3: AOV FY2013 – FY2017F




The impact of movements in foreign exchange rates on GTV and net revenue is displayed in the two charts below. The grey bars indicate actual GTV and net revenue for FY2013 to FY2015 and forecast for FY2016 and FY2017, adjusted for foreign exchange in the years as if they had been earned at the same rates as assumed for the forecast for the last 5 months of FY2016 and the whole of FY2017.

**Diagram 4.4:** Historical and forecast GTV actual v constant currency
(fixed as at 1 July 2016)

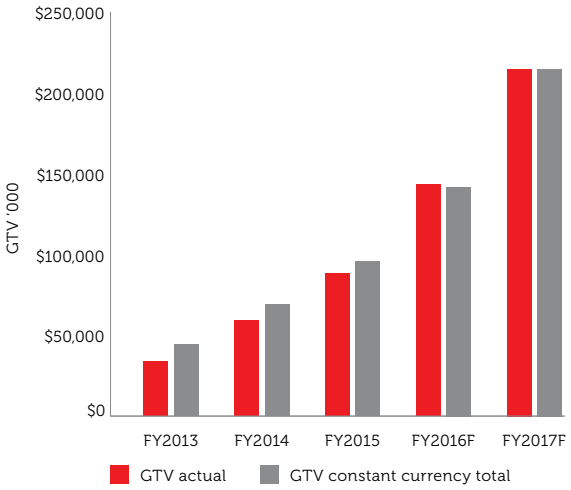
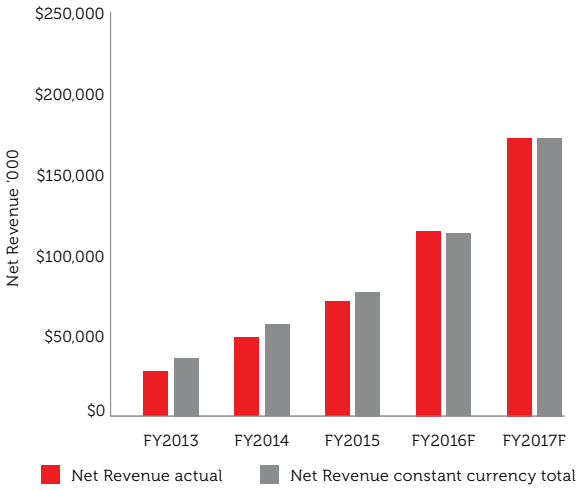



**Diagram 4.5:** Historical and forecast Net Revenue actual v constant currency
(fixed as at 1 July 2016)




### FY2014 v FY2013

GTV increased by 76.1% from $33.7 million in FY2013 to $59.3 million in FY2014 while total revenue from services increased by 76.8% from $27.5 million in FY2013 to $48.6 million in FY2014. As illustrated above, the underlying metrics supporting this growth were a 17.2% increase in visits, a 37.8% increase in conversion and a 9% increase in Average Order Value. Deterioration in the Australian dollar during the year against the four other currencies in which GTV is generated contributed approximately 19.3 percentage points of the 76.1% uplift in GTV.



Ten new products were launched in FY2014 including throw pillows, tote bags, metal prints, Samsung cases, pullover hoodies and women's scoop t-shirts, whilst the beginning of FY2014 saw an upgrade of the mobile experience to a responsive mobile site driving increases in mobile visits and conversion rate. FY2014 saw a 60% increase over FY2013 in unique buyers (a total of 1.0 million unique buyers purchased on the Redbubble site during the year) and an 87% increase in repeat buyers (0.2 million repeat buyers). Total selling artists increased 38% (to 0.1 million artists) over FY2013.

### FY2015 v FY2014

GTV increased by 49.0% from $59.3 million in FY2014 to $88.4 million in FY2015 while total revenue from services increased by 46.4% from $48.6 million in FY2014 to $71.1 million in FY2015. The underlying metrics supporting this growth were a 5.8% increase in visits, a 40.5% increase in conversion and a 0.2% increase in Average Order Value. Deterioration in the Australian dollar during the year contributed 11.1 percentage points of the 49% uplift in GTV. FY2015 was impacted by Redbubble re-indexing the website in late FY2014 which saw a short term slowing in the growth of the number of visits. A subsequent rise in the conversion rate resulted, however, as more qualified traffic was reached. Growth in visit numbers was re-established in Q2 FY2015.

Twelve new products were introduced in FY2015 including doona covers, mugs, drawstring bags, leggings and scarves, and localisation of production in Europe with two fulfillers being introduced in the UK delivering improved shipping times and resultant increased revenues and improved NPS. Improvements to the mobile site in Q2 FY2015 were introduced helping to increase the number of unique buyers by 43% (1.4 million) and repeat buyers by 71% (0.36 million). Total selling artists increased by 36% (up to 0.14 million).

### FY2016F v FY2015

GTV is forecast to increase by 62.4% from $88.4 million in FY2015 to $143.5 million in FY2016 while total revenue from services is forecast to increase by 61.2% from $71.1 million in FY2015 to $114.5 million in FY2016. The forecast anticipates a 44.3% increase in visits, a 6.7% increase in the conversion rate and a 5.4% increase in Average Order Value.

Visit growth has accelerated as a result of strong growth in mobile sessions as more global traffic shifts from desktop to mobile. As a result of this shift in session mix conversion growth has slowed because mobile sessions convert at a lower rate than desktop.

Of the anticipated 62.4% increase in GTV between FY2015 and FY2016, approximately 13.9 percentage points is forecast to be due to the cross currency movements between Redbubble's transaction currencies and the Australian dollar during the year. (Refer to foreign exchange rate assumptions set out in section 4.7.2.3 and sensitivity analysis set out in section 4.8).

New products introduced in prior years and new lines and styles of apparel and homeware have already contributed, and are expected to continue to contribute, to sales growth throughout FY2016 whilst improvements in paid acquisition efficiency and search relevance are forecast to increase year on year visits and conversion rates. Half year results to 31 December 2015 have seen an increase in the number of unique buyers by 63% and repeat buyers by 79%. International expansion into Europe continued with a German-language website launched in 2H FY2016. Total selling artists in 1H FY2016 were 0.11 million.

### FY2017F v FY2016F

GTV is forecast to increase by 49.8% from $143.5 million in FY2016 to $214.9 million in FY2017 whilst total revenue from services is forecast to increase by 50.3% from $114.5 million in FY2016 to $172.2 million in FY2017. This forecast anticipates a 31.2% increase in visits, an 18.4% increase in the conversion rate and a 3.6% decrease in Average Order Value. Movement in Redbubble's transaction currencies between FY2016 (which is a combination of actual and forecast) and FY2017 reduces the GTV growth rate by 1.8 percentage points to the 49.8% above. This reflects the strengthening of the Australian dollar in March 2016 and an assumption of stable foreign exchange rates from there forward.

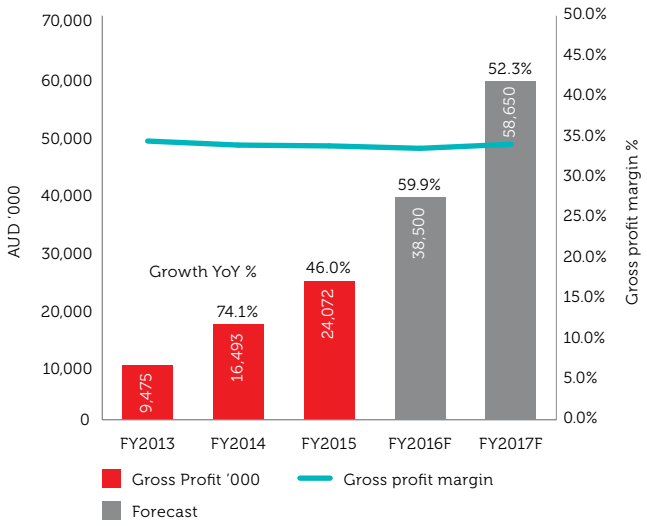
Key growth initiatives planned for FY2017 include improved traffic and search relevance, focus on customer engagement and retention, improvement in the shopping experience, a focus on mobile enhancements, incremental and profitable paid acquisition spend, a strong pipeline of suppliers offering up to 20 new products and styles, creating breadth and variety of customer choice and price points, all contributing to GTV and revenue from services growth. Further international expansion into Europe is planned with new French and Spanish sites expected to launch in FY2017 and the German-language site introduced in 2H FY2016 expected to contribute this year.



### Gross profit, gross profit margin

## Diagram 4.6: Gross Profit

Historical and forecast Gross profit and Gross profit margin



FY2014 v FY2013

Gross profit increased to $16.5 million up 74.1% on FY2013. Gross profit margin marginally declined from 34.5% to 34.0% driven by adjustments in promotional strategy, product mix and the effect of localising production costs and partially absorbing higher local taxes (e.g. GST and VAT).

FY2015 v FY2014

Gross profit increased to $24.1 million up 46% on FY2014. Gross profit margin remained fairly constant moving from 34.0% to 33.9%.

FY2016F v FY2015

Gross profit is expected to increase to $38.5 million up 59.9% on FY2015. Gross profit margin is forecast to decline slightly from 33.9% to 33.6% in FY2016 driven by adjustments in promotional strategy, product mix and geographical sales mix. The strengthening in the Australian dollar in the last four months of FY2016, to varying degrees, against each of the currencies in which Redbubble generates revenue and incurs fulfiller expenses, is expected to have minimal overall impact on Gross profit margin in FY2016.

FY2017F v FY2016F

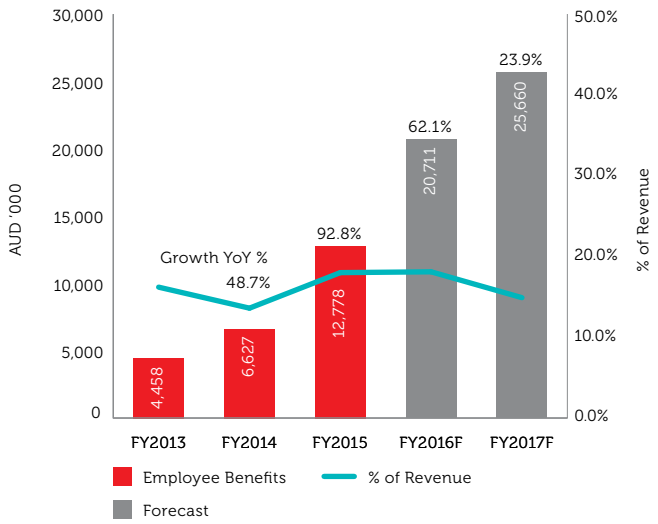
Gross profit is expected to increase to $58.7 million up 52.3% on FY2016. Gross profit margin is forecast to increase from 33.6% to 34.1% in FY2017 driven by improved fulfiller and shipping pricing on the back of increasing economies of scale, the forecast strengthening in the Australian dollar to varying degrees against each of the currencies in which Redbubble generates revenue and incurs fulfiller expenses when compared to most of FY2016, and the relative contribution of revenue and fulfiller expenses by currency. (Refer to the Sensitivity analysis set out in section 4.8 below).

Employee benefits



## Diagram 4.7: Employee Benefits

Historical and forecast Employee Benefits




FY2014 v FY2013

Employee benefit expenses increased by 48.7% from $4.5 million in FY2013 to $6.6 million in FY2014 as the business invested in growth initiatives. This was due to an increase in additional headcount with a specific focus on the web product team, marketing, supply chain, content and the employment of a Chief Operating Officer and a Chief Marketing Officer.

FY2015 v FY2014

Employee benefit expenses increased by 92.8% from $6.6 million in FY2014 to $12.8 million in FY2015 as the business continued to invest in growth initiatives and increase headcount with a focus on product managers, engineers, designers and marketing. The increase in staff enabled Redbubble to deliver localisation of product in Europe, the introduction of 12 new products, website improvements including search terms re-indexing, the introduction of global product navigation functionality on the website and a mobile-first approach to the development of the website.

FY2016F v FY2015

Employee benefit expenses are forecast to increase by 62.1% from $12.8 million in FY2015 to $20.7 million in FY2016 due to increase in headcount to support anticipated growth initiatives. Total headcount is forecast to increase by 32 across the full year with growth focused on the Web Product Development, Marketing and New Business departments. This growth is to support the introduction of new apparel products, the launch of the German language website and improving repeat purchase rates.

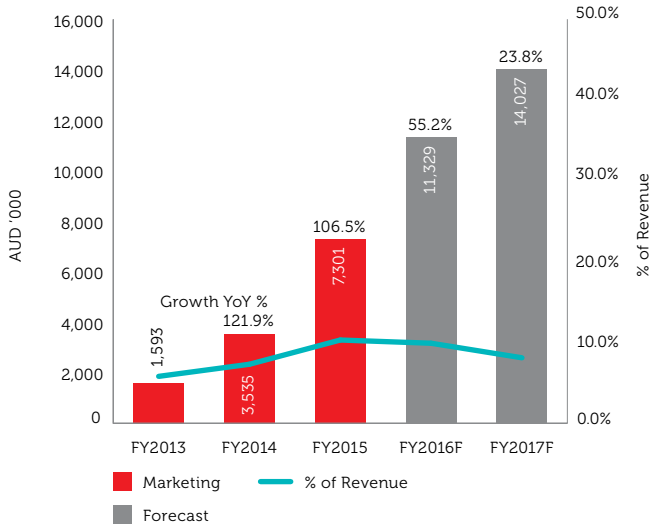
FY2017F v FY2016F

Employee benefit expenses are forecast to increase by 23.9% from $20.7 million in FY2016 to $25.7 million in FY2017 due to increase in headcount to support anticipated growth initiatives. Total headcount is expected to increase by 45 employees with continued growth in the Web Product Development and Marketing departments as well as the New Business and Physical Product areas to support the growth initiatives including new products, an improved shopping experience, increased traffic and search capability, new markets (including French and Spanish language sites) and customer engagement and retention.

Marketing

Diagram 4.8: Marketing

Historical and forecast Marketing expense




FY2014 v FY2013

Marketing expense increased 121.9% from $1.6 million in FY2013 to $3.5 million in FY2014. The increase was due to an increasing expenditure in paid acquisition rising to approximately 4.5 cents per $1 of GTV.

FY2015 v FY2014

Marketing expense increased 106.5% from $3.5 million in FY2014 to $7.3 million in FY2015. The increase was due to a significant investment in and expansion of paid acquisition activities. Testing of customer response to elevated bids led

to annual average spend of approximately 5.5 cents per dollar of GTV, which yielded greatly improved understanding of bid optimization.

FY2016F v FY2015

Marketing expense is forecast to increase by 55.2% from $7.3 million in FY2015 to $11.3 million in FY2016. This reflects expansion of efficient and profitable paid acquisition as overall revenue grows and a stable focus in brand development. Whilst increasing nominally, paid acquisition is expected to decline marginally as a percentage of revenue to approximately 5.4 cents per $1 of GTV but remaining above 5 cents per $1 of GTV because of the impact of continued testing of customer response to elevated bids across non-branded text ads, paid social media and the shopping channels.

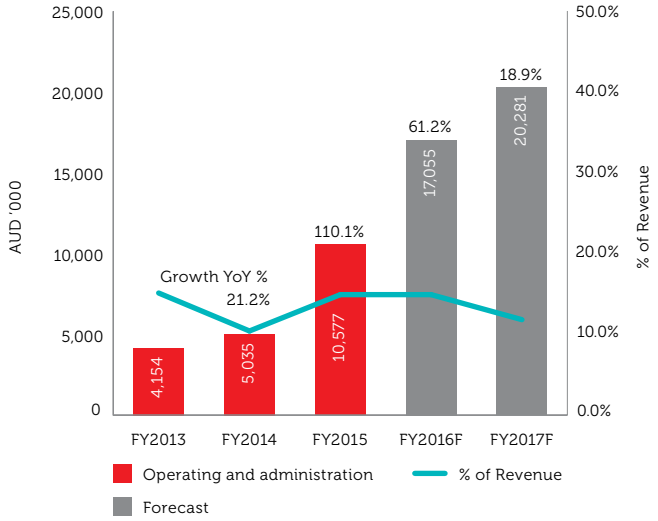
FY2017F v FY2016F

Marketing expense is forecast to increase by 23.8% from $11.3 million in FY2016 to $14.0 million in FY2017. This reflects expansion of profitable paid acquisition, but with increased efficiency of spend and a growing investment in brand development. Paid acquisition is expected to be approximately 4.8 cents per $1 of GTV.

Operational and administrative expenses

## Diagram 4.9: Operating and administration

Historical and forecast operating and administration expense




FY2014 v FY2013

Other operating expenses increased 21.2% from $4.2 million in FY2013 to $5.0 million in FY2014 due to cost associated with increasing headcount, including recruitment and software licenses, the increase in the size of the technological platform including cost of web hosting, legal expenses associated with content volume increases and general office expenses and travel in both Melbourne and San Francisco.

FY2015 v FY2014

Other operating expenses increased 110.1% from $5.0 million in FY2014 to $10.6 million in FY2015 due to continued increasing headcount, increasing technological platform costs with increased traffic and transaction volume, and the associated support costs including travel, software license, staff amenities, recruitment and professional development. Compliance and governance associated expense increased including legal, audit and taxation professional services fees as the business kept pace with its expansion and readied itself for public listing.

#### FY2016F v FY2015

Other operating expenses are forecast to increase 61.2% from $10.6 million in FY2015 to $17.1 million in FY2016 due to support costs associated with increasing headcount including recruitment, software licenses, travel and office amenities in both Melbourne and San Francisco. Further traffic and transaction volume driven expense including consultancy fees, web hosting and legal expense is expected to be incurred as the business's previous and current growth initiatives drive increased activity.

#### FY2017F v FY2016F

Other operating expenses are forecast to increase 18.9% from $17.1 million in FY2016 to $20.3 million in FY2017 beginning to show the benefits of economies of scale as the Redbubble business grows. Specifically the increase is due to office expansion in Melbourne and support costs associated with an increasing headcount. Volume based expenses including legal content and web hosting costs are expected to increase although efficiencies are anticipated in respect of web hosting costs as the Redbubble platform is migrated to a more flexible arrangement.

### EBITDA

#### FY2014 v FY2013

Redbubble had its first EBITDA positive result in FY2014 of $1.6 million up $2.1 million from the FY2013 loss of $0.5 million. Redbubble was constrained by capital resources during most of the year limiting the business's focus on growth initiatives.

#### FY2015 v FY2014

Redbubble posted an EBITDA loss of $7.1 million in FY2015, down $8.7 million on FY2014 due to re-investment in the people, governance and systems required to enable growth initiatives and to the sustainable scaling of the business.



#### FY2016F v FY2015

An EBITDA loss of $10.6 million is forecast for FY2016 with Redbubble investing in growth initiatives following the raising of $15.5 million of capital through the issue of CRPS securities in May 2015 and Convertible Notes in March 2016.

#### FY2017F v FY2016F

An EBITDA loss of $1.3 million is forecast for FY2017. Whilst significant expenditure will be devoted to growth initiatives, Redbubble is forecast to benefit from increasing scale as the year progresses with the contribution of expenditure to generate growth in earlier years, particularly FY2015 and FY2016, maintaining strong top line growth.

#### Foreign exchange impact on EBITDA

Due to the nature of Redbubble's business it is partly naturally hedged by its incurrence of a large part of its fulfiller and operating expenses in the same currency as it earns revenue. In FY2016, for example, it is forecast that 80.9% of fulfiller expenses, 61.1% of operating expenses and 67.8% of revenue will be denominated in US dollars. For an indication of the extent of this natural hedge on the forecast in FY2017, refer to the sensitivity Table 4.21 in Section 4.8.

## 4.7. Assumptions underlying the Forecast Financial Information

The Forecast Financial Information is based on various best estimate assumptions concerning future events, including those set out below, which should be read in conjunction with the Independent Limited Assurance Report in Section 8, the risk factors set out in Section 5, the sensitivity analysis set out in Section 4.8 and all other information set out in this Prospectus.

Redbubble believes the best estimate assumptions when taken as a whole to be reasonable at the time of preparing this Prospectus. However, this information is not fact and investors are cautioned not to place undue reliance on the Forecast Financial Information.

The actual results are likely to vary from that forecast and any variation may be materially positive or negative. The assumptions upon which the Forecast Financial Information is based are by their nature subject to significant uncertainties and contingencies, many of which are outside the control of Redbubble and its Directors, and are not reliably predictable.

Accordingly, none of Redbubble, its Directors, or any other person can give you any assurance that the Forecast Financial Information or any prospective statement contained in this Prospectus will be achieved. Events and outcomes might differ in amount and timing from the assumptions, with a material consequential impact on the Forecast Financial Information.

### 4.7.1. General assumptions

In preparing the Forecast Financial Information, the following general assumptions have been adopted for the forecast period:

- no significant change in the economic conditions (including financial market stability) prevailing in Australia or the markets in which Redbubble operates other than those changes reflected in the key revenue assumptions set out in Section 4.7.2.1;
- no significant deviation from current market expectations of broader economic conditions;
- no changes in local and international legislations, tax legislation, regulatory legislation, regulatory requirements or government policy that will have a material impact on the financial performance or cash flows, financial position, accounting policies, financial reporting or disclosure of Redbubble;
- no change in applicable Australian Accounting Standards (including the Australian Accounting Interpretations) or the Corporations Act that would have a material impact on Redbubble's consolidated financial performance, cash flows, financial position, accounting policies, financial reporting or disclosures;
- no material industrial or employee relations disputes, litigation, strikes, acts of terrorism or force majeure which have a material impact on the operations of Redbubble;
- no material legal claims;
- no material beneficial or adverse effects arising from the actions of competitors;
- no material impact on Redbubble's ability to achieve its current earnings margins;
- no material acquisitions, disposals, restructuring activities or investments;
- no material impairment of intangible assets including capitalised operating expenses;
- key personnel, particularly the senior management team, are retained and Redbubble maintains its ability to recruit and retain required personnel;
- none of the risks listed in Section 5 eventuate, or if they do, none of them have a material adverse impact on the operations of Redbubble; and
- the Offer proceeds in accordance with the timetable set out in this Prospectus.



### 4.7.2. Specific assumptions

The key assumptions underpinning the Forecast Financial Information are as follows:

#### 4.7.2.1. Revenue assumptions

Revenue is forecast based on the forecast number of website visits, a forecast conversion rate to customer transactions and an Average Order Value. Revenue is net of refunds, fraud and Chargebacks, transaction taxes (GST, VAT, CAST) and artist margin.

Table 4.20: Key Revenue metrics

| | Pro forma Forecast | Year on year | Statutory Forecast | Year on year |
|---|---|---|---|---|
| June year end | FY2016 | growth % | FY2017 | growth % |
| Visits ('000s) | 148,718 | 44.3% | 195,154 | 31.2% |
| Conversion Rate % | 1.9% | 6.7% | 2.2% | 18.4% |
| AOV ($) | 51.7 | 5.4% | 49.8 | (3.6%) |

Website visits and customer conversion rates have been forecast with regard to historical trends, the enduring impact on revenue of past growth initiatives and the effect of proposed growth initiatives for the remainder of FY2016 and the whole of FY2017. As a factor in forecast revenue growth, Average Order Value is not expected to significantly change from the current levels.

Redbubble has achieved regular year on year growth since its launch in 2007, which is a function of the successful implementation of various growth initiatives and underlying growth in the Redbubble marketplace. The enduring impact of past growth initiatives implemented continuously throughout a year is reflected in an increase in website visits and improvement in conversion rates by the end of the year, yielding a higher opening run rate for the following year. Redbubble refers to this as momentum growth or increase in run rate. For example, Redbubble's average daily visits and conversion rate in the month of January 2016 were 407,000 and 1.64% respectively compared to 299,000 visits and 1.58% in January 2015. Management estimates the annualised revenue impact of this effect to be approximately 14% ($15.8 million additional revenue) for FY2017, independent of the impact of future growth initiatives, as a result of a forecast 8% to 11% increase in visits and 3% to 6% increase in conversion.

In addition, management has proposed new growth initiatives and marketing strategies across the forecast period which have been developed in detail by management, endorsed by the board and fully funded.



Management's major growth initiatives for the underlying business in FY2017 include:

- Improvement in search relevance, across all devices (desktop, tablet and mobile), to present more relevant results to customers in both organic and paid searches, leading to increased click through rates and higher conversion. Management forecasts this to increase revenue by approximately 17% ($19.9 million additional revenue) as a result of a forecast 9% to 12% increase in visits and a forecast 3% to 6% increase in conversion. This forecast is based on previous experience with initiatives of this nature.
- Improvement in customer engagement and retention to improve conversion rates and repeat customer activity by individualising the experience, enabling product recommendations and improvement to post-purchase experience.
- Enhancing product selection, payment processes, product information and site speed to improve the shopping experience, particularly on mobile. This is expected to increase repeat customer activity and to improve conversion rates both of which are currently below industry benchmarks. Management forecasts the combined impact on revenue growth of this and the customer engagement and retention initiative above to be approximately 5% ($5.2 million additional revenue) as a result of a forecast 2% to 4% increase in visits and a forecast 2% to 4% increase in conversion. This forecast is based on previous experience with initiatives of this nature and with reference to industry benchmarks, particularly in relation to mobile device conversion rates.
- A strong pipeline of 20 new products and styles including expansion of men's and women's apparel range, homewares and electronic accessories. Management forecasts revenue growth from this initiative of approximately 9% ($10.5 million additional revenue), as a result of a forecast 4% to 6% increase in visits and a forecast 4% to 6% increase in conversion. Revenue from six new products contributed 13.3% of revenue in 1H FY2016.
- Entry into newer European markets including French and Spanish language sites as well as full year impact of German website established in 2H FY2016. Management forecasts revenue growth from this initiative through increased visits and improved conversion rates to be approximately 5% ($6.3 million additional revenue) as a result of a forecast 3% to 5% increase in visits and a forecast 1% to 3% increase in conversion. This forecast is based on growth rates experienced by Redbubble in English-speaking markets.

Due to the effects of Thanksgiving and Christmas, Redbubble's second quarter revenues have historically represented approximately one-third of a full financial year's trading. The Company has no reason to think this seasonality will vary significantly in future years.

#### 4.7.2.2. Gross Profit and Gross Profit margin

Redbubble's forecast Gross profit margins are based on historical achievements and are expected to remain stable across the FY2016 and FY2017 periods. Whilst it is expected that Redbubble will be able to improve margins by negotiating enhanced terms for fulfilment and shipping costs, it has been assumed that some of these gains are returned to customer by way of discounting and promotion.

#### 4.7.2.3. Operating expenses

*Employee benefits*

Employee benefits are forecast based on headcount and payroll costs including bonus, on-costs (superannuation, payroll taxes and other benefits), annual leave accrual and are net of capitalisation personnel costs. Budgeted headcount allows for anticipated increases in personnel resource requirements, especially in the area of technology (web product managers, engineers and designers) to achieve forecast growth. Average annual wage increases of 4% have been assumed.

*Marketing*

Redbubble has forecast paid acquisition costs to grow in line with revenue growth, remaining consistent as a percentage of sales. Spending efficiency will be maintained through improvements in technology, targeting and bid management. The growth in other direct marketing costs reflects an ongoing investment in brand development.

*Other expenses*



Overheads (excluding employee expenses) are forecast based on expectations of future business activity including the intention to expand further in Europe, to launch additional products and to continue to provide improved user experiences to artist and customer alike. Allowance has been made for the costs associated with being a publicly listed entity.

*Capitalised Development Costs*

Redbubble has forecast capitalised development costs based on anticipated employment expenses related to growth related roles to reflect work on initiatives and projects with demonstrable future economic benefit in line with its accounting policy (refer Appendix A). The forecasts for FY2016 and FY2017 allow for the capitalisation of 19.4% and 18.8% respectively of total employment expenses. Capitalised expenditure is allocated to specific projects, such as the launch of new products, and amortised over periods ranging from 2-5 years.

*Depreciation*

Depreciation charges are forecast based on anticipated depreciation schedule for existing and future capital assets such as property, plant and equipment.

*Foreign exchange rates*

The foreign exchange rate assumptions used in the forecasts are as follows:

| Forecast foreign exchange rate | February 2016 | March 2016 to June 2017 |
|---|---|---|
| USD/AUD | 0.714 | 0.741 |
| GBP/AUD | 0.465 | 0.513 |
| EUR/AUD | 0.632 | 0.667 |
| CAD/AUD | 0.944 | 1.000 |

As the forecasts were being prepared, foreign exchange rates for February were becoming clear and the above forecast rates for February 2016 in aggregate reflect what prevailed and hence no material impact on actual February 2016 results against forecast.

The assumed rates used for the balance of the forecast periods reflect rates prevailing at finalisation of the forecast following a significant strengthening of the Australian dollar against all the above currencies in early March 2016 and do not represent Directors view on the future direction of those rates or any attempt to forecast movement in those rates between 1 March 2016 and the end of the forecast period.

*Taxation*

A LRDA (Limited Risk Distribution Agreement) exists between Redbubble Ltd and Redbubble Inc whereby Redbubble Inc is a worldwide distributor for Redbubble Ltd under which it is responsible for Redbubble's worldwide sales. Redbubble Inc is responsible for providing operational services as required. Redbubble Ltd reimburses Redbubble Inc for the use of its services by reimbursing Redbubble Inc's operating expenses plus a margin. This agreement results in taxable profits in the US and tax is paid accordingly.

Australian corporate tax rate assumed to remain at 30%. US corporate tax rates assumed to remain at 34%.

## 4.8. Sensitivity analysis

The Forecast Financial Information is based on a number of key estimates and assumptions that are subject to risks and uncertainties beyond the control of Redbubble, its Directors and management. These estimates are also based on assumptions with respect to future business opportunities, which are subject to change.

Investors should be aware that the future events cannot be predicted with certainty and as a result, deviations from the figures forecast in this Prospectus are to be expected. The non-exhaustive sensitivity analysis using some of the key assumptions in the forecast is set out below for FY2016 (for the five months of forecast from 1 February 2016) and for FY2017, respectively. These tables present the sensitivity of the assumptions to pro forma forecast revenue, gross profit, EBITDA and NPAT.

This analysis is to be used as a guide only and actual variations may be beyond the modelled ranges.



Table 4.21: **Sensitivity analysis on pro forma forecast revenue, gross profit, EBITDA and NPAT for FY2016**

| | | FY2016 (Sensitivity impact from February to June) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Assumption * $'000 | Increase/ decrease | Revenue + | Revenue – | Gross Profit + | Gross Profit – | EBITDA + | EBITDA – | NPAT + | NPAT – |
| **Visits to Redbubble website** | +/–5% | 2,157 | (2,157) | 752 | (752) | 621 | (621) | 445 | (445) |
| **Conversion rate **** | +/–0.1% | 2,295 | (2,295) | 797 | (797) | 797 | (797) | 569 | (572) |
| **Gross Profit Margin** | +/–1% | | | 432 | (431) | 432 | (431) | 293 | (293) |
| Exchange rates | | | | | | | | | |
| USD/AUD | +/–5% | 1,493 | (1,493) | 355 | (355) | (240) | 240 | (692) | 666 |
| EUR/AUD | +/–5% | 168 | (168) | 161 | (161) | 144 | (144) | 62 | (63) |
| GBP/AUD | +/–5% | 273 | (273) | 30 | (30) | (12) | 12 | (137) | 130 |
| CAD/AUD | +/–5% | 85 | (85) | 82 | (82) | 74 | (74) | 38 | (38) |

* Each sensitivity assumption has been calculated in isolation from change in other variables.

** The increase/decrease represents an absolute movement. i.e. 2.2% to 2.3% or 2.1%

Table 4.22: Sensitivity analysis on pro forma forecast revenue, gross profit, EBITDA and NPAT for FY2017

| | | FY2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Assumption * $'000 | Increase/ decrease | Revenue + | Revenue – | Gross Profit + | Gross Profit – | EBITDA + | EBITDA – | NPAT + | NPAT – |
| **Visits to Redbubble website** | +/–5% | 8,682 | (8,682) | 2,958 | (2,958) | 2,795 | (2,795) | 1,996 | (1,996) |
| **Conversion rate **** | +/–0.1% | 7,893 | (7,893) | 2,679 | (2,679) | 2,679 | (2,679) | 1,913 | (1,913) |
| **Gross Profit Margin** | +/–1% | | | 1,736 | (1,736) | 1,736 | (1,736) | 1,263 | (1,263) |
| Exchange rates | | | | | | | | | |
| USD/AUD | +/–5% | 5,854 | (5,854) | 1,306 | (1,306) | (369) | 369 | (718) | 693 |
| EUR/AUD | +/–5% | 902 | (902) | 863 | (863) | 792 | (792) | 489 | (491) |
| GBP/AUD | +/–5% | 1,054 | (1,054) | (14) | 14 | (159) | 159 | (299) | 287 |
| CAD/AUD | +/–5% | 331 | (331) | 319 | (319) | 294 | (294) | 186 | (187) |

* Each sensitivity assumption has been calculated in isolation from change in other variables.

** The increase/decrease represents an absolute movement. i.e. 2.2% to 2.3% or 2.1%

The estimated impact to changes in each assumption has been calculated in isolation from changes in other assumptions. In practice, changes in assumptions may offset each other or maybe additive. In addition, the sensitivities set out in the tables below do not reflect any action that management might take to manage the impact of changes to the assumptions, for example, further localisation in Europe and Australia.

In relation to the above foreign exchange rates, care should be taken when assessing the impact on Redbubble's financial performance and position because the relative mix of revenue, fulfiller expenses and operating expenses and the currencies in which they are earned or incurred will also vary.



## 4.9. Dividend policy

As the forecasts for FY2016 and FY2017 are projecting operating losses, the Directors do not expect to pay any dividends in the forecast period.

# 5 RISKS

# 5 Risks

## 5.1. Introduction

Redbubble is subject to risks that are both of a general nature and risks which are specific to its business activities. Any or a combination of these risk factors may have a material adverse impact on Redbubble's business, financial performance and operations.

This Section describes what Redbubble considers to be some of the potential risks associated with Redbubble's business, an investment in Redbubble and the general risks associated with an investment in Shares.

The risks listed in this Section should not be considered to be an exhaustive list of every possible risk associated with an investment in Redbubble or the industry in which it operates. The types of risks to which Redbubble is exposed can change over time and vary with changes in economic, technological, environmental and regulatory conditions. The occurrence or consequences of some of these risks are partially or completely outside of the control of Redbubble, the Directors and the Senior Leadership Team.

Before making any decision to invest in Redbubble, you should read the entire Prospectus and satisfy yourself that you have a sufficient understanding of these potential risks. You should also consider whether an investment in Redbubble is suitable for you in light of your investment objectives, financial situation and particular needs. It is recommended that you seek professional advice from your accountant, financial adviser, stockbroker, solicitor or other independent and qualified professional adviser before deciding whether to invest in Redbubble. In particular, potential investors should be aware that there is no certainty that Redbubble will achieve its stated objectives or that any forward-looking statements will occur. Any investment in Redbubble should only be considered in light of these risks, as the occurrence of any or a combination of the risks set out in this Section could have a material adverse impact on Redbubble's business, financial performance and operations.



## 5.2. Risks specific to an investment in Redbubble

### 5.2.1. Authenticity of Redbubble's marketplace and focus on enduring value

It is critical to Redbubble's mission that Redbubble's marketplace remains authentic and transparent. This authenticity could be undermined by:

- decision making that is inconsistent with Redbubble's mission;
- negative publicity;
- the perception that Redbubble is not fairly or appropriately enforcing its policies;
- its failure to respond to or action feedback from its Artists or Customers; or
- technical or other failures (described below).

If the authenticity of Redbubble's marketplace is questioned, then Redbubble's ability to attract and retain Artists and Customers could be impaired and Redbubble's reputation and business could be adversely affected.

Part of Redbubble's strategy is to become a company of enduring value. This may result in the Company making certain decisions that it expects will be beneficial in the long term, but that could have an adverse impact on its business, financial performance or operations in the short or medium term. The benefits that Redbubble expects to occur in the long term might never come to fruition and this could have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.2. Attracting and retaining independent artists

In order to achieve Redbubble's mission of creating the world's largest online marketplace for independent artists, as well as creating a company of enduring value, Redbubble must attract new Artists and retain existing Artists. If existing Artists are not satisfied with their experience on Redbubble or are dissatisfied with the brand for another reason, they may delete their account or stop uploading new designs and creative works to Redbubble's marketplace.

Under these circumstances, Redbubble may have difficulty retaining and/or attracting new Artists and Customers which, in turn, could have a material adverse impact on its business, financial performance and operations.

### 5.2.3. Attracting and converting Customers

Redbubble's revenues and success of its growth initiatives depend upon attracting and retaining Customers to its website and converting those Customers into both new and repeat Customers. Various factors can affect website traffic and conversion, including the website user experience, search engine traffic (see Section 5.2.15), the effectiveness of marketing and promotions, the quality of the mobile experience (see Section 5.2.19) and brand reputation.

A decline in traffic coming to Redbubble's website or the rate of conversion could adversely impact Redbubble's ability to achieve its strategic objectives and could have a material adverse impact on its business, financial performance and operations.

### 5.2.4. Shift in consumer trend

Redbubble is reliant on the consumer trend towards de-branded, made-to-order creative and well-designed products. Historically, consumers have sought brand name apparel and products. If this trend reverses and consumers are no longer interested in finding ways to express an individual sense of style, this could reduce the demand for products sold via the Redbubble marketplace which, in turn, could have a material adverse impact on Redbubble's business, financial performance and operations.



### 5.2.5. Adapting to changes in technology

Redbubble operates in the print-on-demand market. This industry is characterised by rapidly changing technology, new service and product offerings and evolving consumer demands. Being able to remain sufficiently innovative and adaptable may be costly to, and complex for, Redbubble. If Redbubble is unable to adapt quickly to such changes, this could have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.6. Action of competitors or substitute offerings

Redbubble operates in a competitive landscape alongside a number of other online marketplaces with competing offerings and geographically diverse presences.

There is the potential for Redbubble's business to be disrupted by new or existing user-generated content platforms that emerge or develop a product fulfilment capability and an artist community that competes directly with Redbubble's services.

If Redbubble is unable to compete, or if an expenditure of significant resources or significant discounting is required to compete, this could have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.7. Failure to penetrate new markets

Redbubble attracts Artists and Customers from all over the world. In an effort to continue to broaden global reach, Redbubble has recently launched a German-language website and is exploring expansion opportunities into new markets.

Expansion into new markets also involves a number of risks – such as difficulties in managing foreign operations (including employment issues, exchange rate fluctuations and the enforcement of contracts), dealing with foreign legal or regulatory issues (such as privacy and data protection laws, payment services regimes, consumer regulations,

intellectual property enforcement or tax regulations), differences in artist and customer behaviour, potential political and/or economic instability and the potential for higher rates of fraud – any of which could result in expansion being unsuccessful.

Redbubble is also subject to the risk associated with specific rules in some countries in relation to prohibited content (for example, in Germany there are specific prohibitions in relation to the display of Nazi imagery). The territorial application of specific prohibited content laws is difficult to predict and any adverse action could restrict Redbubble's expansion strategy into key markets.

If Redbubble's expansion into new markets is not successful, it could have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.8. Economic conditions may worsen

Australian and global economic conditions may worsen and the global retail environment may deteriorate as consumers reduce their spending on discretionary items. In addition, the retail market may experience periods of price deflation in certain categories, which may reduce the gross profit made on the sale of items. Should any of these developments occur, they could have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.9. Controversial content

Redbubble is exposed to reputational risk on a number of levels, including:

- the risk associated with perceptions of any controversial, offensive or objectionable user-generated content that may be made available on the Redbubble marketplace; and
- the risk associated with removing content in what may be perceived as a censorious or arbitrary fashion.



Either of these circumstances may lead to a decline in the Company's ability to attract and retain Artists and Customers which, in turn, could have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.10. Product range risk

Redbubble spends time and resources working with third party suppliers (who provide the base products) and fulfillers (who apply the creative art to products) to support the launch of new product types on the Redbubble marketplace. These efforts could fail for many reasons – such as a lack of interest in new product types, the failure to successfully market new product types, product defects, negative publicity about Redbubble or specific products, the failure of Redbubble to be able to support the infrastructure needed to launch new product types or disruptions to the supply chain.

Additionally, while new product types may require investment, they may not increase revenue and Redbubble may face competition from companies that are better positioned to offer those product types because of greater awareness about their brand or greater resources.

If Redbubble is unable to cost-effectively support the extension of the product range offered on the Redbubble marketplace to grow revenue, then this could have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.11. Fulfiller and supplier concentration risk

Redbubble connects Artists with a relatively small number of fulfillers and suppliers. These fulfillers and suppliers are geographically concentrated, with the majority being based in the United States. Fulfillers or suppliers may fail to deliver sufficient quantities of products in a timely manner, suspend services, encounter financial difficulties, terminate their relationships with Redbubble and the Artists, amend the terms upon which they do business with Redbubble and the Artists or experience raw material or labour shortages as well as increases in raw material or labour costs. In addition, these fulfillers and suppliers are not bound by any exclusivity obligations in respect of the Redbubble marketplace and so may enter into agreements with Redbubble's competitors.

Redbubble's online marketplace may also be materially adversely impacted by a number of other factors, including but not limited to:

- economic or political instability in countries where suppliers or fulfillers are located;
- increases in shipping or other transportation costs;
- manufacturing and transportation delays and interruptions, whether as a result of natural disasters, industrial action in the supply chain or other factors;
- supplier or fulfiller non-compliance with applicable laws;
- fluctuations in currency exchange rates; and
- changes in laws affecting the importation and taxation of goods, including duties, tariffs and quotas, or changes in the enforcement of those laws.

If any of these factors limit the ability of fulfillers or suppliers to supply products to the Artists selling on the Redbubble marketplace, or if there is any material deterioration to the terms on which the fulfillers or suppliers provide products, this could have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.12. Informality of relationships with product fulfillers and suppliers

The relationships between Redbubble and third party fulfillers and suppliers are informal with limited written agreements and are terminable at will by either party. The loss or deterioration of Redbubble's relationships with key fulfillers or suppliers or an inability to negotiate with new fulfillers and suppliers on terms which are not materially less favourable than existing arrangements, could have a material adverse impact on Redbubble's business, financial performance and operations.

The third party fulfillers or suppliers working with Redbubble may also choose to seek to change their credit terms or refuse to provide product via the Redbubble marketplace to reduce their credit exposure. These events could have a material adverse impact on Redbubble's business, financial performance and operations.



### 5.2.13. Third party delivery services risk

Products sold on the Redbubble marketplace are delivered to Customers by a number of third party delivery services. These delivery service providers may experience delays or interruptions, potentially due to events beyond their control (such as inclement weather, natural disasters, transportation disruptions, labour unrest, insolvency or government shut-downs). Products sold on the Redbubble marketplace could also be subject to damage during shipping.

If the goods sold on the Redbubble marketplace are damaged or not delivered in a timely manner or at shipping rates that Customers are willing to pay, then this could adversely impact on Redbubble's reputation and, in turn, could have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.14. Fulfillers or suppliers using unethical business practices

Redbubble seeks to work with certified fulfillers or suppliers who do not use child or involuntary labour and who promote sustainability and humane working conditions. However, Redbubble does not control fulfillers or suppliers or their business practices. If third party fulfillers or suppliers engage in illegal or unethical business practices or if they are perceived to do so, Redbubble may receive negative publicity and its reputation may be harmed which, in turn, could have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.15. Search engine risks

Many Customers access Redbubble's website through search engines, such as Google, by clicking on a link in the search engines' "organic" listings (which are listings not dependent on advertising or other payments). Redbubble's website may be excluded from or ranked lower in search engine results due to changes to a search engine's algorithms or other ranking criteria that are outside of Redbubble's control.

Redbubble endeavours to enhance the relevance of Redbubble's website to common search queries and thereby improve the rankings of Redbubble's website in search engines, a process known as Search Engine Optimisation (**SEO**). These algorithms and ranking criteria are unknown to Redbubble, and Redbubble may not understand or have access to complete information on the methods used to rank its website.

Similarly, Redbubble provides a subset of its products to third party shopping platforms, such as Google's Shopping Feed. The algorithms and shopping criteria within these platforms are unknown to Redbubble.

If Redbubble cannot promptly adapt to such changes in search engine or shopping platform algorithms, or if Redbubble's SEO or shopping platform activities are no longer effective for any reason, the traffic coming to the Redbubble website could significantly decrease and Redbubble's conversion rates may decrease which, in turn, could have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.16. Hacking attacks and technology platform failure risk

As an e-commerce business, Redbubble relies on the performance of its technology platform to display content to Artists and Customers, to provide Artists with the continuous ability to upload content, to relay orders to fulfillers and for transactional capability with Customers. Redbubble may not be able to prevent material disruptions to its technology platform caused by targeted hacking attacks, distributed denial of service attacks or other disruptive attacks. Redbubble is also exposed to the risk of interference with internet services generally or through failure of the systems of outsourced IT service providers.

Although Redbubble has strategies in place to minimise such attacks, these strategies may not be successful. Unavailability of the website could lead to a loss of revenue whilst Redbubble is unable to provide its services. Further, it could hinder Redbubble's ability to attract and retain Artists and Customers and increase their activity on Redbubble, which could have a material adverse impact on Redbubble's business, financial performance and operations.



### 5.2.17. Data security risks

Redbubble collects, transmits and stores personal and financial information provided by Artists, Customers and other website users. In an effort to protect sensitive information, Redbubble relies on a variety of security measures. However, increasingly sophisticated tools and methods used by hackers and cyberterrorists may result in Redbubble's failure or inability to adequately protect its sensitive information. The preventive measures which Redbubble takes to address these risks are costly and may become more costly in the future.

Redbubble transmits personal and financial information of Artists, Customers and other website users to various third party suppliers of services, including 'Software-as-a-Service' and 'Infrastructure-as-a-Service' providers and other cloud-based technology providers. Redbubble is reliant on the adequacy of the security safeguards of these third parties to keep user personal and financial information secure. A material data security breach by Redbubble or one of its suppliers may result in significant regulatory action and reputational damage.

If Redbubble or any of its third party service providers experience security breaches that result in the loss or unauthorised disclosure of sensitive information, people may become unwilling to provide Redbubble the information necessary to become registered users. Existing Artists and Customers may also decrease their purchases or stop listing new designs and creative works for sale or close their accounts altogether. Redbubble could also face potential liability and litigation. Any of these results could harm Redbubble's reputation, and could have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.18. Third party network infrastructure risks

The reliability of Redbubble's platform is important to its reputation and its ability to attract Artists and Customers. As Redbubble's volume of traffic, number of transactions and the amount of information shared on its platform grow, Redbubble's need for additional network capacity will also grow. The operation of the technology underlying Redbubble's platform is expensive and complex, and Redbubble could experience operational failures. If Redbubble fails to accurately predict the rate or timing of the growth of its platform, Redbubble may be required to incur significant additional costs to maintain reliability.

Redbubble also depends on the development and maintenance of the internet infrastructure. This includes maintenance of reliable internet with the necessary speed, data capacity and security, as well as timely development of complementary products.

Third party providers host Redbubble's entire technology infrastructure. Any disruption in their services, or any failure of Redbubble's providers to handle the demands of its marketplace, could significantly harm Redbubble's business, financial performance and operations. Redbubble exercises little control over these providers, which increases its vulnerability to any problems with the services they provide. If Redbubble experiences failures in its technology infrastructure its ability to attract and retain Artists and Customers could be harmed, and could have a material adverse impact on Redbubble's business, financial performance and operations.

Redbubble relies upon its primary website hosting providers, Terremark (a subsidiary of Verizon), Engine Yard and Amazon Web Services (a subsidiary of Amazon), and its Content Delivery Network Provider, EdgeCast, to maintain continuous operation of the website and website performance optimisation. Should these hosting providers suffer outages (for example, due to catastrophic destruction of infrastructure following a natural disaster) service to the Redbubble website may also be disrupted. Unavailability of the website could lead to a loss of revenue while Redbubble is unable to provide its services and, in the case of prolonged outages, such disruptions could have a material adverse impact upon Redbubble's reputation. This could hinder Redbubble's ability to attract and retain Artists and Customers, and could have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.19. Effectiveness of mobile platform

The effectiveness of Redbubble's mobile platform has become increasingly important as a growing proportion of traffic is originating from mobile devices. Redbubble is investing in an improved mobile experience, but does not currently have an iOS or Android app. Redbubble may encounter problems in developing apps, particularly as new mobile devices and mobile platforms are released. In addition, supporting new devices and mobile device operating systems may require substantial time and resources. If Artists or Customers encounter difficulty accessing or using Redbubble's platform on their mobile devices, this could have a material adverse impact on Redbubble's business, financial performance and operations.



### 5.2.20. Marketing efforts may not be effective

Promoting awareness and understanding of Redbubble is critical to its success as a marketplace. Currently, Redbubble's marketing initiatives include SEO (see Section 5.2.15), Search Engine Marketing (**SEM**), social media marketing, brand campaigns and email marketing.

There are risks associated with social media marketing, as this is relatively new and constantly developing. Growing Redbubble's social media presence is an important part of Redbubble's marketing efforts. However, social media websites might change their policies or practices in a way that could adversely impact Redbubble's marketing via social media.

Redbubble expects that its marketing efforts will continue to grow in scope and cost as competition increases, but ultimately a significant return on investment from these marketing efforts is not guaranteed. Any failure in Redbubble's marketing efforts could hinder Redbubble's ability to attract and retain Artists and Customers, and could have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.21. Key person risk

Redbubble currently depends on the continued services and performance of a small number of key personnel. Redbubble requires staff to have a variety of skills and expertise, some of which may be considered niche specialities in which there are limited resources available for recruitment in Redbubble's office locations.

The employment contracts with Redbubble's Senior Leadership Team members have relatively short or no notice periods and do not contain restraints of trade following termination of employment (although, to assist with the retention of Senior Leadership Team members, short-term and long-term incentive arrangements are implemented).

The loss of key personnel, particularly members of the Senior Leadership Team or senior engineering personnel, could disrupt operations and have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.22. Attracting key talent

Redbubble's future success depends, to a significant extent, on its ability to attract skilled and experienced personnel, particularly those with expertise in the e-commerce, engineering, supply chain, product management and other technical positions. There is substantial competition for personnel with this expertise and Redbubble may incur increasing costs to attract, develop and motivate them. If Redbubble is unable to attract skilled personnel, it may be unable to effectively execute its business plan or maintain or expand its operations, which, in turn, could have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.23. Efforts to protect Redbubble's intellectual property may not be effective

Redbubble's intellectual property, particularly the Redbubble brand, is an essential asset to the Company. Redbubble has established and protects its intellectual property rights through multiple international channels including reliance on relevant trade secret, copyright, and trade mark laws, contractual provisions and a practice of worldwide surveillance. There is a risk that despite Redbubble's protection efforts, infringement of Redbubble's intellectual property could occur. Unauthorised parties may attempt to use Redbubble's trade marks or copyright or copy elements of its website to pass themselves off as Redbubble or create a competing business.

Redbubble's efforts in policing such unauthorised use may not always be successful and efforts to enforce Redbubble's rights may be time consuming and costly. Additionally, there is the risk that these protection efforts could result in litigation, with a court ultimately determining that Redbubble's rights are not enforceable. Third parties could also proactively challenge the enforceability or registration of Redbubble's intellectual property, such as by seeking to have one or more of Redbubble's trade mark registrations revoked or by claiming that one of Redbubble's trade marks or other intellectual property is infringing their brand in some way. If Redbubble is unable to effectively protect and enforce its intellectual property rights, this could damage Redbubble's brand or reputation which, in turn, could have a material adverse impact on Redbubble's business, financial performance and operations.



### 5.2.24. Claims alleging infringement of third party intellectual property rights based on user-generated content

Although Redbubble is strictly a service provider that does not sell or manufacture the products sold on the Redbubble marketplace, it regularly receives notices alleging infringement of third party copyright, trade marks, other intellectual property rights or publicity rights via the Redbubble marketplace or for breach of consumer protection laws. Redbubble maintains robust intellectual property notice and takedown procedures – detailed in Redbubble's "Intellectual Property/Publicity Rights Policy" – to address these notices, Redbubble's policies and procedures are evaluated and updated as needed.

Redbubble reviews and acts upon all notices of alleged infringement expeditiously. It frequently removes allegedly infringing images from the Redbubble marketplace and, in appropriate cases, closes the accounts of users under its Repeat Infringer Policy. Redbubble's Intellectual Property/Publicity Rights Policy requires legal and operational resources to implement and may be difficult to scale or may require significant financial investment in order to scale with the growth of its business.

While Redbubble believes it has set up its operations to comply with the intellectual property laws of the jurisdictions in which it does business, a court may find that Redbubble's operations do not comply with the governing law. Additionally, litigation may be filed against Redbubble alleging that Redbubble is directly or indirectly liable for intellectual property infringement arising from activities carried out by artists using Redbubble or as a result of third party fulfillers supplying or printing products that are available for sale via the Redbubble website. Redbubble is currently involved in two court proceedings in which third parties have alleged that the Company has infringed intellectual property rights and has contravened the Australian Consumer Law (see Section 9.6 for further information on these proceedings, which are the only two material lawsuits brought against the Company since its inception).

Litigation regarding intellectual property rights is inherently uncertain because it involves complex issues, and a court may find that Redbubble is liable for direct and/or indirect infringement under current laws. The intellectual property laws in the jurisdictions in which Redbubble does business may also change unfavourably, and Redbubble could be held liable for intellectual property infringement under changed laws or be forced to change its policies or business model.

Litigation can be not only costly but also time consuming and has the potential to divert management's efforts and operational resources away from the Company's core business. Therefore, regardless of whether any claims made against Redbubble are valid, Redbubble may still incur significant costs and effort in defending or otherwise managing lawsuits. Additionally, if Redbubble gains greater public recognition, it may be the subject of more frequent intellectual property claims and legal filings, regardless of their merit.

The Redbubble User Agreement contains an indemnification clause through which Artists using Redbubble acknowledge that they own or have the right to use the intellectual property rights in the designs and creative works they upload and sell via Redbubble and agree to indemnify Redbubble and third party fulfillers for any claims arising out of their activities in connection with the website. However, the artists using Redbubble may lack the financial ability to indemnify the Company and Redbubble may decide not to seek indemnification from the Artists using Redbubble if it believes this could otherwise negatively impact the business.

Successful claims by third party rights owners against Redbubble could require the Company to pay substantial damages or force Redbubble to modify its business practices, both of which could have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.25. Laws and regulations may change or new laws and regulations may be introduced

Redbubble is subject to a variety of laws and regulations in Australia, the Unites States and around the world, covering areas which apply to most online businesses, such as employment, taxation, consumer protection, intellectual property, payment systems, privacy, anti-spam and data protection.

Changes in these laws or regulations or their interpretation, or the introduction of new laws or regulations, may increase Redbubble's costs either directly (such as an increase in the amount of tax that Redbubble is required to pay) or indirectly (by increasing the cost to Redbubble of complying with these laws and regulations, which, in turn, could have a material adverse impact on Redbubble's business, financial performance and operations.



### 5.2.26. Sales tax risk

The application of indirect taxes, such as goods and services tax, sales and use tax and value added tax to marketplaces such as Redbubble's and the sellers they serve is a global, complex and evolving issue. In many cases, the ultimate tax determination is uncertain because it is not clear how existing tax laws and statutes apply to marketplaces such as Redbubble's or the persons who sell through those marketplaces (in the case of Redbubble, the Artists).

One or more jurisdictions (whether state or federal) of the countries in which Redbubble Artists sell products may seek to impose additional reporting, record-keeping or indirect tax collection obligations on online businesses like Redbubble. For example, in Redbubble's largest market, United States Congress is considering the Marketplace Fairness Act, which would grant states in the United States the authority to require online merchants to collect sales tax on online sales at the time the transaction is completed. New taxes could also require Redbubble or Artists to incur substantial costs to capture data and collect and remit tax.

If such obligations were determined or introduced, the additional costs associated with tax collection, remittance and audit requirements could make selling in the Redbubble marketplace less attractive and more costly to operate for Redbubble and the Artists who use the marketplace, and could have a material adverse impact on Redbubble's business, financial performance and operations.

### 5.2.27. Redbubble has a history of operating losses and it may not achieve or maintain profitability in the future

Whilst Redbubble made a profit before income tax in FY2014, it incurred a loss before income tax for FY2015 and is forecasting losses before income tax for FY2016 and FY2017. Redbubble may not achieve or maintain profitability in the future.

Redbubble expects that its operating expenses will increase substantially as it develops new markets and new geographies, drives Customer acquisition and retention, incurs expenditure on the ongoing maintenance of existing infrastructure and software platform and incurs legal, accounting and other expenses associated with a public

company that it did not incur as a private company. These efforts may be more costly than Redbubble expects and its revenue may not increase sufficiently to offset these additional expenses. Should this occur, this would have a material adverse impact on Redbubble's financial performance.

### 5.2.28. Credit card or payment gateway disruption

Redbubble is reliant on third party credit card processors and payment gateway providers such as Amazon and PayPal for receiving payments from Customers. Should Redbubble's credit card processors or payment gateway providers suffer outages or security breaches, Redbubble's ability to accept payments could be significantly affected. An inability to accept payments by credit card, Amazon or PayPal, even if for a short period of time, could negatively impact upon Redbubble's cash flow and have a material adverse effect on Redbubble's business, financial performance and operations.

### 5.2.29. Credit risk associated with payment gateway providers

The cash proceeds from a sale on the Redbubble marketplace initially pass through third party payment gateway providers. Whilst Redbubble typically receives funds from the payment gateway within a day or two of the sale being made online, if any of those providers become insolvent they may be holding one to two days' of funds representing those sales proceeds and Redbubble may experience significant delays in receiving those funds (or not receive those funds at all). This could have a material adverse effect on Redbubble's business, financial performance and operations.

### 5.2.30. Foreign exchange

Redbubble's financial performance is denominated and reported in Australian dollars. Accordingly, Redbubble is exposed to exchange rate movements in the four currencies (other than the Australian dollar) in which it receives revenues and/or incurs costs. Those currencies are US Dollars, British Pounds, Euros and Canadian dollars. A large proportion of Redbubble's revenues are earned and its costs incurred in those currencies. Accordingly, movements in those currencies may have a significant impact on its financial performance.



Redbubble's financial position, as measured by the assets and liabilities it carries on its balance sheet, is denominated and reported in Australian dollars. Some of the underlying assets and liabilities may, however, be recorded in the above four currencies other than the Australian dollar. Accordingly, movements in exchange rates will impact on the translation of account balances and may adversely affect Redbubble's financial position.

## 5.3. General risks to an investment in the Offer

### 5.3.1. Share price

The price at which Shares are quoted on the ASX may increase or decrease due to a number of factors. These factors may cause the Shares to trade below the Offer Price. There is no assurance that the price of the Shares will increase following the quotation on the ASX, even if the Company's earnings increase.

Some of the factors which may affect the price of the Shares include: fluctuations in the domestic and international market for listed stocks; general economic conditions, including interest rates, inflation rates, exchange rates; changes to government fiscal, monetary or regulatory policies; legislation or regulation; inclusion in or removal from market indices; the impact of one or more of the risks described above; actual or anticipated fluctuations in Redbubble's results and recommendations of analysts in relations to those results; fluctuations in the industry sectors in which Redbubble operates; and general operational and business risks.

### 5.3.2. Share trading liquidity

There is currently no public market through which the Shares of the Company may be sold. There can be no guarantee that an active market in the Shares will develop or that the price of the Shares will increase. There may be relatively few potential buyers or sellers of the Shares on the ASX at any time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less than the price that Shareholders paid.

Following Completion of the Offer, the Escrowed Shareholders will hold 78% of the Shares on issue, which will also impact on liquidity. The Escrowed Shareholders have entered into voluntary escrow arrangements in relation to all of the Shares they hold immediately following Completion of the Offer, to the dates specified in Section 7.7.1 in the case of the Insider Escrowed Shareholders, and Section 7.7.2 in the case of the Non-Insider Escrowed Shareholders, subject to certain exceptions set out in Section 7.7.3. The absence of any sale of Shares by the Escrowed Shareholders during this period may cause, or at least contribute to, limited liquidity in the market for the Shares. This could affect the prevailing market price at which Shareholders are able to sell their Shares.

Following release from escrow, Shares held by the Escrowed Shareholders will be able to be freely traded on the ASX. A significant sale of Shares by the Escrowed Shareholders, or the perception that such a sale has occurred or might occur, could adversely affect the price of Shares.

### 5.3.3. Shareholder dilution

In the future, the Company may elect to issue shares to engage in fundraisings and also to fund, or raise proceeds, for acquisitions the Company may decide to make. While Redbubble will be subject to the constraints of the ASX Listing Rules regarding the percentage of Redbubble's capital that can be issued within a 12-month period (other than where exceptions apply), Shareholders may be diluted as a result of such issues of shares and fundraisings.

### 5.3.4. Accounting standards

Australian Accounting Standards are issued by the Australian Accounting Standards Board and are not within the control of Redbubble or its Directors. Any changes to the accounting standards or to the interpretation of those standards may have a material adverse effect on the reported financial performance or financial position of Redbubble.

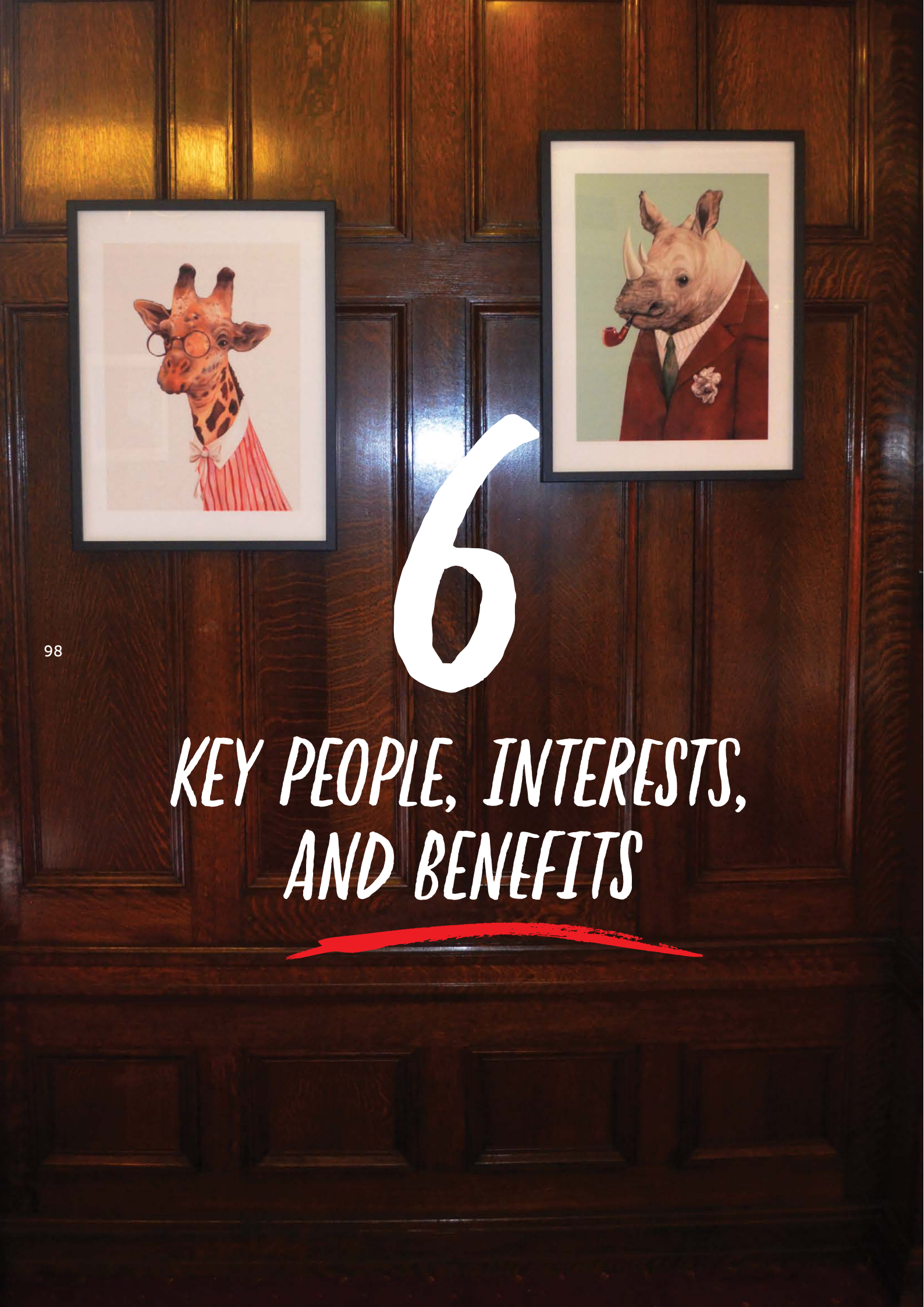
### 5.3.5. Force majeure risk

Events may occur within or outside the markets in which Redbubble operates that could impact upon the global and Australian economies, the operations of Redbubble and the price of the Shares. These events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, pandemics, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease, and other man-made or natural events or occurrences that can have an adverse effect on the demand for Redbubble's goods and its ability to conduct business. Given Redbubble has only a limited ability to insure against some of these risks, its business, financial performance and operations may be materially adversely affected if any, or a combination of, the events described above occurs.

### 5.3.6. Changes to tax rates or tax law

Changes in tax law or changes in the way taxation laws are interpreted – in particular, both the level and basis of taxation – may impact the tax liabilities of Redbubble. Any such change may have an adverse impact on Redbubble's business, financial performance and operations.

In addition, an investment in the Shares involves tax considerations which may differ for each Shareholder. Each prospective Shareholder is encouraged to seek professional tax advice in connection with any investment in Redbubble.





# 6

# KEY PEOPLE, INTERESTS, AND BENEFITS

# 6 Key People, Interests, and Benefits

## 6.1. Board of Directors

The Directors bring strong corporate governance credentials and on-target industry experience to the Redbubble Board. The Board includes residents of Silicon Valley and London alongside Australians. The Board's functional skills include corporate governance, technology, accounting, finance and marketing, combined with deep industry experience in online marketplaces, technology growth companies, retail and e-commerce.

### 6.1.1. Background and experience

Mr Richard Cawsey

*Non-executive Director and Chair of the Board*
*Chair of Nomination Committee*
*Member of Audit and Risk Committee*

Richard Cawsey has a 25-year track record of building high-performing organisations in Australia, Europe, North America and Asia. In addition to chairing Redbubble, he is the executive chair of Denali Venture Partners, a team of advisers and execution partners that help fast growing companies realise their potential. Richard has held a number of board and senior executive roles for ASX-listed companies including OAMPs Ltd (as a non-executive director), Centrepoint Alliance Ltd (as the managing director and CEO), Advance Property Management Ltd (as chair) and Wealthpoint Ltd (as chair). As the managing director and CEO of Centrepoint Alliance Ltd, Richard drove the cultural and organisational transformation required to survive as a listed finance company during the global financial crisis. At St. George Bank (then Australia's 5th largest), as group executive investment services, Richard created a new division and played a significant role in the bank's restructure and increased profit and growth by over 25%. In Asia for Morgan Stanley, as a managing director, Richard had success in both starting and growing a number of businesses. Richard has a Bachelor of Commerce (Hons) degree from Australian National University and is a graduate of the Australian Institute of Company Directors.



Mr Martin Hosking

*CEO and Managing Director*
*Member of Nomination Committee*

Martin Hosking has spent 20 years scaling Australian technology companies. He is a co-founder of Redbubble and became the CEO and Managing Director in July 2010. Previously, Martin was the chair of Aconex, a SaaS provider to construction firms, and Southern Innovation, a digital pulse processing solution. He was instrumental in the development and subsequent listing on the NASDAQ of search company, LookSmart. Martin started his career as a diplomat with the Australian Department of Foreign Affairs and Trade before joining McKinsey & Company, serving clients focusing on emerging technologies. Martin has a Bachelor of Arts (Hons – First Class) degree from the University of Melbourne and an MBA (with Distinction) from Melbourne Business School, where he has also lectured. Martin is a graduate of the Australian Institute of Company Directors.

Ms Teresa Engelhard

*Independent Non-executive Director*
*Chair of Remuneration Committee*

Teresa Engelhard is a Silicon Valley transplant with 20 years of experience working with growth technology companies as a director, executive and venture capitalist. Teresa has served on over 10 boards and in addition to being a Non-executive Director of Redbubble, is currently a non-executive director of Planet Innovation, Ltd. and StartupAUS. Teresa also serves on the Entrepreneurs' Programme Committee for the Australian Government, a sub-committee of the Innovation Australia Board. Teresa transitioned to a non-executive director path following six years as a managing partner with Jolimont Capital in Melbourne, where she was responsible for the investment in Next Window, which received an Australian Private Equity & Venture Capital Association Limited chairman's award in 2010 for outstanding exit performance. Prior to moving to Australia, Teresa worked as a c-level executive at both

private and public IT companies and as a venture capitalist with Mohr Davidow Ventures in California. Teresa spent the early years of her career at McKinsey & Company in Los Angeles. She has a Bachelor of Science (Hons) degree from the California Institute of Technology and an MBA from Stanford University. Teresa is a graduate of the Australian Institute of Company Directors.

Ms Stephanie Tilenius

*Independent Non-executive Director*
*Member of Remuneration Committee*
*Member of Nomination Committee*

Stephanie Tilenius has been an executive-in-residence at Kleiner Perkins Caufield & Byers, a venture capital firm, since June 2012, primarily focusing on companies within its digital growth fund. From February 2010 until June 2012, Stephanie was a vice president of global commerce and payments at Google, Inc., where she oversaw digital commerce, product search and payments. Prior to joining Google, Stephanie was at eBay, Inc. from March 2001 until October 2009, where she progressed to senior vice president of eBay.com global products. Stephanie was also a co-founder of PlanetRx.com and has worked at other technology and business enterprises. Stephanie has served as a director of Coach, a NYSE-listed luxury accessories brand, since August 2012, and as a director of Seagate Technology since October 2014. She is also on the board of Tradesy, and is the chair of the advisory board of the Harvard Business School California Research Center. Stephanie holds a Bachelor of Arts degree and a Master's degree in International Finance from Brandeis University, Massachusetts, and an MBA from Harvard University, Massachusetts.

Mr Greg Lockwood

*Independent Non-executive Director*
*Member of Audit and Risk Committee*

Greg Lockwood was appointed as a Non-executive Director with effect from June 2015. Greg is a partner of Piton Capital, which is a shareholder in Redbubble. In 1999, Greg founded UBS Capital's early stage venture investing activities in Europe. Subsequently, he co-founded Piton Capital, the London-based venture capital fund specialising in marketplaces and business models with network effects. Prior to his venture capital activities, Greg worked in telecommunications corporate finance with UBS in London and Zurich and held operating roles in classified media publishing in Toronto. Greg has an Honours Business degree from the University of Western Ontario, and a Master's degree in Management from the Kellogg Graduate School of Management.



Mr Grant Murdoch

*Independent Non-executive Director*
*Chair of Audit and Risk Committee*
*Member of Remuneration Committee*

Grant Murdoch joined the Board as an independent Non-executive Director and Chair of the Audit and Risk Committee in January 2016. Grant has subsequently joined the Remuneration Committee. Grant has more than 37 years' chartered accounting experience. From 2004 to 2011, Grant led the corporate finance team for Ernst & Young Queensland and was an audit and corporate finance partner with Deloitte from 1980 to 2000. Grant has extensive experience in providing advice in relation to mergers, acquisitions, takeovers, corporate restructures, share issues, pre-acquisition pricing due diligence advice, expert reports for capital raisings and initial public offerings.

Grant is currently a director and the chair of the audit committees for each of ALS Limited (formerly Campbell Brothers), QIC Limited and OFX Limited (previously Ozforex Limited). He is a senator of the University of Queensland (as well as chair of the risk committee and a member of the finance committee), an adjunct professor at the University of Queensland Business School and a director of UQ Holdings Limited.

Grant has a Master's degree in Commerce (Honours) from the University of Canterbury, New Zealand, is a graduate of the Kellogg Advanced Executive Program and the Advanced Leadership Program at North Western University and a fellow of the Institute of Chartered Accountants in Australia (as well as past chair at the Queensland committee and a member of the national professional standards committee) and of the Australian Institute of Company Directors.

### 6.1.2. Director disclosures

No Director has been the subject of any disciplinary action, criminal conviction, personal bankruptcy or disqualification in Australia or elsewhere in the last 10 years which is relevant or material to the performance of their duties as a Director or which is relevant to an investor's decision as to whether to subscribe for Shares.

Except as set out below, no Director has been an officer of a company that has entered into any form of external administration as a result of insolvency during the time that they were an officer or within a 12 month period after they ceased to be an officer.

Richard Cawsey was a director of each of Titan River Pty Ltd, Air Champagne Pty Ltd and Peacock Cove Pty Ltd (all of which operated as part of a corporate group) during the 12 month period before the directors of each entity placed the relevant entity into voluntary administration in February 2005.

The other Directors do not believe that the above matter is material to or indicative of the future performance of Mr Cawsey's duties as a Director of the Company or the future performance or prospects of the Company.

## 6.2. Senior Leadership Team

**Mr Martin Hosking, CEO and Managing Director**

See Section 6.1.

**Mr Barry Newstead, Chief Operating Officer**

Barry Newstead joined Redbubble in 2013 and has executive responsibility for Redbubble's web products, technology, physical product development, new markets and strategy teams. Previously, Barry held internet focused executive roles at the Wikimedia Foundation (which runs Wikipedia) and Australia Post. Barry spent 14 years as a strategy consultant, starting his career at the Boston Consulting Group. Barry was then a partner at the Bridgespan Group. Barry has a Bachelor of Arts (Honours) degree from Ivey Business School, Canada, and a Master's degree in Public Policy from Harvard University, Massachusetts.



**Mr Chris Nunn, Chief Financial Officer**

Before Chris Nunn's appointment as Chief Financial Officer in October 2015, Chris served as a Non-executive Director and Chair of the Audit and Risk Committee of Redbubble from April 2015. Chris has more than 28 years of experience in the financial services and property funds management industries, and has spent the past 20 years working with and reporting to the boards of ASX (and Singapore Exchange Limited) listed companies and property trusts. Chris has led finance teams in a number of initial public offering situations in Australia and Singapore and has a detailed knowledge of the ASX reporting requirements for listed companies and funds. Chris is a Chartered Accountant, a graduate of the Australian Institute of Company Directors and has a Bachelor of Science (Economics) degree from Loughborough University, United Kingdom.

**Mr Robert Baumert, Chief Fulfilment and Analytics Officer**

Rob Baumert's connection to Redbubble began with a seed investment in the Company in 2007. He eventually joined the Melbourne team as Chief Financial Officer in April 2010, leading the Company's finance, supply chain, customer support and analytics functions. In August 2011, Rob moved to San Francisco to establish Redbubble's United States operations and has been based in the San Francisco office since that time. Originally trained as a chemical engineer and naval officer (with a Bachelor of Engineering from Royal Military College of Canada and a Master of Science from Queen's University, Ontario), Rob worked in the fuel cell industry as head of test engineering for Xcellsis USA. After completing his MBA at the Melbourne Business School in 2004, he and two Melbourne Business School classmates founded a niche investment firm, GGC Pty Ltd, where Rob was chief financial officer and a director. GGC Pty Ltd took seed stakes in a number of new media start-up enterprises including Get Price Pty Ltd, Hiro Media, mig33, NCAH and Redbubble.

**Ms Corina Davis, General Counsel and Company Secretary**

Corina Davis joined Redbubble in 2012 and oversees the Company's legal function. Corina has a wide range of cross-functional experience with particular expertise in copyright and trademark law, litigation, compliance and risk management. Before joining Redbubble, Corina practiced law in Los Angeles and New York City at Milstein Adelman,

McCurdy & Fuller and Mendes & Mount. Corina is an active member of the Women's General Counsel Network and the San Francisco General Counsel Group. Corina holds a Bachelor of Arts degree from the University of Michigan, Ann Arbor and a Juris Doctor degree from the University of San Diego School of Law, California.

**Mr Victor Kovalev, Chief Technology Officer**

Victor Kovalev joined Redbubble in December 2015 as Chief Technology Officer. Previously, he led Indiegogo's technical team as vice president of engineering. Prior to that, Victor held technical leadership roles at Yelp (as head of mobile, business owner portal, Yelp platform for fulfiller transactions and partner APIs) and also VMware – having gone through both of their initial public offerings. His professional expertise is in building driven cultures to foster radical innovation through rapid scaling. Victor holds Bachelor of Science in Computer Engineering and Master of Science in Computer Science degrees from Georgia Institute of Technology and is a partner at a California-based non-profit artist accelerator, Zoo Labs.

**Ms Vanessa Freeman, Chief People and Culture Officer**

Vanessa Freeman joined Redbubble as Chief People and Culture Officer in August 2015. Vanessa previously held senior human resources and strategy roles at Pacific Brands. Vanessa began her career with the New Zealand Trade Development Board in New York before joining McKinsey & Company, London, where she focused on corporate strategy, post merger management and operational transformation. Vanessa has Bachelor of Arts and Bachelor of Commerce degrees from Auckland University and an MBA from Stanford University, California.

## 6.3. Interests and Benefits

This Section 6.3 sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:



- Director or proposed Director;
- person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of Redbubble; or
- underwriter to the Offer,

holds at the Prospectus Date, or has held in the two years before the Prospectus Date, an interest in:

- the formation or promotion of Redbubble;
- property acquired or proposed to be acquired by Redbubble in connection with its formation or promotion, or in connection with the Offer; or
- the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any such persons for services in connection with the formation or promotion of Redbubble or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director.

### 6.3.1. Directors' interests and remuneration

#### 6.3.1.1. CEO and Managing Director remuneration

The Company has entered into an employment contract with Martin Hosking, the Company's CEO and Managing Director, to govern his employment with Redbubble. Further details of the terms of Martin's employment are set out in Section 6.3.2.2. See also Section 6.3.1.4 which sets out details of Martin's holdings of Performance Rights and Options and Section 6.3.2.4 which sets out details of Martin's participation in the STI Plan.

#### 6.3.1.2. Non-executive Director remuneration

Under the Constitution, the Directors decide the total amount paid to all Directors as remuneration for their services as a Director. However, under the ASX Listing Rules, the total amount paid to all Directors for their services must not exceed in aggregate in any financial year the amount fixed by shareholders in a general meeting. Upon establishment this amount has been fixed by the Board in accordance with the Constitution at $1,200,000. Any changes to this amount in future will require approval by shareholders in a general meeting in accordance with the ASX Listing Rules.

After undertaking a benchmarking exercise conducted by external, independent remuneration consultants in late 2015, and subject to the continuation of historical and other matters noted below, the annual directors' fees currently agreed to be paid by the Company are $80,000 to each of the Non-executive Directors. In addition, the Chair of the Audit and Risk Committee will be paid an annual fee of $10,000.

Accordingly:

- Grant Murdoch, as the most recently appointed Director (appointed in January 2016) and Chair of the Audit and Risk Committee, is entitled to remuneration of $45,000 per annum in cash and has been granted 89,540 Options vesting over a three year period.
- Greg Lockwood is a partner at Piton Capital, a private equity firm that currently holds 87,665 CRPS. Greg has agreed not to receive fees for acting as a Director, consistent with Piton Capital's policy to not accept board fees in the absence of other institutional investors receiving board fees.
- Each of Richard Cawsey, Teresa Engelhard and Stephanie Tilenius are in the midst of three-year remuneration agreements (established for them in 2013/2014, 2014 and 2014, respectively) that include a high-equity component underpinned by three year grants under the Company's Employee Equity Plans. Under their respective agreements:
  - Richard Cawsey is entitled to be paid $105,000 in directors' fees per annum in cash and has received 151,920 Performance Rights;
  - Teresa Engelhard has received 299,640 Performance Rights; and
  - Stephanie Tilenius has received 81,360 Performance Rights and has been granted 731,520 Share Options.

  The remuneration for these Directors will be revisited relative to benchmarks if their terms are extended, noting that their current remuneration agreements expire in March 2016, May 2017 and June 2017, respectively. The Performance Rights issued to these Directors (and to Grant Murdoch) have been issued under the Employee Equity Plans described in Section 6.3.2.5. In addition, the Company intends to propose that Shareholders approve a further grant of 248,360 Performance Rights to Richard Cawsey at the 2016 AGM. The Company agreed to this compensation in principle in October 2014, however, it was not documented at that time.



The Board considers that its Directors are value-adding stewards of shareholder value creation and, as such, alignment via equity holdings is desirable. Redbubble plans to continue to make equity alternatives available to Directors and, once listed on ASX, Redbubble will seek shareholder approval for any issue of equity securities to Directors where required to do so under the ASX Listing Rules.

Subject to the specific arrangements that are currently in place and any arrangements that may be agreed between the Company and any Non-executive Directors in the future, the Non-executive Directors' remuneration will be reviewed on an annual basis by the Remuneration Committee and any increases must be approved by the Board and within the overall fee pool limit, unless this limit is increased with shareholder approval.

Directors are also to be reimbursed for all reasonable travelling and other expenses properly incurred by them in attending Board meetings or any meetings of committees of Directors, in attending any general meetings of the Company or otherwise in connection with the business or affairs of the Company. Directors may be paid such additional or special remuneration if they, with the approval of the Board, perform any extra services or make special exertions for the benefit of the Company.

There are no retirement benefit schemes for Directors, other than statutory superannuation contributions.

#### 6.3.1.3. Rights of access, insurance and indemnity for Directors

The Company has entered into deeds of access, insurance and indemnity with each Director which confirms each person's right of access to Board papers and certain books and records of Redbubble during their term of appointment as a Director and for a period of seven years after the Director ceases to be an officer of Redbubble and its subsidiaries. This seven-year period may be extended where certain proceedings or investigations commence before the seven-year period expires.

The Constitution requires the Company to indemnify current and former Directors and other officers of Redbubble and, if the Board considers it appropriate, any officer of any of its subsidiaries, to the maximum extent permitted by law, against any liability incurred by that Director or officer (as applicable) arising out of the conduct of the business of

Redbubble or any subsidiary (as applicable) or the discharge by that person of their duties in that capacity. In addition, under the deeds of access, indemnity and insurance, the Company indemnifies each Director, to the maximum extent permitted by law, against all liabilities (including legal costs) incurred by that Director as an officer of Redbubble or any of its subsidiaries. The deeds also provide that the Company must advance to the Director costs reasonably incurred by the Director in conducting or defending certain proceedings.

The Constitution also permits the Company to arrange and pay for directors' and officers' insurance for current and former Directors and other officers of Redbubble or any of its subsidiaries against liabilities incurred by them in or arising out of the conduct of the business of Redbubble or any of its subsidiaries or the discharge by that person of their duties in that capacity. In addition, under the deeds of access, indemnity and insurance, to the maximum extent permitted by law, the Company must obtain such insurance during each Director's period of office and for a period of seven years after the Director ceases to be an officer of Redbubble or any of its subsidiaries.

#### 6.3.1.4. Directors' interests in Shares and other securities

Directors are not required under the Constitution to hold any shares in Redbubble. Subject to Section 7.13, the Directors (and trusts, companies, superannuation funds and other entities with which they are associated (their **Associated Entities**)) are entitled to apply for Shares under the Offer. The table below sets out the number of Shares and other securities which the Directors and their Associated Entities:

- hold as at the date of this Prospectus; and
- will hold on Completion of the Offer (based on the information provided by the Directors regarding their intention to apply for Shares under the Offer).



| Director | Securities held at the Prospectus Date[1,2] | Securities held at Completion of the Offer[1,2,5,6] | Percentage shareholding on Completion of the Offer[1, 3, 5] |
|---|---|---|---|
| Richard Cawsey | 11,624,080 Shares<br>16,364 Warrants[4]<br>151,920 Performance Rights<br>1,440,000 Options | 11,776,000 Shares<br>16,364 Warrants[4]<br>1,440,000 Options | 5.85% |
| Martin Hosking | 49,551,400 Shares<br>1,580,720 Performance Rights<br>3,083,400 Options | 50,796,080 Shares<br>757,400 Performance Rights<br>3,083,400 Options | 25.03% |
| Teresa Engelhard | 633,600 Shares<br>299,640 Performance Rights | 946,141 Shares<br>99,880 Performance Rights | 0.47% |
| Stephanie Tilenius | 81,360 Performance Rights<br>731,520 Options | 51,960 Shares<br>29,400 Performance Rights<br>731,520 Options | 0.03% |
| Grant Murdoch | 89,540 Options | 75,187 Shares<br>89,540 Options | 0.04% |
| Greg Lockwood | 2,783,560 Shares<br>87,665 CRPS[5] | 6,465,131 Shares | 3.21% |

1 Includes Shares and other securities held (or to be held) by Associated Entities.

2 Refer to Sections 6.3.2.5 and 9.4.1.4 for further information regarding the terms of the Performance Rights.

3 Based on the number of issued Shares on Completion of the Offer. Assumes (a) none of the Options that have vested, or that will vest as a result of Completion of the Offer, are exercised; (b) none of the Warrants are exercised; and (c) the issue of Shares as a result of the vesting of certain Performance Rights as a consequence of Completion of the Offer.

4 Refer to Sections 6.3.3 and 9.4.1.5 for further information regarding the terms of the Warrants.

5 Refer to Section 9.4.1.1 for further information regarding the terms of the CRPS.

A number of the Performance Rights and Options held by the Directors and their Associated Entities will vest on Completion of the Offer, as follows:

| Director | Number of Performance Rights and Options held by the Director and their Associated Entities that will vest on Completion of the Offer |
|---|---|
| Richard Cawsey | 151,920 Performance Rights |
| Martin Hosking | 823,320 Performance Rights |
| Teresa Engelhard | 199,760 Performance Rights |
| Stephanie Tilenius | 51,960 Performance Rights |

## 6.3.2. Executive remuneration

### 6.3.2.1. Remuneration policy

Redbubble's executive remuneration structure is intended to fairly remunerate executives for their contribution to the business and to reward performance. The structure is also designed to attract, motivate and retain qualified and experienced executives.

Redbubble provides an appropriate and competitive mix of remuneration components balanced between fixed and variable 'at risk' components, awarded in both cash and equity.

The fixed component comprises base salary, allowances and superannuation (or foreign equivalent). The variable 'at risk' component primarily comprises short term incentive (**STI**) awards granted under the Company's Short Term Incentive Plan (**STI Plan**). The STI benefit for a participant for a particular year is subject to the achievement of targets against key performance indicators for that participant for that year. Where targets are achieved and a participant receives an STI benefit, a portion of the benefit is given in the form of cash, with the remainder given in the form of an award of Performance Rights granted under the Company's Employee Equity Plans. A summary of the terms of the STI Plan for FY2016 is set out in Section 6.3.2.4.

In addition, some Redbubble executives have received long term incentive (**LTI**) awards, in the form of Options or Performance Rights that vest over multiple years. A summary of the terms of the Company's various Employee Equity Plans is set out in Section 6.3.2.5.

### 6.3.2.2. CEO and Managing Director

The Company has entered into an employment contract dated 10 August 2006 with Martin Hosking, the Company's CEO and Managing Director, to govern his employment with Redbubble.

Martin's contract provides that he will receive an amount of fixed annual remuneration, which amount is subject to annual review by the Company. His fixed annual remuneration is currently $343,000 per annum (inclusive of 9.5% employer superannuation contribution).

In addition to his fixed annual remuneration, Martin ordinarily receives an annual STI award under the STI Plan, subject to the Board's discretion. Martin's STI award for a particular year is subject to achievement of targets against key performance indicators agreed with the Board for that year.

In respect of FY2016, Martin's target STI award is $125,000, with a maximum STI benefit of $187,500. Martin will receive 60% of any STI benefit to which he becomes entitled in cash ($75,000 at the target STI award) and the remainder in Performance Rights granted under the Company's Equity Incentive Plan 2015. Further details regarding Martin's FY2016 STI award are set out in Section 6.3.2.4.

The Company has also agreed to provide Martin with discretionary benefits of:

- personal accommodation at leased premises in East Melbourne during the working week; and
- a wellness allowance (a benefit that is generally available to all Redbubble employees).

In FY2015, the accommodation benefit was valued at $50,067 and the wellness allowance was valued at $550. In FY2016, the accommodation benefit is expected to be valued at $52,121 and the wellness allowance is expected to be valued at $600.

Under the terms of Martin's employment contract, either party is entitled to terminate Martin's employment by giving one month's written notice. The Company may, at its election, make a payment in lieu of that notice based on Martin's base remuneration package.

The Company may also terminate Martin's employment immediately and without further payment where he commits serious misconduct and on other similar grounds.

Martin's employment contract contains express provisions protecting the Company's confidential information and intellectual property. Whilst his contract does not contain a specific restraint of trade following termination, Martin is subject to such restraints under a Deed Poll dated 14 May 2015 (entered into in association with a capital raising in April 2015). The restraints operate until November 2016.

#### 6.3.2.3. Other senior management employment arrangements



Other members of the Company's Senior Leadership Team (**SLT**) are employed under individual employment contracts. The employment contracts provide for or contain:

- fixed annual remuneration, comprising base salary, allowances and superannuation (or foreign equivalent);
- the potential to receive an annual STI award under the STI Plan;
- for Australian-resident SLT members – termination notice provisions of one month (six months for Chris Nunn) by either party, other than in the event of serious misconduct or other circumstances warranting summary dismissal;
- for the United States-resident SLT members – 'at-will' employment arrangements, such that either party may terminate an agreement with or without notice or cause, for any legal reason; and
- express provisions protecting the Company's confidential information and intellectual property.

Further information regarding the interests of SLT members in securities issued under the Company's Employee Equity Plans is set out in Section 6.3.2.5.

#### 6.3.2.4. STI Plan

Martin Hosking and the other members of the SLT have been granted STI awards in respect of FY2016.

STI awards are granted under the Company's STI Plan. The terms of the STI Plan, and STI awards for FY2016, are set out below. It is anticipated that the terms of the STI awards will be reviewed and, if considered appropriate, amended, on an annual basis.

| | |
|---|---|
| Eligibility | Invitation to participate in the STI Plan is at the discretion of the CEO and Managing Director. Participation is limited to executives who can materially impact the financial and operational performance of the Company. |

| | |
|---|---|
| STI target | A target STI award is set for each participant, expressed as a dollar value. A participant's target STI award is set having regard to the participant's role and responsibilities.<br><br>For FY2016, other than the CEO, STI benefit is dependent on the Company achieving specified performance targets and, other than in the case of the CEO and Managing Director, the relevant participant achieving specified personal performance targets (which are tailored to each participant). Applicable performance targets are specified in the letter advising a participant of their STI grant.<br><br>For participants other than the CEO and Managing Director, an STI award comprises two equal (i.e., 50%) components, the first being dependent upon achievement of the Company's performance targets, and the second upon achievement of the participant's personal performance targets. However, a participant will not receive a benefit in respect of either component unless they achieve at least a satisfactory review for the purpose of their personal performance targets (see further in 'STI benefits' below).<br><br>For the CEO and Managing Director, receipt of an STI benefit is dependent on the Company achieving specified performance targets which apply to the entire STI award. For FY2016 those targets are the Company achieving:<br><br>(i) GTV of $145.0 million; and<br><br>(ii) Repeat GTV of $55.0 million;<br><br>with the above having 50% equal weighting. |
| STI benefits | The amount of the STI benefit that a participant actually receives will depend upon the extent to which Company and personal performance targets have been achieved.<br><br>For FY2016, the CEO and Managing Director's STI benefit depends on the Company's performance against the GTV and Repeat GTV targets above. The Board has the discretion to adjust the benefit depending on the Company's Gross Profit in FY2017 (against a planned Gross Profit of $41 million) and personal measures for the CEO and Managing Director, specifically the results of a 'Great Place to Work' survey and Completion of the Offer. The maximum STI benefit that the CEO and Managing Director may receive for FY2016 is 150% of target STI.<br><br>For FY2016, for participants other than the CEO and Managing Director:<br><br>• assuming the participant meets their personal targets, their STI benefit for the component of STI relating to Company performance will range between 50% (where a minimum threshold GTV of $116.0 million is achieved) to 125% (where the target GTV is exceeded by at least 30%) of the target for that component; and<br><br>• the participant's STI benefit for the component of their STI award relating to personal performance will range between 50% (in the case of a 'large miss' of their personal targets) to 100% (in the case of achievement of their personal targets) of the target for that component.<br><br>In each case, the Board has the right to increase or decrease a participant's STI benefit by 20% to reflect 'headwind' or 'tailwind' conditions. The maximum STI benefit that a participant may receive for FY2016 is 132% of target STI.<br><br>A participant must have six or more months' active employment to be eligible to receive an STI benefit in respect of a particular financial year. A participant's STI benefit will be pro-rated where they have not been actively employed (or participating in the STI Plan) for the whole of the financial year. |

| | |
|---|---|
| How is an STI benefit provided | An STI benefit will be delivered partly in cash and partly in the form of Performance Rights granted under one of the Employee Equity Plans referred to in Section 6.3.2.5.<br><br>For FY2016, the CEO and Managing Director will receive 60% of any STI benefit in cash and 40% in the form of Performance Rights.<br><br>Other participants who joined the Company:<br><br>• prior to the start of FY2016 will receive two thirds of their STI benefits in cash and one third in the form of Performance Rights; and<br><br>• after the start of FY2016 will receive half of their STI benefits in cash and half in the form of Performance Rights.<br><br>In calculating the number of Performance Rights to be granted, the dollar value of the relevant component of the STI benefit will be divided by the closing price of Shares on the ASX on the date that performance against the relevant targets is determined (which, in the case of FY2016, is expected to be the date of release by the Company of its audited annual results for FY2016).<br><br>All Performance Rights will be subject to time based vesting conditions with 50% of Performance Rights comprised in a particular award vesting one year after their date of allocation and the remaining 50% vesting two years after their date of allocation, subject to the holder not voluntarily resigning from the Redbubble group, or having their employment with the Redbubble group terminated for poor performance or misconduct, prior to the relevant vesting date.<br><br>The Board has the discretion to accelerate vesting of Performance Rights in certain cases (such as the death or disablement of a participant or a change of control of the Company). |



#### 6.3.2.5. Employee Equity Plans

Redbubble places great emphasis on 'employee ownership' in its mission and strategy. Redbubble has granted equity awards to a large proportion of its staff under various equity incentive plans and arrangements (the **Employee Equity Plans**).

The Employee Equity Plans currently in operation are:

- the Redbubble Equity Incentive Plan 2015 (the **Australian Plan**);
- the Restricted Share and Performance Rights Plan (the **Performance Rights Plan**); and
- the 2014 Option Plan (the **US Option Plan**).

The types of instruments that may be granted under the Employee Equity Plans are:

- Performance Rights (also referred to as Restricted Stock Units), comprising conditional rights to receive Shares, subject to the satisfaction of specified performance and/or time based vesting conditions;
- Options, comprising a right to receive Shares upon payment of a specified exercise price and subject to applicable vesting conditions; and
- Restricted Shares, being Shares that are subject to disposal restrictions for a specified period and that are liable to forfeiture by the holder in specified circumstances.

The key terms of the various Employee Equity Plans are summarised below.

| | |
|---|---|
| Eligibility | Under each Plan, awards may be made to employees, consultants or Directors. The Board has the discretion to determine which persons are eligible to participate in the Plans and what type of awards suits the remuneration or incentive purpose. |
| Awards | The Board has the discretion to set the terms and conditions on which it will offer awards under the Plans.<br><br>In particular, the Board may determine that awards will be subject to performance, service or other conditions (**Vesting Conditions**) and, if so, will specify those Vesting Conditions in the offer. Vesting Conditions may include conditions relating to continuous employment, performance of the participant and/or the Company or the occurrence of specific events.<br><br>Awards will vest to the extent that the applicable Vesting Conditions are satisfied, and the Board retains discretion to waive the satisfaction of the Vesting Conditions, in certain circumstances.<br><br>Awards under the Plans may be issued at no cost to the participants. Options may be subject to payment of an exercise price by the participant which is determined by the Board and advised to the participant in individual offer documents. The exercise price for Options granted under the US Option Plan must be no less than the fair market value of Shares at the time of grant. |
| Vesting date | Subject to the satisfaction of any applicable Vesting Conditions, Awards held by a participant will vest on the date specified in the terms of offer for those awards (to be determined by the Board at the time of offer and advised to the participant in individual offer documents). |
| Shares as an award or on vesting of an award | Shares allocated on vesting of an award carry the same rights and entitlements as other issued Shares, including dividend and voting rights.<br><br>Shares issued upon vesting of awards granted under the Performance Rights Plan are subject to disposal restrictions for a period of six months following an initial public offering of Shares (which will be triggered by the Offer), unless such restrictions are waived by the Board.<br><br>Depending on the terms of issue, Restricted Shares and other Shares allocated upon the vesting of awards may also be subject to disposal restrictions and forfeiture conditions.<br><br>Except in the case of the US Option Plan (which provides for Shares to be issued upon the exercise of Options), Shares allocated to participants may be issued by the Company or acquired on or off market by the Company or its nominee. The Company may initially issue Shares to a trustee and later transfer the Shares to participants. |
| Dividend and voting entitlements | Awards, other than Restricted Shares, are not entitled to dividend or voting rights. |
| Quotation | Awards, other than Restricted Shares, will not be quoted on the ASX. The Company will apply for official quotation of any Shares issued under the Plans. |

| | |
|---|---|
| Cessation of employment | Under the Australian Plan, the Board has a broad discretion to determine the manner in which a participant's unvested awards will be treated upon their ceasing employment with the Redbubble group. This includes the discretion to accelerate vesting of awards and to pay a cash equivalent, rather than delivering Shares, upon vesting of awards. To the extent that the Board does not exercise its discretion, the participant's unvested awards will lapse.<br><br>The Board has a similar discretion under the Performance Rights Plan, except that a participant's unvested awards automatically lapse where the participant resigns from the Redbubble group within 12 months after the grant of the award or where their employment is terminated with cause.<br><br>Under the US Option Plan, upon a participant ceasing employment with the Redbubble group, all of their unvested awards will generally lapse and the period during which they may exercise vested awards will be shortened. |
| Change of control | If a change of control of the Company occurs, the Board has a broad discretion to determine the manner in which unvested awards will be dealt with, and may also determine to waive any disposal restrictions that continue to apply to Shares acquired by participants as a result of the vesting of awards. |
| Restrictions | Without the prior approval of the Board, awards may not be sold or transferred or (other than in the case of awards granted under the Performance Rights Plan) mortgaged, pledged, charged, granted as security or otherwise disposed of.<br><br>The rules of the Australian Plan also prohibit participants from entering into transactions or arrangements, including by way of derivatives or similar financial products, which limit the economic risk of holding unvested awards. |
| Clawback | Under the Australian Plan, all unexercised Performance Rights and Options lapse (whether or not vested) in specified circumstances, including fraud and gross misconduct, unless the Board determines otherwise.<br><br>Similar provisions apply under the Performance Rights Plan, with the Board also having discretion to determine that Restricted Shares (or Shares delivered on vesting of awards) are forfeited in specified circumstances. |
| Loans | The rules of the Plans do not provide for the advancement of loans in connection with the grant of awards. |
| Adjustments | In the case of certain events affecting the Company's capital, adjustments must, or may at the Board's discretion, be made to outstanding awards to prevent prejudice to participants. Any such adjustments are required to comply with the ASX Listing Rules. |
| Amendments | To the extent permitted by the ASX Listing Rules, the Board retains the discretion to vary the rules of each Plan. |
| Other terms | The rules of the Plans also contain customary and usual terms having regard to Australian and United States law (as applicable) for dealing with the administration, variation, suspension and termination of the Plans. |

The interests expected to be held in aggregate by SLT members (other than Martin Hosking, details of which are set out in Section 6.3.1.4) in Shares and other securities issued under the Employee Equity Plans as at Completion of the Offer are set out below, reflecting the following assumptions:

- the issue of Shares as a result of the vesting of certain Performance Rights as a consequence of Completion of the Offer; and
- none of the Options that have vested, or that will vest as a result of Completion of the Offer, are exercised.

| | Number | Exercise price per Share (Options only) | Expiry Date (Options only) |
|---|---|---|---|
| Shares[1] | 1,267,630 | n/a | n/a |
| Performance Rights that will remain subject to time based vesting conditions following Completion of the Offer[2] | 763,720 | n/a | n/a |
| Number of Shares the subject of vested options | 467,200 | $0.13 | 21 July 2017 |
| | 412,000 | $0.48 | 1 October 2024 |
| | 760,000 | $0.51 | 5 March 2025 |
| | 72,342 | nil | 1 November 2025 |
| Number of Shares the subject of unvested options | 1,044,000 | $0.48 | 1 October 2024 |
| | 1,160,000 | $0.51 | 5 March 2025 |
| | 626,378 | nil | 1 November 2025 |
| | 480,000 | $0.75 | 1 November 2025 |
| | 680,000 | $0.85 | 1 November 2025 |
| | 1,200,000 | $1.20 | 14 December 2025 |

1 Includes 881,880 Shares which are received on the vesting of Performance Rights on Completion of the Offer.

2 Vesting progressively until 25 November 2018.

Further details of outstanding securities granted under the Employee Equity Plans are set out in Section 9.4.

### 6.3.3. Warrants held by Denali Capital Managers

During FY2012 the Company issued warrants to Denali Capital Managers Pty Ltd, an Associated Entity of Richard Cawsey, under terms of a loan facility agreement in addition to the interest payable in respect of the loan facility. The loan facility terminated on 31 December 2012. Further details of these warrants are set out in Section 9.4.1.5.

### 6.3.4 Related party arrangements

Richard Cawsey is the founder and executive chair of Denali Venture Partners, which provides consulting services to Redbubble on an arms' length basis on an ad hoc basis. During FY2015 the Company paid $92,043 to Denali Venture Partners for consultancy services provided during FY2015. During FY2016, the Company has paid $60,679 to Denali Venture Partners for consultancy services provided during FY2016. As at the date of this Prospectus there are no outstanding balances. The Company does not consider there to be any risks associated with this arrangement.

Other than as disclosed above or elsewhere in this Prospectus, Redbubble is not party to any material related party arrangements.

### 6.3.5. Interests of advisers

Redbubble has engaged the following professional advisers:

- Canaccord Genuity (Australia) Ltd has acted as a Joint Lead Manager to the Offer. The Lead Managers will be paid the fees described in Section 9.1.1 for these services;
- Morgans Corporate Limited has acted as a Joint Lead Manager to the Offer. The Lead Managers will be paid the fees described in Section 9.1.1 for these services;
- EM Advisory Pty Ltd has acted as financial adviser in relation to the Offer. The Company has paid, or agreed to pay, approximately $775,000 (excluding disbursements and GST) for these services up until the Prospectus Date. Balalaika Pty Ltd, an entity associated with Natasha Mandie (the Managing Director of EM Advisory Pty Ltd) holds 3,690 CRPS which, upon admission of the Company to the Official List, will convert into 154,964 Shares;
- Allens has acted as Australian legal adviser in relation to the Offer. The Company has paid, or agreed to pay, approximately $400,000 (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to Allens in accordance with its normal time based charges;
- Ernst & Young has undertaken financial and tax due diligence in relation to the Company in connection with the Offer. The Company has paid, or agreed to pay, approximately $600,000 (excluding disbursements and GST) for these services to the date of this Prospectus. Further amounts may be paid to Ernst & Young in accordance with its time-based charge-out rates; and
- Ernst & Young Transaction Advisory Services Limited has acted as Investigating Accountant and has prepared the Independent Limited Assurance Report included in this Prospectus in Section 8. The Company has paid, or agreed to pay, approximately $50,000 (excluding disbursements and GST) for these services to the date of this Prospectus. Further amounts may be paid to Ernst & Young Transaction Advisory Services Limited in accordance with its time-based charge-out rates.



The total costs of the Offer are approximately $4.2 million. Further information on the use of proceeds and payment of expenses of the Offer is set out in Section 7.1.3.

## 6.4. Corporate governance

### 6.4.1. Overview

This Section 6.4 explains how the Board will oversee the management of Redbubble's business. The Board is responsible for the overall corporate governance of the Company. The Board monitors the operational and financial position and performance of Redbubble and oversees its business strategy, including approving the strategic goals of the Company and considering and approving an annual business plan, including a budget.

The Board is committed to maximising performance, generating appropriate levels of shareholder value and financial return, and sustaining the growth and success of Redbubble. In conducting the business with these objectives, the Board seeks to ensure that Redbubble is properly managed to protect and enhance Shareholder interests, and that Redbubble and its Directors, officers and personnel operate in an appropriate environment of corporate governance. Accordingly, the Board has created a framework for managing Redbubble, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for Redbubble's business and which are designed to promote the responsible management and conduct of Redbubble.

Redbubble is seeking a listing on the ASX. The ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (3rd Edition) (**ASX Recommendations**) contain corporate governance recommendations for Australian listed entities in order to promote investor confidence and to assist companies to meet stakeholder expectations. The ASX Recommendations are not prescriptions, but guidelines. However, under the ASX Listing Rules, Redbubble will be required to provide a statement in its annual report or on its website disclosing the extent to which it has followed the ASX Recommendations in the subject reporting period. Where Redbubble does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it. Except as set out below, the Board does not anticipate that it will depart from the ASX Recommendations; however, it may do so in the future if it considers that such a departure would be reasonable.

Copies of Redbubble's key policies and practices, and the charters for the Board and each of its committees will be available from Listing at shareholders.redbubble.com.

### 6.4.2. Board

The Board is comprised of the CEO and Managing Director, and five Non-executive Directors, of whom four are independent.

The Board comprises:

- Richard Cawsey – Non-executive Director and Chair;
- Martin Hosking – CEO and Managing Director;
- Greg Lockwood – Independent Non-executive Director;
- Teresa Engelhard – Independent Non-executive Director;
- Stephanie Tilenius – Independent Non-executive Director; and
- Grant Murdoch – Independent Non-executive Director.

Detailed biographies of the Board members are provided in Section 6.1.

Each Director above has confirmed to Redbubble that he or she anticipates being available to perform his or her duties as a Non-executive or Managing Director (as the case may be) without constraint from other commitments.

Under the definition of "independence" adopted by the Board (which is consistent with the definition in the ASX Recommendations), a director is considered independent by Redbubble if the director is a non-executive director who is not a member of management and free of any interest, position, association, business relationship or other relationship that could materially interfere with the exercise of their unfettered and independent judgment, or be perceived to do so.



Without limiting the above, if one or more of the following circumstances apply, then the director will be presumed not to be independent unless the Board agrees otherwise on reasonable grounds:

- the director is a substantial shareholder of Redbubble (greater than 5% holding, directly or indirectly) or an officer of, or otherwise associated directly with, a substantial shareholder of Redbubble;
- the director has within the last three years been employed in an executive capacity by Redbubble, or another group member, or has been a director after ceasing to hold any such employment;
- the director has, within the last three years, been a partner, shareholder, director or senior employee of a material professional adviser or material consultant to Redbubble or another group member or an employee materially associated with the service provided;
- the director has a material contractual relationship with Redbubble or another group member other than as a director or shareholder of Redbubble;
- the director has any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of Redbubble; or
- the director has close family ties with any person who falls within any of the categories above.

The Board has determined that each of Greg Lockwood, Teresa Engelhard, Stephanie Tilenius and Grant Murdoch are independent Directors for the purposes of the ASX Recommendations, free of any interest, position, association, business relationship or other relationship that could materially interfere with the exercise of their unfettered and independent judgment, or be perceived to do so.

As CEO and Managing Director of the Company, and as a shareholder of greater than 5% of the Company, Martin Hosking is not an independent Director.

As Richard Cawsey's Associated Entities control more than 5% of the issued capital of the Company, he has familial ties to Martin Hosking and he is the founder and executive chair of Denali Venture Partners (a service provider to the Company, see Section 6.3.4), Richard Cawsey is not considered by the Board to be independent.

As a result of Richard not being an independent Director, the Board is not chaired by an independent Director, contrary to Recommendation 2.5 of the ASX Recommendations (which requires that the chair of the board of a listed entity be an independent director, within the meaning of the ASX Recommendations).

Notwithstanding that Richard is not an independent Chair, the Board considers that Richard brings objective and independent judgement to the Board's decision-making processes and will make a valuable contribution to Redbubble as Chair.

The Board has considered Redbubble's immediate requirements as it transitions to an ASX-listed company and is satisfied that the composition of the Board reflects an appropriate range of independence, skills and experience for the Company after Listing.

### 6.4.3. Board Charter

The Board Charter adopted by the Board sets out the responsibilities of the Board in greater detail. The Board Charter reflects that the Board is responsible for the overall operation and stewardship of the Company and, in particular, is responsible for:

- Strategy – providing input into and approval of the Company's strategic direction and business plans as developed by management, and directing, monitoring and assessing the Company's performance against strategic direction and business plans;
- Management – the appointment and removal of the CEO, setting their remuneration, monitoring their performance and approving succession plans for them, ensuring that the framework for setting and monitoring remuneration and conditions of service for management is appropriate, ensuring that a process is in place for executive succession planning, and monitoring that process, and delegating authority to the CEO;
- Compliance and risk management – setting the risk appetite for the Company, approving and regularly reviewing the risk and legal compliance framework in order to ensure that risks are identified and appropriately managed, and overseeing and monitoring management's implementation of the Company's risk management legal compliance framework;
- Shareholders – ensuring effective communication with shareholders, with the objective of facilitating the effective exercise of shareholders' rights and ensure that all regulatory requirements are met;
- Ethical and responsible decision-making – promoting and modelling ethical and responsible decision-making; and
- Financial management and capital management – overseeing the Company's financial and capital management, including:
  - the approval of Redbubble's annual budget and annual and half yearly financial reports
  - the monitoring of Redbubble's financial results on an ongoing basis;
  - monitoring the progress of major capital expenditure, capital management, major acquisitions and disposals and material commitments;
  - decisions affecting the capital of Redbubble, including capital structure or restructure and major financing arrangements;
  - determining the dividend policy of Redbubble and declaring dividends; and
  - decisions (based on recommendations from the Audit and Risk Committee) in relation to ensuring the integrity of financial reporting, including the appointment and role of the external auditors.

The Board Charter also (among other things):

- provides that the Board will consist of a majority of independent, non-executive directors;
- provides that the Chair is appointed by the Directors, must not also be the Chief Executive Officer of Redbubble and must be a Non-executive Director, and must also be independent, unless the other directors agree that it is in the best interests of Redbubble that a non-independent director should be Chair;
- envisages that the Board should be composed of directors with an appropriate range of skills, experience and expertise and an understanding of and competence to deal with current and emerging issues of the business; and
- allows the Board to delegate powers and responsibilities to management and to committees established by the Board.

The Board has delegated to the CEO and Managing Director the authority to manage the day-to-day affairs of Redbubble and the authority to control the affairs of Redbubble in relation to all matters other than those responsibilities reserved to itself in the Board Charter. The Board may impose further specific limits on CEO and Managing Director delegations. The CEO and Managing Director has authority to sub-delegate to the Senior Leadership Team.

### 6.4.4. Board committees

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. The Board has established the Audit and Risk Committee, the Nomination Committee and the Remuneration Committee.

Other committees may be established by the Board as and when required.

#### 6.4.4.1. Audit and Risk Committee

The role of the Audit and Risk Committee is to assist the Board in carrying out its accounting, auditing, financial reporting and risk management responsibilities, including:



- maintaining and continually improving the quality, accuracy and integrity of Redbubble's external financial reporting and financial statements;
- overseeing the appointment, remuneration, independence and effective performance of Redbubble's external auditors;
- ensuring that Redbubble applies and maintains appropriate accounting and business policies and procedures;
- ensuring the effectiveness of Redbubble's risk management framework and internal controls; and
- ensuring the effectiveness of Redbubble's legal and regulatory compliance framework.

Under its charter:

- the Audit and Risk Committee must have at least three members, a majority of whom must be independent and all of whom must be Non-executive Directors, and be chaired by an independent, Non-executive Director who is not the Chair of the Board;
- all members of the Committee should be financially literate;
- at least one member should have financial expertise (i.e. should be an accountant or financial professional with experience of financial and accounting matters); and
- some members should have an understanding of the industry in which the Company operates.

The current members of the Audit and Risk Committee are Grant Murdoch (Chair), Richard Cawsey and Greg Lockwood.

The Audit and Risk Committee has adopted a policy that its external auditing firm must be independent of the Company at all times, and its charter requires that the committee review and assess the independence of the external auditors on an annual basis.

Redbubble does not currently have an internal audit function in place. The Audit and Risk Committee charter puts in place processes to monitor the Company's financial and risk management procedures and the Board currently considers these processes appropriate for the size and level of operations of the Company. Redbubble will employ several safeguards to ensure that its risk management and internal control process is efficient and accurate.

The Audit and Risk Committee will meet as often as is required to undertake its role effectively, but not less than quarterly. The CEO and Managing Director and the Chief Financial Officer are expected to attend each scheduled meeting of the committee and a standing invitation will be issued to the external auditors. Otherwise, the chair of the Audit and Risk Committee may invite any person from time to time to attend meetings of the committee, and may request management and/or others to seek advice from external advisers. The chair of the Audit and Risk Committee (or their delegate) will report to the Board after each committee meeting.

#### 6.4.4.2. Nomination Committee

The role of the Nomination Committee is to assist and advise the Board (to ensure the Board can properly carry out its responsibilities) in relation to:

- Director selection and appointment practices;
- Director and Board performance evaluation processes and criteria;
- Board composition; and
- succession planning for the Board and senior management,

to ensure that the Board is of a size and composition conducive to making appropriate decisions, with the benefit of a variety of perspectives and skills, and in the best interests of Redbubble as a whole.

Under its charter the Nomination Committee must have at least three members, a majority of whom must be Non-executive Directors and at least one of whom must be independent, and (unless the Board determines otherwise) be chaired by the Chair of the Board.



The current members of the Nomination Committee are Richard Cawsey (Chair), Martin Hosking and Stephanie Tilenius.

As a result of Richard and Martin not being independent Directors, the Nomination Committee does not comprise a majority of independent Directors or an independent Chair, contrary to Recommendation 2.1 of the ASX Recommendations (which requires that a listed entity's nomination committee comprise a majority of independent directors and be chaired by an independent director, within the meaning of the ASX Recommendations).

Notwithstanding this, the Board considers that the experience and industry knowledge of the committee members will ensure objective and independent judgement in carrying out their responsibilities on the committee. The Board will review the composition of the Nomination Committee at an appropriate time in the future.

The Nomination Committee will meet as often as is required to perform its functions. The chair of the Committee may invite other persons (including other Directors, management and external advisers) from time to time to attend meetings of the Committee, and may seek advice from external advisers. The chair of the Nomination Committee will report to the Board after each Committee meeting.

#### 6.4.4.3. Remuneration Committee

The role of the Remuneration Committee is to assist and advise the Board in relation to remuneration policies and practices to ensure that:

- Redbubble implements appropriate remuneration and retention strategies to enable it to execute the business strategy;
- Redbubble's remuneration policies and practices:
  - are fair and appropriate; and
  - are designed to enable Redbubble to attract, retain and motivate directors, executives and employees who will create value for shareholders;

- Redbubble's remuneration structure is fair and equitable and aligned with the long-term interests of Redbubble and its shareholders and having regard to relevant Redbubble policies.

Under its charter the Remuneration Committee must have at least three members, all of whom must be Non-executive Directors and a majority of whom must be independent, and the chair of the Committee will be appointed by the Board.

The current members of the Remuneration Committee are Teresa Engelhard (Chair), Grant Murdoch and Stephanie Tilenius.

The Remuneration Committee will meet as often as is required to perform its functions. The chair of the Committee may invite other persons (including other Directors, management and external advisers) from time to time to attend meetings of the Committee, and may seek advice from external advisers. The chair of the Remuneration Committee will report to the Board after each Committee meeting.

### 6.4.5. Risk management policy

Redbubble seeks to take and manage risk in ways that will generate and protect shareholder value. For Redbubble the management of risk is a continual process and in integral part of the management and corporate governance of the business.

Redbubble acknowledges that it is has an obligation to shareholders, Customers, employees, Artists and contractors to implement a risk management framework that reflects Redbubble's risk appetite, thus contributing to the achievement of its strategic objectives.

Redbubble is committed to ensuring that a consistent and integrated approach to managing risk is established at all levels and is embedded in Redbubble's processes and culture. Redbubble has adopted a risk management strategy that aims to identify and minimize the potential for loss while also maximizing strategic opportunities for growth and enhanced service delivery and profitability.



The above matters underpin Redbubble's risk management policy, which in turn is supported by Redbubble's risk management framework (which is based on Australian/New Zealand Standard *AS/NZS ISO 31000:2009 Risk Management Principles*) of:

- identifying and analysing the main risks facing Redbubble;
- evaluating those risks – making judgments about whether they are acceptable or not;
- implementing and documenting appropriately designed control systems to manage these risks;
- treating unacceptable risks – formulating responses following the identification of unacceptable risks, including action plans to reduce the probability or consequences of an event occurring; and
- ongoing monitoring, communication, and review.

Redbubble's risk management framework outlines the responsibilities for risk management at all levels in the organization from the Board delegation to individual staff members. The framework also supports these responsibilities by defining a risk reporting structure, expectations and the resources and tools required. The Audit and Risk Committee will review the risk management policy at least annually, and if relevant, will make recommendations to the Board in relation to amendments.

### 6.4.6. Diversity policy

Diversity refers to characteristics that make individuals different from each other. Diversity principally relates to gender, age, ethnicity, race, cultural background, disability, religion and sexual orientation. In addition, diversity extends to different life experiences, skills, styles and competencies.

Redbubble has adopted a diversity policy which sets out the Company's commitment to diversity, to ensure that Redbubble has appropriate diversity to enable it to effectively discharge its responsibilities and create a company of enduring value.

The Board will establish measurable objectives for achieving appropriate diversity on the Board, based on recommendations from the Nomination Committee. The Nomination Committee will report to the Board on:

- initiatives undertaken in relation to Board diversity and to achieve the measurable objectives; and
- progress in achieving the measurable objectives.

The Board will, at least annually, assess the measurable objectives and progress in achieving them.

### 6.4.7. Share trading policy

The Company has adopted a written policy for buying, selling or otherwise dealing in securities. The policy is intended to explain the prohibited type of conduct in relation to dealings in securities under the Corporations Act and to establish the procedures in relation to dealings in Shares by a Director, the CEO and Managing Director, the Chief Financial Officer, the General Counsel or Company Secretary, a Senior Leadership Team member, any direct reports to the CEO and Managing Director or Chief Financial Officer, and any members of Redbubble's Finance team who customarily have access to confidential Redbubble financial metrics (**Key Personnel**).

Subject to certain exceptions (described below), Key Personnel are not permitted to deal in Shares during the following blackout periods:

- the period from the close of trading on 30 November each year, up to two days after Redbubble's half-year results announcement is released to the market following its lodgement with the ASX;
- the period from the close of trading on 31 May each year, up to two days after Redbubble's annual results announcement is released to the market following its lodgement with the ASX; and
- any extension to a period referred to above, or any additional period, as determined by the Board in its absolute discretion and subject to any applicable law.



It is possible for Key Personnel to trade within blackout periods only where they have approval of the relevant member of the Senior Leadership Team or the Board (depending on the identity of the Key Personnel) as prescribed by the policy (the **Notification Officer**), and have demonstrated that there are "exceptional circumstances" (such as severe financial hardship).

Outside these periods, Key Personnel must receive clearance from the relevant Notification Officer for any proposed dealing in Shares.

In all instances, buying or selling Shares is not permitted at any time by any person who possesses price-sensitive information.

Redbubble personnel are not permitted to (among other things) hedge Shares, short sell Shares or propose to enter into a margin loan arrangement in relation to Shares without disclosure of the terms of that arrangement to the General Counsel or Company Secretary in any circumstances.

### 6.4.8. Continuous disclosure and communications policy

Once listed, Redbubble will be required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. Subject to the exceptions contained in the ASX Listing Rules, once Redbubble is or becomes aware of any information concerning it that is not generally available to the market and that a reasonable person would expect to have a material effect on the price or value of the Shares, Redbubble will be required to immediately disclose that information to the ASX. Redbubble is committed to observing its disclosure obligations under the ASX Listing Rules and the Corporations Act.

Redbubble has adopted a continuous disclosure policy which establishes procedures which are aimed at ensuring that Directors and employees are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information.

Redbubble also aims to communicate all important information relating to Redbubble to its Shareholders. Additionally, Redbubble recognises that potential investors and other interested stakeholders may wish to obtain information about Redbubble from time to time. To achieve this, Redbubble will communicate information regularly to shareholders and other stakeholders through a range of forums and publications (including through its website, at the annual general meeting, through the annual report and via ASX announcements).

### 6.4.9. Code of conduct

The Board has adopted a formal code of conduct to be followed by all Directors, officers, employees and contractors of Redbubble. The Code sets out the framework for how Redbubble will operate its business in an ethical manner that will protect its stakeholders.

The objectives of the Code are to:

- provide a benchmark for professional and ethical behaviour throughout Redbubble;
- support Redbubble's business reputation and corporate image within the community; and
- make Directors and employees aware of the consequences if they breach Redbubble policy.

The Code applies to all Redbubble's Directors, officers, employees, and contractors, and the key aspects of the Code are (among other things) to oblige all Directors, officers, employees and contractors of Redbubble to:

- avoid conflicts of interest but, if they occur, to disclose them to the CEO and Managing Director, General Counsel or Company Secretary as soon as possible;
- not to use Redbubble's property, information or their position to improperly gain benefit for themselves or another party, and to avoid all financial, business and other relationships which may be opposed to the interests of Redbubble, or which may place them in a competitive position with Redbubble;
- ensure that all dealings with politicians and government officials which relate to Redbubble and its business activities are conducted at arm's length and with the utmost professionalism;
- not make improper use of confidential information, and keep confidential information acquired during their employment confidential, even after their employment with Redbubble ceases;
- respect and maintain the privacy of personal information held or entrusted to Redbubble by its clients, customers, suppliers, employees and others and comply with applicable privacy/data protection regulations;
- treat each other ethically and with respect and likewise in all dealings with Redbubble Artists, Customers and fulfillers;
- not engage in any discrimination on the basis of gender, race, religion, cultural background, colour, marital status, sexual orientation, gender identity, age, disability, personal associations, political beliefs, family responsibilities, pregnancy, membership or non-membership of a trade union; and
- comply with all laws and regulations relating to Redbubble.

# 7

# DETAILS OF THE OFFER

# 7 Details of the Offer

## 7.1. Description of the Offer

This Prospectus relates to an initial public offering of 29.9 million shares in Redbubble at an Offer Price of $1.33 per Share. On Completion of the Offer, 142.1 million Shares will be held by the Existing Shareholders.

The total number of Shares on issue at Completion of the Offer will be 201.3 million. All Shares issued under the Offer will rank equally in all respects with Existing Shares on issue.

At the Offer Price, the Offer will raise $39.8 million of total proceeds, comprising $30 million from the issue of New Shares by Redbubble and $9.8 million from the sale of Existing Shares by SaleCo.

The Shares held by the Escrowed Shareholders will be subject to the voluntary escrow arrangements described in Section 7.7.

The Offer has been fully underwritten by the Joint Lead Managers. A summary of the Underwriting Agreement, including the events which would entitle the Joint Lead Managers to terminate the Underwriting Agreement, is set out in Section 9.1.1.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus.

### 7.1.1. Structure of the Offer

The Offer comprises:

- the Institutional Offer, which consisted of an invitation to bid for Shares made to Institutional Investors in Australia and a number of other eligible jurisdictions (see Section 7.3); and
- the Broker Firm Offer, which is open only to Australian resident investors who are not Institutional Investors and who receive a firm allocation of Shares from their Broker (see Section 7.4).



### 7.1.2. Purpose of the Offer

The purpose of the Offer is to:

- give the Existing Shareholders an opportunity to realise some or all of their investment in Redbubble;
- raise capital to strengthen Redbubble's balance sheet;
- provide a liquid market for the Shares;
- provide the Redbubble business with the benefits of an increased profile that arises from being a listed entity;
- provide Redbubble with access to equity capital markets, which it expects will give it added financial flexibility to pursue further growth opportunities; and
- assist Redbubble in attracting and retaining quality staff.

### 7.1.3. Sources and uses of funds

Details regarding the sources and uses of funds are set out in the table below.

| Sources of funds | $ million | % | Uses of funds | $ million | % |
|---|---|---|---|---|---|
| Cash proceeds received from sale of Existing Shares by SaleCo | 9.8 | 24.6 | Payment to Selling Shareholders | 9.8 | 24.6 |
| Cash proceeds received from the issue of New Shares by Redbubble | 30 | 75.4 | Increase in pro forma cash and cash equivalents | 25.8 | 64.8 |
| | | | Payment of the Offer costs | 4.2 | 10.6 |
| **Total sources** | **39.8** | **100.0** | **Total uses** | **39.8** | **100.0** |

The Company will be applying to ASX for its admission to the Official List on the basis of the 'assets test'. The Company's pro forma historical balance sheet as at 31 December 2015 (which takes into account the impact of the Offer) shows a pro forma balance of the Company's cash and other assets readily convertible to cash of $78.9 million, which is more than half of the pro forma balance of the Company's total tangible assets. Accordingly, in accordance with the requirements of ASX Listing Rule 1.3.2(b), the Company confirms that it has commitments to spend at least half of the pro forma balance of the Company's cash and other assets readily convertible to cash as at 31 December 2015. The commitments for 2H FY2016 and FY2017 are consistent with the Company's business objectives (including its growth strategy as described in Section 3.15) and are based on an assessment of present economic and operating conditions and on a number of best estimate assumptions regarding future events and actions that, at the Prospectus Date, are expected to take place (see Sections 4.7.1 and 4.7.2). These commitments are as follows:



| Commitment | $ million |
|---|---|
| 2H FY2016 | |
| Payment of the Offer costs | 4.2 |
| Net expenditure from operating activities[1] | 11.3 |
| Paid marketing campaigns | 3.3 |
| Payment of website hosting costs | 2.0 |
| Capital expenditure (including capitalised development costs)[1] | 3.7 |
| FY2017 | |
| Implementation of growth initiatives | |
| Search and traffic related initiatives | 3.5 |
| Product and supply chain related initiatives | 5.0 |
| Engagement and retention initiatives | 1.0 |
| Shopping experience related initiatives | 1.5 |
| New markets launch and support initiatives | 2.0 |
| Artist services related initiatives | 2.5 |
| Mobile platform development | 1.0 |
| Delivery engineering initiatives | 1.0 |
| Paid marketing campaigns | 10.3 |
| Payment of website hosting costs | 3.2 |
| Capital expenditure (including capitalised development costs) | 8.0 |
| Payment of other employment, marketing and operating expenses | 19.1 |
| **Total** | **82.6** |

1 For further information, see Table 4.11. In the case of this commitment, as at Listing, Redbubble will have spent some or all of the amount indicated.

## 7.1.4. Effects of the Offer

### 7.1.4.1. Pro forma balance sheet

Redbubble's pro forma balance sheet following Completion of the Offer, including details of the pro forma adjustments, is set out in Section 4.4.1.

### 7.1.4.2. Capital structure

Redbubble's capital structure at the Prospectus Date and its pro forma capital structure following Completion of the Offer is set out in Section 9.4.

### 7.1.4.3. Shareholding structure

Details of the ownership of Shares at the Prospectus Date and at Completion of the Offer are set out below.

| Shareholder | Existing interest prior to the Offer (%) | Shares held prior to the Offer | Interest on Completion of the Offer (%) | Shares held at Completion of the Offer[1] |
|---|---|---|---|---|
| Directors, Senior Leadership Team members and their Associated Entities | 45.39 | 66,007,040 | 33.43 | 67,275,198 |
| Other founding or early stage investment Shareholders | | | | |
| MXB Holdings LP | 9.31 | 13,541,880 | 6.73 | 13,541,880 |
| CAV Investment Holdings Group | 11.74 | 17,069,480 | 8.31 | 16,719,480 |
| Other | 24.80 | 36,070,960 | 17.24 | 34,710,569 |
| Other founding or early stage investment Shareholders | 45.85 | 66,682,320 | 32.28 | 64,971,929 |
| Other Existing Shareholders | 8.76 | 12,739,836 | 5.22 | 10,506,539 |
| Current holders of CRPS | – | – | 9.95 | 20,022,554 |
| Current holders of Convertible Notes | – | – | 5.09 | 10,233,919 |
| New Shareholders | – | – | 14.03 | 28,242,539 |
| **Total** | **100.0** | **145,429,196** | **100.0** | **201,252,678** |

1 Assumes the issue of Shares as a result of the vesting of Performance Rights upon Completion of the Offer (see Section 9.4).

### 7.1.4.4. Potential effect of the Offer on the future of Redbubble

The Directors believe that on Completion of the Offer, Redbubble will have sufficient working capital available from the proceeds of the Offer and its operations to fulfil the purpose of the Offer and meet its stated business objectives.

## 7.1.5. Settlement of the Offer

On settlement of the Offer, the following key steps will occur:

- the Selling Shareholders will transfer, in aggregate, 7.4 million Shares to SaleCo pursuant to the deed polls entered into by them;
- SaleCo will sell these Shares to investors under the Offer;
- Redbubble will issue 22.6 million New Shares to investors under the Offer; and
- the proceeds received under the Offer will be dealt with as described in Section 7.1.3.

## 7.2. Terms and conditions of the Offer

| Topic | Summary |
|---|---|
| What is the type of security being offered? | Shares (being fully paid ordinary shares in Redbubble). |
| What are the rights and liabilities attached to the Shares being offered? | A description of the Shares, including the rights and liabilities attaching to them, is set out in Section 7.12. |
| What is the consideration payable for each Share? | The Offer Price payable by successful applicants under the Offer is $1.33 per Share. |
| What is the Offer period? | The key dates, including details of the Offer period, are set out in the section titled "Important Dates" on page 5.<br><br>No Shares will be issued or transferred on the basis of this Prospectus later than the Expiry Date. |
| What are the cash proceeds to be raised? | $39.8 million will be raised under the Offer (based on the Offer Price) if the Offer proceeds. |
| What is the minimum and maximum application size under the Broker Firm Offer? | The minimum application under the Broker Firm Offer is 2,000 Shares, and in multiples of 100 Shares thereafter.<br><br>There is no maximum number of Shares that may be applied for under the Broker Firm Offer.<br><br>Redbubble, SaleCo and the Joint Lead Managers reserve the right to reject or scale back any application in the Broker Firm Offer, in their absolute discretion. Redbubble, SaleCo and the Joint Lead Managers also reserve the right to aggregate any applications which they believe may be multiple applications from the same person. |
| What is the allocation policy? | The allocation of Shares between the Institutional Offer and the Broker Firm Offer was determined by the Joint Lead Managers, in consultation with Redbubble.<br><br>The allocation of Shares among applicants under the Institutional Offer, including Brokers, was determined by the Joint Lead Managers, in consultation with Redbubble, having regard to the allocation policy outlined in Section 7.3.2.<br><br>The allocation of Shares among applicants under the Broker Firm Offer will be at the sole and absolute discretion of the relevant Broker.<br><br>The Broker Firm Offer is not, and the Institutional Offer was not, open to investors in the United States.<br><br>For further information on the Institutional Offer, see Section 7.3 and on the Broker Firm Offer, see Section 7.4. |
| When will I receive confirmation as to whether my application has been successful? | It is expected that initial holding statements and transaction confirmation statements (in the case of CHESS holdings) will be dispatched by standard post on or about Monday, 16 May 2016. |

| Topic | Summary |
|---|---|
| Will the Shares be quoted? | Redbubble has applied to ASX for admission of Redbubble to the Official List and quotation of all of its Shares on ASX under the code "RBL".<br><br>Settlement of the Offer is conditional on ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.<br><br>Once listed, Redbubble will be required to comply with the ASX Listing Rules, subject to any waivers obtained by Redbubble from time to time.<br><br>Neither ASX nor any of its officers takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates. The fact that ASX may admit Redbubble to the Official List is not to be taken as an indication of the merits of Redbubble or the Shares being offered. |
| When are the Shares expected to commence trading? | It is expected that trading of the Shares on ASX will commence on or about Monday, 16 May 2016, initially on a deferred settlement basis. Shares will commence trading on ASX on a normal settlement basis on or about Wednesday, 18 May 2016 once Redbubble has advised ASX that initial holding statements and transaction confirmation statements (in the case of CHESS holdings) have been dispatched to Shareholders.<br><br>It is the responsibility of each applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial holding statement or transaction confirmation statement (in the case of CHESS holdings) do so at their own risk.<br><br>Redbubble, SaleCo and the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial holding statement or transaction confirmation statement (in the case of CHESS holdings), whether on the basis of a confirmation of allocation provided by any of them, by Morgans Corporate Limited (by calling 1800 658 206), by a Broker or otherwise. |
| Is the Offer underwritten? | Yes. The Offer is underwritten by the Joint Lead Managers pursuant to the Underwriting Agreement. Details are provided in Section 9.1.1. |
| Are there any escrow arrangements? | Yes. Details are provided in Section 7.7. |
| Has any ASIC relief or ASX waiver been obtained or been relied on? | Yes. Details are provided in Section 7.9. |
| Are there any tax considerations? | Yes. Details are provided in Section 9.9. |
| Are there any brokerage, commission or stamp duty considerations? | No brokerage, commission or stamp duty is payable by applicants on the acquisition of Shares under the Offer.<br><br>See Section 9.1.1 for details of various fees payable to the Joint Lead Managers, and by the Joint Lead Managers to any co-manager or Broker. |

| Topic | Summary |
|---|---|
| What should I do with any enquiries? | All enquiries in relation to this Prospectus should be directed to Morgans Corporate Limited on 1800 658 206 (within Australia) from 8:30am to 5:30pm (Melbourne time), Monday to Friday (Business Days only).<br><br>If you are unclear in relation to any matter or are uncertain as to whether Redbubble is a suitable investment for you, you should seek professional guidance from your accountant, financial adviser, stockbroker, solicitor or other independent and qualified professional adviser before deciding whether to invest in Redbubble. |

## 7.3. Institutional Offer

### 7.3.1. Invitations to bid

The Institutional Offer invited certain Institutional Investors in Australia and a number of other eligible jurisdictions to apply for Shares.

The Joint Lead Managers separately advised Institutional Investors of the application procedures for the Institutional Offer. Shares acquired by Institutional Investors as part of the Institutional Offer will be issued and transferred under this Prospectus.

### 7.3.2. Allocation policy

The allocation of Shares among applicants under the Institutional Offer, including Brokers, was determined by the Joint Lead Managers, in consultation with Redbubble.



Participants in the Institutional Offer have been advised of their allocation of Shares, if any, by the Joint Lead Managers. The allocation policy under the Institutional Offer was influenced by a range of factors, including:

- the number of Shares bid for by particular bidders;
- the timeliness of the bid by particular bidders;
- Redbubble's desire for an informed and active trading market following Listing;
- Redbubble's desire to establish a wide spread of institutional Shareholders;
- the anticipated level of demand under the Broker Firm Offer;
- the size and type of funds under management, and the investment style, of particular bidders;
- the likelihood that particular bidders will be long term Shareholders; and
- any other factors that Redbubble, SaleCo and the Joint Lead Managers considered appropriate.

## 7.4. Broker Firm Offer

### 7.4.1. Who can apply?

The Broker Firm Offer is open to retail investors who have received a firm allocation of Shares from their Broker and who have a registered address in Australia. If you have received a firm allocation of Shares from your Broker, you will be treated as an applicant under the Broker Firm Offer in respect of that allocation. You should contact your Broker to determine whether you can receive an allocation of Shares from them under the Broker Firm Offer.

### 7.4.2. How to apply?

Applications for Shares may only be made on an Application Form attached to or accompanying this Prospectus, or any supplementary or replacement prospectus. If you are an investor applying under the Broker Firm Offer, you should complete and lodge your Application Form with the Broker from whom you received your firm allocation. Application Forms must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the reverse of the Application Form.

By making an application, you declare that you were given access to this Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an application form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

The minimum application under the Broker Firm Offer is 2,000 Shares, and in multiples of 100 Shares thereafter. There is no maximum number of Shares that may be applied for under the Broker Firm Offer.

Redbubble, SaleCo and the Joint Lead Managers reserve their rights to:

- reject or scale back any application in the Broker Firm Offer, in their absolute discretion, including any application which is not correctly completed or which is submitted by a person who they believe is ineligible to participate in the Broker Firm Offer;
- amend or waive the Broker Firm Offer application procedure requirements, in their absolute discretion in compliance with applicable laws, including to waive or correct any errors made by an applicant in completing their application; and
- to aggregate any applications which they believe may be multiple applications from the same person.

Applicants under the Broker Firm Offer must lodge their Application Form and Application Monies with the relevant Broker in accordance with the relevant Broker's directions in order to receive their firm allocation. Applicants under the Broker Firm Offer must not send their Application Forms or Application Monies to the Share Registry.



The Broker Firm Offer opens at 9am on Wednesday, 4 May 2016 and is expected to close at 10am on Wednesday, 11 May 2016. Redbubble, SaleCo and the Joint Lead Managers may elect to close the Offer or any part of it early, extend the Offer or any part of it or accept late applications either generally or in particular cases. Your Broker may also impose an earlier closing date. Applicants are therefore encouraged to submit their applications as early as possible. Please contact your Broker for instructions.

### 7.4.3. Payment methods

Applicants under the Broker Firm Offer must pay their Application Monies in accordance with the instructions received from their Broker.

### 7.4.4. Broker Firm Offer allocation policy

The allocation of firm stock to Brokers was determined by the Joint Lead Managers, in consultation with Redbubble. Shares which have been allocated to Brokers for allocation to their eligible retail clients will be issued or transferred to the applicants who have received a valid firm allocation of Shares from their Brokers. The allocation of Shares among applicants under the Broker Firm Offer will be at the sole and absolute discretion of the relevant Broker. Those Brokers (and not Redbubble, SaleCo or the Joint Lead Managers) will be responsible for ensuring that their clients who have received an allocation from them, receive the relevant Shares.

## 7.5. Application acceptances and Application Monies

An application in the Broker Firm Offer is an offer by an applicant to subscribe for or purchase (as the case may be) all or any of the Application Amount of Shares specified in the Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement prospectus) and the Application Form. To the maximum extent permitted by law, an application by an applicant under the Offer is irrevocable. Acceptance of an application will give rise to a binding contract.

Redbubble and SaleCo reserve the right to decline any application and all applications in whole or in part, without giving any reason. Applicants under the Broker Firm Offer whose applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded.

Applicants whose applications are accepted in full will receive that number of Shares equal to the Application Amount.

## 7.6. Confirmation of allocations

Applicants under the Broker Firm Offer will be able to confirm their allocations by calling Morgans Corporate Limited on 1800 658 206 (within Australia) from 8:30am to 5:30pm (Melbourne time), Monday to Friday (Business Days only). Applicants under the Broker Firm Offer will also be able to confirm their firm allocation through the Broker from whom they received their allocation.

It is the responsibility of each applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial holding statement or transaction confirmation statement (in the case of CHESS holdings) do so at their own risk, even if the allocation was confirmed by a Broker, Morgans Corporate Limited (by calling 1800 658 206) or otherwise.



## 7.7. Voluntary escrow arrangements

On Completion of the Offer, the Escrowed Shareholders will hold 78% of the Shares on issue, as follows:

| | Shares held at Completion of the Offer subject to escrow | Percentage of the Company's total Shares on Completion of the Offer |
|---|---|---|
| Insider Escrowed Shareholders | 71,111,733 | 35% |
| Non-Insider Escrowed Shareholders | 86,028,278 | 43% |
| TOTAL | 157,140,011 | 78% |

All of the Existing Shares held at Completion of the Offer by the Escrowed Shareholders will be subject to voluntary escrow arrangements.

### 7.7.1. Insider Escrowed Shareholders

Under the terms of the voluntary escrow arrangements, subject to certain customary exceptions as set out in Section 7.7.3 below, the Insider Escrowed Shareholders will be prevented from dealing with their escrowed Shares until the date which is two Business Days after the date on which Redbubble's audited full year accounts for FY2017 are released by Redbubble to ASX.

### 7.7.2. Non-Insider Escrowed Shareholders

Under the terms of the voluntary escrow arrangements, subject to certain customary exceptions as set out in Section 7.7.3 below, the Non-Insider Escrowed Shareholders will be prevented from dealing with their escrowed Shares until the date which is two Business Days after the date on which Redbubble's audited full year accounts for FY2016 are released by Redbubble to ASX, unless at any time after the commencement of official quotation of the Shares on ASX the volume weighted average price of the Shares traded on ASX on each trading day in any period of 10 consecutive trading days is at least 30% higher than the Offer Price (in which case the prohibition on dealing will cease to apply to the Non-Insider Escrowed Shareholders).

### 7.7.3. Terms common to all voluntary escrow arrangements

The restrictions on dealing under the voluntary escrow arrangements are broad and include, among other things, selling, assigning, transferring or otherwise disposing of, or agreeing or offering to sell, assign, transfer or otherwise dispose of, the relevant Shares, creating or agreeing or offering to create or permitting to be created any encumbrance or security interest over any or all of the relevant Shares or doing or omitting to do any act if the act or omission may have the effect of transferring effective ownership or control of, or economic interest in, any or all of the relevant Shares.

The escrowed Shares the subject of these voluntary escrow arrangements will include any Shares that may be received by these Escrowed Shareholders on the vesting of Performance Rights or the conversion of CRPS or Convertible Notes into Shares.

All of the Escrowed Shareholders may be released early from these escrow restrictions in certain circumstances, including:

- to enable the Escrowed Shareholders to accept an offer under a takeover bid under Chapter 6 of the Corporations Act in relation to their Shares and holders of at least half of the Shares that are the subject of the takeover bid that are not the subject of any escrow restrictions have accepted the takeover bid;
- to enable the Shares held by the Escrowed Shareholders to be acquired under a scheme of arrangement under Part 5.1 of the Corporations Act;
- to the extent the dealing is required by applicable law (including an order of a court of competent jurisdiction);
- to the extent the dealing is in connection with an equal access buyback or capital return or capital reduction;
- to the extent the dealing constitutes a disposal of, but not the creation of a security interest in, the escrowed Shares to certain related parties;
- with the prior written consent of Redbubble (which may be withheld by Redbubble in its absolute discretion); or
- in the event of an Escrowed Shareholder's death.



## 7.8. Discretion regarding the Offer

Redbubble and SaleCo may withdraw the Offer at any time before the issue and transfer of Shares to successful applicants or bidders under the Offer. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest) in accordance with the requirements of the Corporations Act.

Redbubble, SaleCo and the Joint Lead Managers also reserve the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late applications or bids either generally or in particular cases, reject any application or bid, or allocate to any applicant or bidder fewer Shares than the amount applied or bid for. Applications received under the Offer are irrevocable and may not be varied or withdrawn except as required by law.

## 7.9. ASIC relief and ASX waivers and confirmations

### 7.9.1. ASIC relief

Redbubble has sought relief from ASIC so that:

- Redbubble will not have a relevant interest in Shares the subject of the voluntary escrow arrangements (described in Section 7.7) for the purposes of Chapter 6 of the Corporations Act;
- Shares that may be issued upon the exercise of certain awards under the Employee Equity Plans may be on-sold after Listing without requiring a prospectus; and
- Redbubble may communicate information relating to the Offer to employees and existing shareholders of Redbubble and its related bodies corporate, including the effect of the Offer on existing awards under Redbubble's Employee Equity Plans and the ability for existing shareholders to sell down Shares under the Offer via SaleCo.

### 7.9.2. ASX waivers and confirmations

Redbubble has applied to ASX for the following waivers from, and confirmations in respect of, the ASX Listing Rules:

- a waiver of ASX Listing Rule 1.1, condition 11 in connection with the issue of Shares under the Employee Equity Plans upon the vesting or exercise of the awards granted under those plans (as described in Section 6.3.2.5);
- a waiver of ASX Listing Rule 10.14 in connection with the issue of Performance Rights under the STI Plan to the CEO and Managing Director, Martin Hosking, without shareholder approval;
- confirmation that the issue of Shares upon the vesting or exercise of certain awards granted under the Employee Equity Plans will fall within Exception 4 in ASX Listing Rule 7.2 and Exception 7 in ASX Listing Rule 10.12; and
- confirmation in respect of ASX Listing Rule 10.14 that the issue of Shares to certain Directors and their associates upon the vesting or exercise of certain awards granted under the Employee Equity Plans will not require Shareholder approval.



## 7.10. ASX listing

Redbubble has applied to ASX for its admission to the Official List and quotation of all of its Shares on ASX under the code "RBL".

Settlement of the Offer is conditional on ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.

Once listed, Redbubble will be required to comply with the ASX Listing Rules, subject to any waivers obtained by Redbubble from time to time.

Neither ASX nor any of its officers takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates. The fact that ASX may admit Redbubble to the Official List is not to be taken as an indication of the merits of Redbubble or the Shares being offered.

It is expected that trading of the Shares on ASX will commence on or about Monday, 16 May 2016, initially on a deferred settlement basis. Shares will commence trading on ASX on a normal settlement basis on or about Wednesday, 18 May 2016 once Redbubble has advised ASX that initial holding statements and transaction confirmation statements (in the case of CHESS holdings) have been dispatched to Shareholders.

It is the responsibility of each applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial holding statement or transaction confirmation statement (in the case of CHESS holdings) do so at their own risk.

Redbubble, SaleCo and the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial holding statement or transaction confirmation statement (in the case of CHESS holdings), whether on the basis of a confirmation of allocation provided by any of them, by Morgans Corporate Limited (by calling 1800 658 206), by a Broker or otherwise.

## 7.11. CHESS and issuer sponsored holdings

Redbubble has applied to participate in CHESS and will comply with the ASX Listing Rules and the ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on ASX under which transfers are effected in an electronic form.

When the Shares become approved financial products (as defined in the ASX Settlement Operating Rules), holdings will be registered in one of two sub-registers, being an electronic CHESS sub-register or an issuer sponsored sub-register.

For all successful applicants, the Shares of a Shareholder who is a participant in CHESS, or is sponsored by a participant in CHESS, will be registered on the CHESS sub-register. All other Shares will be registered on the issuer sponsored sub-register.

Following Completion of the Offer, Shareholders will be sent an initial holding statement or a transaction confirmation statement (in the case of CHESS holdings) that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder's Holder Identification Number (**HIN**) for CHESS holders or, where applicable, the Securityholder Reference Number (**SRN**) of issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their Shareholding. Certificates will not be issued.

Shareholders will receive subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under the ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring broker in the case of a holding on the CHESS sub-register or through the Share Registry in the case of a holding on the issuer sponsored sub-register. Redbubble and the Share Registry may charge a fee for these additional issuer sponsored statements.



## 7.12. Description of the Shares

### 7.12.1. Introduction

The rights and liabilities attaching to the ownership of Shares arise from a combination of the Constitution, statute, the ASX Listing Rules and general law.

A summary of the significant rights, liabilities and obligations attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that Redbubble is admitted to the Official List.

### 7.12.2. Voting at a general meeting

At a general meeting of Redbubble, every Shareholder present in person or by proxy, representative or attorney has one vote on a show of hands and, on a poll, one vote for each Share held. The Constitution permits the Board to allow for "direct voting" at general meetings (such as electronic or postal voting), in which case every Shareholder has one vote for each Share held.

### 7.12.3. Meetings of members

Each Shareholder is entitled to receive notice of, attend and vote at, general meetings of Redbubble and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act and the ASX Listing Rules.

### 7.12.4. Dividends

The Board may from time to time resolve to pay dividends to Shareholders and fix the amount of the dividend, the time for determining entitlements to the dividend and the timing and method of payment (including requiring that dividends will only be paid by direct credit into a nominated bank account).

### 7.12.5. Transfers of Shares

Subject to the Constitution, Shares may be transferred by a proper transfer effected in accordance with the ASX Settlement Operating Rules, by a written instrument of transfer which complies with the Constitution or by any other method permitted by the Corporations Act, the ASX Listing Rules or the ASX Settlement Operating Rules.

The Board may refuse to register a transfer of Shares where permitted to do so under the Corporations Act, the ASX Listing Rules or the ASX Settlement Operating Rules.

### 7.12.6. Issue of further shares

Subject to the Corporations Act, the ASX Listing Rules and ASX Settlement Operating Rules and any rights and restrictions attached to a class of shares, Redbubble may issue, or grant options in respect of, or otherwise dispose of further shares on such terms and conditions as the Directors consider appropriate.

### 7.12.7. Winding up

If Redbubble is wound up, then subject to the Constitution and any special resolution or preferential rights or restrictions attached to a class of shares, any surplus must be divided among Redbubble's members in the proportions which the amount paid and payable (including amounts credited) on the shares of a member is of the total amount paid and payable (including amounts credited) on the shares of all members of Redbubble.



### 7.12.8. Unmarketable parcels

Subject to the Corporations Act, the ASX Listing Rules and ASX Settlement Operating Rules, Redbubble may sell the Shares of a Shareholder who holds less than a marketable parcel of Shares.

### 7.12.9. Share buy-backs

Subject to the Corporations Act, the ASX Listing Rules and the ASX Settlement Operating Rules, Redbubble may buy back shares in itself on terms and at times determined by the Board.

### 7.12.10. Proportional takeover provisions

The Constitution contains provisions for Shareholder approval to be required in relation to any proportional takeover bid. These provisions will cease to apply unless renewed by special resolution of the Shareholders in general meeting by the third anniversary of the date of the Constitution's adoption.

### 7.12.11. Variation of class rights

As at the date of, or shortly after, Listing, Redbubble's only class of shares on issue will be ordinary shares. Subject to the Corporations Act and the terms of issue of a class of shares, the rights attaching to any class of shares may be varied or cancelled:

- with the consent in writing of the holders of three-quarters of the issued shares included in that class; or
- by a special resolution passed at a separate meeting of the holders of those shares.

In either case, in accordance with the Corporations Act, the holders of not less than 10% of the votes in the class of shares, the rights of which have been varied or cancelled, may apply to a court of competent jurisdiction to exercise its discretion to set aside such variation or cancellation.

### 7.12.12. Dividend reinvestment plan

The Constitution authorises the Directors, on any terms and at their discretion, to establish a dividend reinvestment plan (under which any member may elect that the dividends payable by Redbubble be reinvested by a subscription for securities).

### 7.12.13. Directors – number and composition of Board

The minimum number of Directors that may comprise the Board is three and the maximum is fixed by the Directors but may not be more than nine unless the Shareholders pass a resolution varying that number. Directors are elected at annual general meetings of Redbubble.

### 7.12.14. Directors – appointment and removal

Under the Constitution:

- Redbubble in general meeting may by resolution appoint any person as a Director either to fill a casual vacancy or as an addition to the Board, provided that the number of Directors (not including alternate Directors) does not exceed the maximum number.
- no person other than a retiring Director or a Director vacating office (where they were appointed by the Board to fill a casual vacancy or as an addition to the Board) is eligible to be elected a Director at any general meeting unless a notice of the person's candidature (signed by the person) is given to Redbubble at its registered office at least 35 Business Days before the meeting (or, in the case of a meeting that Shareholders have requested the Board to call, 30 Business Days);
- the Board may at any time appoint any person as a Director to fill a casual vacancy or as an addition to the Board, provided that the number of Directors (not including alternate Directors) does not exceed nine. Any Director appointed under this rule (other than any managing director) may hold office only until the end of the next annual general meeting of Redbubble and is then eligible for election at that meeting without needing to give any prior notice of an intention to submit for election.

A Director may be removed from office in accordance with the procedures set out in the Corporations Act.



### 7.12.15. Directors – retirement

Retirement will occur on a rotational basis so that any Director who has held office for three or more years or three or more annual general meetings (excluding any managing director) retires at the next annual general meeting of Redbubble. A retiring Director will be eligible for re-election without needing to give any prior notice of an intention to submit for re-election and will hold office as a Director (subject to re-election) until the end of the general meeting at which the Director retires.

### 7.12.16. Directors – voting

Questions arising at a meeting of the Board will be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. In the case of an equality of votes on a resolution, the chairperson of the meeting has a casting vote in addition to their deliberative vote, unless only two Directors are present and entitled to vote at the meeting on the relevant question.

### 7.12.17. Directors – remuneration

The Directors (other than executive Directors) will be paid by way of fees for services up to the maximum aggregate sum per annum as may be approved from time to time by Redbubble in general meeting. The current maximum aggregate sum per annum is $1,200,000, with the initial remuneration of the Directors set out in Section 6.3.1.2. Any change to that maximum aggregate sum needs to be approved by Shareholders. The Constitution also makes provision for Redbubble to pay all reasonable expenses of Directors in attending meetings and carrying on their duties.

### 7.12.18. Indemnities

Redbubble, to the extent permitted by law, indemnifies each director, secretary and other officer of Redbubble and, if the Board considers it appropriate, each director, secretary and other officer of any subsidiary of Redbubble against any liability incurred by that person as an officer of Redbubble or its subsidiaries (which includes legal costs incurred by that person in defending an action for a liability of that person).

Redbubble, to the extent permitted by law, may pay, or agree to pay, a premium for a contract insuring any director, secretary and other officer of Redbubble and any subsidiary of Redbubble against any liability incurred by that person as an officer of Redbubble or its subsidiaries (which includes legal costs incurred by that person in defending an action for a liability of that person).

Redbubble may give a former Director access to certain papers, including documents provided or available to the Directors and other papers referred to in those documents.

Redbubble, to the extent permitted by law, may enter into an agreement or deed with any director, secretary and other officer of Redbubble and any subsidiary of Redbubble under which it agrees to indemnify that person, maintain insurance or provide access to documents in a manner consistent with the above provisions (see Section 6.3.1.3 for further details on such deeds).

### 7.12.19. Amendment

The Constitution may be amended only by special resolution passed by at least three-quarters of the Shareholders present (in person or by proxy) and entitled to vote on the resolution at a general meeting of Redbubble.

Redbubble must give at least 28 days' written notice of a general meeting of Redbubble.

## 7.13. Restrictions on distribution



No action has been taken to register or qualify this Prospectus, the Shares or the Offer, or otherwise to permit a public offering of the Shares, in any jurisdiction outside Australia.

This Prospectus does not constitute an offer of Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer, invitation, issue or transfer under this Prospectus.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. In particular, this Prospectus may not be distributed to any person, and the Shares may not be offered or sold, in any country outside Australia except to the extent permitted below.

### Hong Kong

WARNING: This Prospectus has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the **SFO**). No action has been taken in Hong Kong to authorise or register this Prospectus or to permit the distribution of this Prospectus or any documents issued in connection with it. Accordingly, the Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO).

No advertisement, invitation or document relating to the Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this Prospectus have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the Offer. If you are in doubt about any contents of this Prospectus, you should obtain independent professional advice.

## New Zealand

This Prospectus has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (the **FMC Act**). The Shares are not being offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) other than to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

## Singapore

This Prospectus and any other materials relating to the Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Shares, may not be issued, circulated or distributed, nor may the Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.



This Prospectus has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) a "relevant person" (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this Prospectus immediately. You may not forward or circulate this Prospectus to any other person in Singapore.

Any offer is not made to you with a view to the Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

# 8

# INDEPENDENT LIMITED ASSURANCE REPORT

Ernst & Young Transaction Advisory Services Limited
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3 May 2016

The Board of Directors
Redbubble Limited
Level 3, 271 Collins Street
Melbourne VIC 3000

The Board of Directors
Redbubble SaleCo Limited
Level 3, 271 Collins Street
Melbourne VIC 3000

Dear Directors

**PART 1 – INDEPENDENT LIMITED ASSURANCE REPORT ON THE STATUTORY HISTORICAL FINANCIAL INFORMATION, PRO FORMA HISTORICAL FINANCIAL INFORMATION, STATUTORY FORECAST FINANCIAL INFORMATION AND PRO FORMA FORECAST FINANCIAL INFORMATION**

## 1. Introduction



We have been engaged by Redbubble Limited and Redbubble SaleCo Limited to report on the statutory historical financial information, pro forma historical financial information, statutory forecast financial information and pro forma forecast financial information of Redbubble Limited ("Redbubble") for inclusion in the prospectus to be dated on or about 3 May 2016 ("Prospectus"), and to be issued by Redbubble and Redbubble SaleCo Limited in respect of the offer of fully paid ordinary shares in Redbubble (the "Offer").

Expressions and terms defined in the Prospectus have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian Financial Services Licence under the Corporations Act 2001. Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") holds an appropriate Australian Financial Services Licence (AFS Licence Number 240585). Jo Barker is a Director and Representative of Ernst & Young Transaction Advisory Services. We have included our Financial Services Guide as Part 2 of this report.

## 2. Scope

***Statutory Historical Financial Information***

You have requested Ernst & Young Transaction Advisory Services to review the following statutory historical financial information of Redbubble:

- statutory historical consolidated income statements for the years ended 30 June 2013 ("FY2013"), 30 June 2014 ("FY2014") and 30 June 2015 ("FY2015") as set out in Table 4.5 in Section 4.3.3 of the Prospectus, and the half years ended 31 December 2014 ("1H FY2015") and 31 December 2015 ("1H FY2016") as set out in Table 4.6 in Section 4.3.3 of the Prospectus;

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Australian Financial Services Licence No. 240585

- statutory historical consolidated cash flows for FY2013, FY2014 and FY2015 as set out in Table 4.16 in Section 4.5.3 of the Prospectus, and 1H FY2015 and 1H FY2016 as set out in Table 4.17 in Section 4.5.3 of the Prospectus; and
- statutory historical consolidated balance sheet as at 31 December 2015 as set out in Table 4.9 in Section 4.4.1 of the Prospectus.

(Hereafter the "Statutory Historical Financial Information").

The Statutory Historical Financial Information for FY2013 has been derived from the special purpose statutory consolidated financial statements of Redbubble for FY2013. The Statutory Historical Financial Information for FY2014 and FY2015 has been derived from the general purpose statutory consolidated financial statements of Redbubble for FY2015.

The FY2015 general purpose statutory consolidated financial statements of Redbubble have been audited by Ernst & Young, who have issued an unqualified audit opinion in respect of this period. During the completion of the audit of the FY2015 financial statements, it was determined that the prior period financial statements for FY2014 contained a number of errors including an adjustment of the deferred tax asset and a change to the accounting for an employee loan to correctly account for the arrangement as a share based payment. These items were restated in the comparative information presented in the FY2015 financial statements. Accordingly, the statutory historical
138 financial information for FY2014 has been derived from these restated comparatives. The FY2014 general purpose statutory consolidated financial statements and the FY2013 special purpose statutory consolidated financial statements of Redbubble were audited by ShineWing Australia (formerly known as Moore Stephens) in accordance with Australian Auditing Standards. ShineWing Australia issued unqualified audit opinions in respect of these periods.

The Statutory Historical Financial Information for 1H FY2015 and 1H FY2016 has been derived from the interim condensed consolidated financial statements of Redbubble for 1H FY2016, which were reviewed by Ernst & Young and on which an unqualified review conclusion was issued.

The Statutory Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles prescribed in Australian Accounting Standards ("AAS") (including the Australian Accounting Interpretations), issued by the Australian Accounting Standards Board ("AASB"), which are consistent with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board ("IASB").

***Pro Forma Historical Financial Information***

You have requested Ernst & Young Transaction Advisory Services to review the following pro forma historical financial information of Redbubble:

- summary pro forma historical consolidated income statements for FY2013, FY2014 and FY2015 as set out in Table 4.2 in Section 4.3.1 of the Prospectus, and 1H FY2015 and 1H FY2016 as set out in Table 4.3 in Section 4.3.1 of the Prospectus;
- summary pro forma historical consolidated cash flows for FY2013, FY2014 and FY2015 as set out in Table 4.13 in Section 4.5.1 of the Prospectus, and 1H FY2015 and 1H FY2016 as set out in Table 4.14 in Section 4.5.1 of the Prospectus; and
- pro forma historical consolidated balance sheet as at 31 December 2015 as set out in

Table 4.9 in Section 4.4.1 of the Prospectus.

(Hereafter the "Pro Forma Historical Financial Information").

The Pro Forma Historical Financial Information has been derived from the Statutory Historical Financial Information and adjusted for the effects of pro forma adjustments described in Sections 4.3.4, 4.4.1 and 4.5.2 of the Prospectus.

The Pro Forma Historical Financial Information has been prepared in accordance with the recognition and measurement principles of AAS other than that it includes certain adjustments which have been prepared in a manner consistent with AAS, that reflect (a) the recognition of certain items in periods different from the applicable period under AAS; (b) the exclusion of certain transactions that occurred in the relevant periods; and (c) the impact of certain transactions as if they occurred on or before 31 December 2015.

Due to its nature, the Pro Forma Historical Financial Information does not represent the actual or prospective financial position, financial performance or cash flows of Redbubble.

***Statutory Forecast Financial Information***

You have requested Ernst & Young Transaction Advisory Services to review the following statutory forecast financial information of Redbubble:

- statutory forecast consolidated income statements for the years ending 30 June 2016 ("FY2016") and 30 June 2017 ("FY2017") as set out in Table 4.5 in Section 4.3.3 of the Prospectus; and
- statutory forecast consolidated cash flows for FY2016 and FY2017 as set out in Table 4.16 in Section 4.5.3 of the Prospectus.

(Hereafter the "Statutory Forecast Financial Information").

The best-estimate assumptions of the Redbubble Directors (the "Directors") underlying the Statutory Forecast Financial Information are described in Sections 4.7.1 and 4.7.2 of the Prospectus.

The stated basis of preparation used in the preparation of the Statutory Forecast Financial Information is in accordance with the recognition and measurement principles prescribed in AAS (including the Australian Accounting Interpretations), issued by AASB, which are consistent with International Financial Reporting Standards and Interpretations issued by IASB.

***Pro Forma Forecast Financial Information***

You have requested Ernst & Young Transaction Advisory Services to review the following pro forma forecast financial information of Redbubble:

- pro forma forecast consolidated income statement for FY2016 as set out in Table 4.2 in Section 4.3.1 of the Prospectus; and
- pro forma forecast consolidated cash flow for FY2016 as set out in Table 4.13 in Section 4.5.1 of the Prospectus.

(Hereafter the "Pro Forma Forecast Financial Information").



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(the Statutory Historical Financial Information, Pro Forma Historical Financial Information, Statutory Forecast Financial Information and Pro Forma Forecast Financial Information are collectively referred to as the "Financial Information").

The Pro Forma Forecast Financial Information has been derived from Redbubble's Statutory Forecast Financial Information for FY2016, after adjusting for the effects of the pro forma adjustments described in Sections 4.3.4 and 4.5.2 of the Prospectus.

The Pro Forma Forecast Financial Information has been prepared in accordance with the recognition and measurement requirements of AAS other than that it includes adjustments which have been prepared in a manner consistent with AAS, that reflect: (a) the recognition of certain items in periods different from the applicable period under AAS; (b) the exclusion of certain transactions that occurred in the relevant periods; and (c) the impact of certain transactions as if they occurred on or after 30 June 2015.

Due to its nature, the Pro Forma Forecast Financial Information does not represent the Company's actual or prospective financial performance or cash flows.

The Financial Information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

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## 3. Directors' Responsibility

***Statutory Historical and Pro Forma Historical Financial Information***

The Directors are responsible for the preparation and presentation of the Statutory Historical Financial Information and Pro Forma Historical Financial Information, including the basis of preparation, selection and determination of pro forma adjustments made to the Statutory Historical Financial Information and included in the Pro Forma Historical Financial Information. This includes responsibility for such internal controls as the Directors determine are necessary to enable the preparation of Statutory Historical Financial Information and Pro Forma Historical Financial Information that are free from material misstatement, whether due to fraud or error.

***Statutory Forecast and Pro Forma Forecast Financial Information***

The Directors are responsible for the preparation and presentation of the Statutory Forecast Financial Information for FY2016 and FY2017, including the basis of preparation and the best-estimate assumptions underlying the Statutory Forecast Financial Information. They are also responsible for the preparation and presentation of the Pro Forma Forecast Financial Information for FY2016, including the basis of preparation, selection and determination of the pro forma adjustments made to the Statutory Forecast Financial Information and included in the Pro Forma Forecast Financial Information. This includes responsibility for such internal controls as the Directors determine are necessary to enable the preparation of Statutory Forecast Financial Information and Pro Forma Forecast Financial Information that is free from material misstatement, whether due to fraud or error.

Building a better working world

## 4. Our Responsibility

***Statutory Historical and Pro Forma Historical Financial Information***

Our responsibility is to express a limited assurance conclusion on the Statutory Historical Financial Information and Pro Forma Historical Financial Information based on the procedures performed and the evidence we have obtained.

***Statutory Forecast and Pro Forma Forecast Financial Information***

Our responsibility is to express a limited assurance conclusion on the Statutory Forecast and Pro Forma Forecast Financial Information, the best-estimate assumptions underlying the Statutory Forecast and Pro Forma Forecast Financial Information, and the reasonableness of the Statutory Forecast Financial Information and Pro Forma Forecast Financial Information, based on our limited assurance engagement.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

Our limited assurance procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other limited assurance procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.



Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the Financial Information.

## 5. Conclusions

***Statutory Historical Financial Information***

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Statutory Historical Financial Information comprising:

- statutory historical consolidated income statements for FY2013, FY2014 and FY2015 as set out in Table 4.5 in Section 4.3.3 of the Prospectus, and 1H FY2015 and 1H FY2016 as set out in Table 4.6 in Section 4.3.3 of the Prospectus;
- statutory historical consolidated cash flows for FY2013, FY2014 and FY2015 as set out in Table 4.16 in Section 4.5.3 of the Prospectus, and 1H FY2015 and 1H FY2016 as set out in Table 4.17 in Section 4.5.3 of the Prospectus; and
- statutory historical consolidated balance sheet as at 31 December 2015 as set out in Table 4.9 in Section 4.4.1 of the Prospectus

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Sections 4.2.1 and 4.2.2 of the Prospectus.

***Pro Forma Historical Financial Information***

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information comprising:

- summary pro forma historical consolidated income statements for FY2013, FY2014 and

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FY2015 as set out in Table 4.2 in Section 4.3.1 of the Prospectus, and 1H FY2015 and 1H FY2016 as set out in Table 4.3 in Section 4.3.1 of the Prospectus;

- summary pro forma historical consolidated cash flows for FY2013, FY2014 and FY2015 as set out in Table 4.13 in Section 4.5.1 of the Prospectus, and 1H FY2015 and 1H FY2016 as set out in Table 4.14 in Section 4.5.1 of the Prospectus; and
- pro forma historical consolidated balance sheet as at 31 December 2015 as set out in Table 4.9 in Section 4.4.1 of the Prospectus

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Sections 4.2.1 and 4.2.2 of the Prospectus.

***Statutory Forecast Financial Information***

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that:

- the Directors' best-estimate assumptions used in the preparation of the Statutory Forecast Financial Information of Redbubble for FY2016 and FY2017 do not provide reasonable grounds for the Statutory Forecast Financial Information; and
- in all material respects, the Statutory Forecast Financial Information:
  - is not prepared on the basis of the Directors' best estimate assumptions as described in Sections 4.7.1 and 4.7.2 of the Prospectus; and
  - is not presented fairly in accordance with the stated basis of preparation, as described in Sections 4.2.1 and 4.2.3 of the Prospectus; and
- the Statutory Forecast Financial Information itself is unreasonable.

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***Pro Forma Forecast Financial Information***

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that:

- the Directors' best-estimate assumptions used in the preparation of the Pro Forma Forecast Financial Information of Redbubble for FY2016 do not provide reasonable grounds for the Pro Forma Forecast Financial Information; and
- in all material respects, the Pro Forma Forecast Financial Information:
  - is not prepared on the basis of the Directors' best estimate assumptions as described in Sections 4.7.1 and 4.7.2 of the Prospectus; and
  - is not presented fairly in accordance with the stated basis of preparation, as described in Sections 4.2.1 and 4.2.3 of the Prospectus; and
- the Pro Forma Forecast Financial Information itself is unreasonable.

***Statutory Forecast and Pro Forma Forecast Financial Information***

The Statutory Forecast and Pro Forma Forecast Financial Information has been prepared by management and adopted by the Directors in order to provide prospective investors with a guide to the potential financial results and cash flows of Redbubble for FY2016 and FY2017. There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Statutory Forecast and Pro Forma Forecast Financial Information since anticipated events or transactions frequently do not occur as expected and the variation may be material. The Directors' best-estimate assumptions on which the Statutory Forecast and Pro Forma Forecast Financial Information are based relate to future events and/or transactions that management expect

to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of Redbubble. Evidence may be available to support the Directors' best-estimate assumptions on which the Statutory Forecast and Pro Forma Forecast Financial Information are based however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the Directors' best-estimate assumptions. The limited assurance conclusions expressed in this report have been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in Redbubble, which are detailed in the Prospectus and the inherent uncertainty relating to the Statutory Forecast and Pro Forma Forecast Financial Information. Accordingly, prospective investors should have regard to the investment risks as described in Section 5 of the Prospectus. The sensitivity analysis described in Section 4.8 of the Prospectus demonstrates the impact on the Statutory Forecast Financial Information of changes in key best-estimate assumptions. We express no opinion as to whether the Statutory Forecast or Pro Forma Forecast Financial Information will be achieved.

We disclaim any assumption of responsibility for any reliance on this report, or on the Statutory Forecast and Pro Forma Forecast Financial Information to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied on representations from certain members of management of Redbubble, that all material information concerning the prospects and proposed operations of Redbubble has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.



### 6. Restriction on Use

Without modifying our conclusions, we draw attention to Section 4.2.1 of the Prospectus, which describes the purpose of the Financial Information. As a result, the Financial Information may not be suitable for use for another purpose.

### 7. Consent

Ernst & Young Transaction Advisory Services has consented to the inclusion of this limited assurance report in the Prospectus in the form and context in which it is included.

### 8. Independence or Disclosure of Interest

Ernst & Young Transaction Advisory Services does not have any interests in the outcome of the Offer other than in the preparation of this report for which normal professional fees will be received.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

Jo Barker
Director and Representative

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Australian Financial Services Licence No. 240585

3 May 2016

**THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT LIMITED ASSURANCE REPORT**

## PART 2 – FINANCIAL SERVICES GUIDE

### 1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Limited Assurance Report ("Report") in connection with a financial product of another person. The Report is to be included in documentation being sent to you by that person.

### 2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

### 3. Financial services we offer

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We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

### 4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

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**5. Remuneration for our services**

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is $55,000 (inclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits disclosed in this Prospectus in Section 6.3.5, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

**6. Associations with product issuers**

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

**7. Responsibility**

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.



**8. Complaints process**

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or the Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

**9. Compensation Arrangements**

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

| **Contacting Ernst & Young Transaction Advisory Services**<br>AFS Compliance Manager<br>Ernst & Young<br>680 George Street<br>Sydney NSW 2000<br>Telephone: (02) 9248 5555 | **Contacting the Independent Dispute Resolution Scheme:**<br>Financial Ombudsman Service Limited<br>PO Box 3<br>Melbourne VIC 3001 Telephone: 1300 78 08 08 |
|---|---|

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

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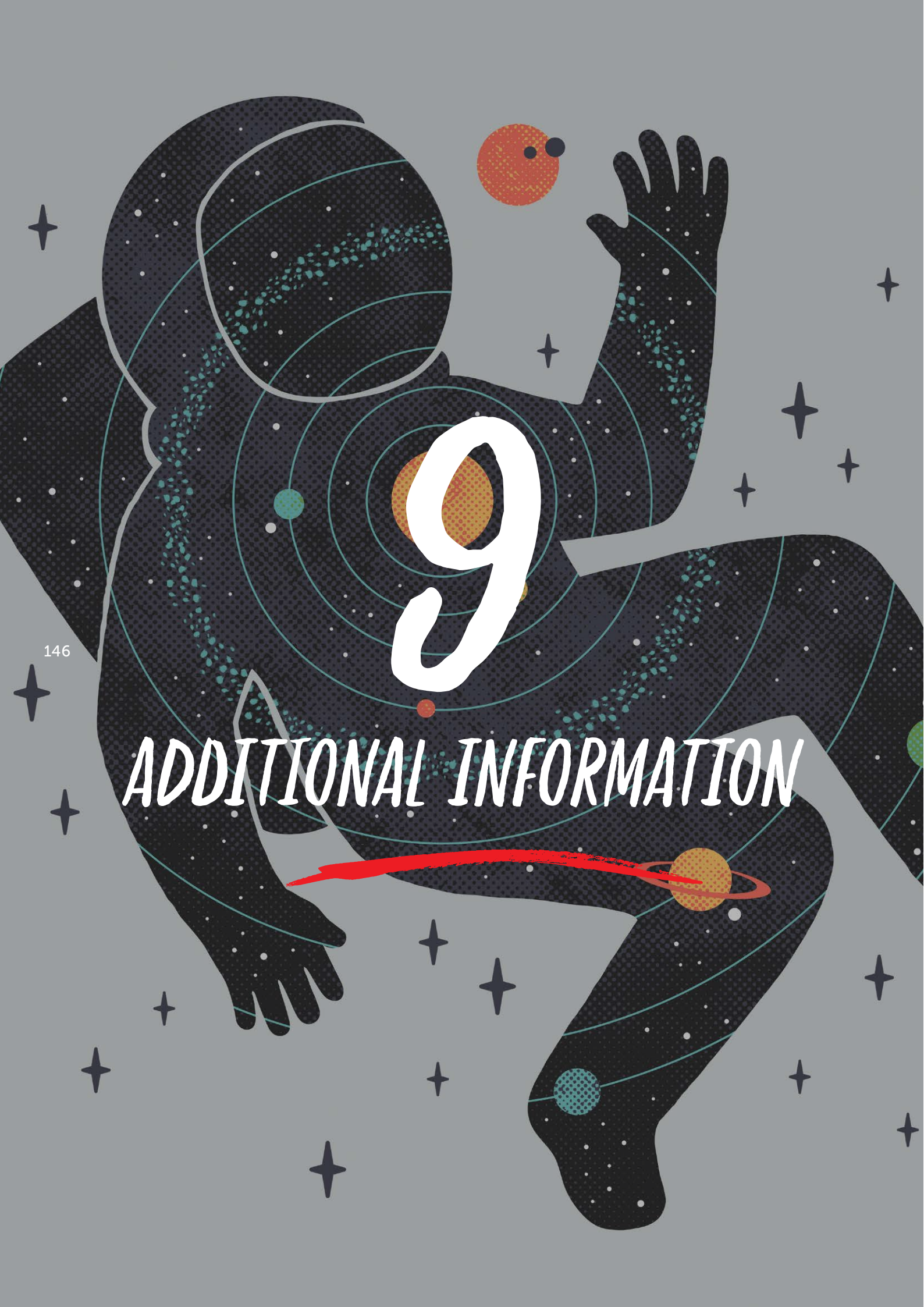


# 9 ADDITIONAL INFORMATION

# 9 Additional Information

## 9.1. Material contracts

Along with the voluntary escrow arrangements entered into by the Escrowed Shareholders (described in Section 7.7), the terms of the Redbubble User Agreement (described in Section 3.3.1) and the informal arrangements between Redbubble and the fulfillers (described in Section 3.3.3), the terms of the Underwriting Agreement (which are summarised below) are material to an investor's decision whether to apply for Shares.

Summaries of material contracts set out in this Prospectus (including the summary of the Underwriting Agreement) do not purport to be complete and are qualified by the text of the contracts themselves.

### 9.1.1. Underwriting Agreement

Redbubble, SaleCo and the Joint Lead Managers have entered into an underwriting agreement (**Underwriting Agreement**) pursuant to which the Joint Lead Managers have agreed to underwrite the Offer. Pursuant to the Underwriting Agreement, Redbubble has also appointed the Joint Lead Managers to arrange and manage the Offer.

#### 9.1.1.1. Fees, costs and expenses

Under the Underwriting Agreement, the Joint Lead Managers will be paid (in equal proportions) on the date on which settlement of the Offer occurs:

- a management fee equal to 1.0% of the total proceeds of the Offer; and
- a capital raising fee equal to 2.5% of the total proceeds of the Offer.



In addition to the fees described above, Redbubble will pay or reimburse the Joint Lead Managers for certain other agreed costs, charges and expenses of, and incidental to, the Offer incurred by the Joint Lead Managers.

#### 9.1.1.2. Conditions, representations, warranties, undertakings and other terms

The Underwriting Agreement contains certain customary representations, warranties and undertakings by Redbubble and SaleCo (as applicable) to the Joint Lead Managers. It also contains customary conditions precedent, including ASX and ASIC granting certain waivers and modifications, the entry into voluntary escrow arrangements by the Escrowed Shareholders, the entry into share sale deeds, the lodgement of this Prospectus with ASIC, and the delivery of certain due diligence items.

The representations and warranties given by Redbubble and/or SaleCo (as applicable) include matters such as power and authorisations, the documents issued or published by or on the behalf of Redbubble and/or SaleCo in respect of the Offer (**Offer Documents**) and other public information, the business and financial position of the Group, the conduct of the Offer, information provided by Redbubble and/or SaleCo to the Joint Lead Managers, due diligence, closing certificates, the Shares, future matters and compliance with the ASX Listing Rules and other applicable laws.

Redbubble's undertakings include that it will not, in the period expiring 180 days after Completion of the Offer, issue, or agree to issue, offer for subscription or grant any option over, or indicate in any way that it may or will issue, any shares, options or other securities of Redbubble or permit any member of the Group to do any of the foregoing, without the prior written consent of the Joint Lead Managers (which is not to be unreasonably withheld) subject to certain limited exceptions, including an issue of securities pursuant to an employee share or option plan described in this Prospectus, or the issue of securities on the conversion or exercise of securities issued under the foregoing plan or in existence as at the date of the Underwriting Agreement.

In addition, Redbubble undertakes that it and each member of the Group will, in the same period, carry on its business in the ordinary course, and will not dispose of, or agree to dispose of, the whole or any part of its business or its property (except in the ordinary course of business or as disclosed in this Prospectus).

#### 9.1.1.3. Indemnity

Subject to certain exclusions relating to, among other things, fraud, bad faith, recklessness, wilful misconduct, wilful default or negligence of an indemnified party, Redbubble and SaleCo agree to keep the Joint Lead Managers and certain affiliated parties indemnified from losses suffered in connection with the Offer.

#### 9.1.1.4. Termination events

If any of the following termination events occurs before Completion of the Offer, a Joint Lead Manager may immediately terminate the Underwriting Agreement without cost or liability to itself so that it is relieved of all of its obligations under the Underwriting Agreement:

(a) a statement contained in the Prospectus is or becomes misleading or deceptive, or a matter required by Part 6D.2 of the Corporations Act to be included in the Prospectus is omitted from the Prospectus;

(b) any forecast that appears in the Prospectus is, or becomes (in the reasonable opinion of the relevant Joint Lead Manager) incapable of being met within the relevant forecast period;

(c) Redbubble is prevented from allotting or issuing the New Shares or SaleCo is prevented from transferring the Existing Shares within the time required by the Underwriting Agreement, the Prospectus, the ASX Listing Rules, the ASX Settlement Operating Rules or by any other applicable laws, under an order of a court of competent jurisdiction or a requirement of a governmental agency;

(d) the S&P/ASX 200 Index published by the ASX falls to a level that is 90% or less of the level as at 5pm on the Business Day immediately prior to the date of the Underwriting Agreement and remains at or below that level at 5pm:

  (i) for at least three consecutive Business Days after the date of the Underwriting Agreement; or

  (ii) on the Business Day immediately prior to the date on which settlement of the Offer occurs;



(e) Redbubble and/or SaleCo lodge a supplementary prospectus that has not been approved by the Joint Lead Managers, or the Joint Lead Managers form the view that a supplementary prospectus must be lodged with ASIC to comply with section 719 of the Corporations Act;

(f) in the opinion of the relevant Joint Lead Manager (acting reasonably), there is a material adverse change or effect, or any development involving a prospective material adverse change or effect, in or affecting the assets, liabilities, financial position or performance, profits, losses or prospects of the Group (taken as a whole);

(g) Redbubble and/or SaleCo withdraw the Prospectus or all or any part of the Offer or indicate that they do not intend to proceed with the Offer or any part of the Offer;

(h) any of the following notifications are made in respect of the Offer (other than a notification that is not made public and that is withdrawn by the earlier of three Business Days after it is made or prior to 9am on the date on which settlement of the Offer occurs):

  (i) ASIC issues an order (including an interim order) under section 739 of the Corporations Act;

  (ii) ASIC holds a hearing under section 739(2) of the Corporations Act;

  (iii) an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Offer or one or more of the Offer Documents;

  (iv) ASIC commences any investigation or hearing under Part 3 of the Australian Securities and Investments Commission Act 2001 (Cth) in relation to the Offer or an Offer Document;

  (v) any person (other than a Joint Lead Manager) who has previously consented to the inclusion of its name in the Prospectus withdraws that consent;

  (vi) any person (other than a Joint Lead Manager) gives a notice to Redbubble and/or SaleCo under section 730 of the Corporations Act in relation to the Prospectus; or

  (vii) any other governmental agency takes an action similar or analogous to those described in paragraphs (i) to (iv) above;

(i) any member of the Group or SaleCo engages, or has engaged since the date of the Underwriting Agreement, in fraudulent conduct or activity, whether or not in connection with the Offer;

(j) unconditional approval (or conditional approval subject only to customary conditions or such other conditions that are acceptable to the Joint Lead Managers, acting reasonably) is refused or not granted for:

(i) the admission of Redbubble to the Official List; or

(ii) the official quotation of all of the Shares,

on or before 11 May 2016, or if granted, the approval is subsequently withdrawn (without immediate replacement), qualified (other than by customary conditions or such other conditions that are acceptable to the Underwriters, acting reasonably) or withheld, or ASX indicates to Redbubble that approval is likely to be withdrawn, qualified (other than by customary conditions or such other conditions that are acceptable to the Joint Lead Managers, acting reasonably) or withheld;

(k) Redbubble varies any term of the Constitution without the prior written consent of the Joint Lead Managers;

(l) without the prior written consent of the Joint Lead Managers (such consent not to be unreasonably withheld or delayed), Redbubble alters the issued share capital of Redbubble or a member of the Group, or disposes, or attempts to dispose of, a substantial part of the business or property of Redbubble or a member of the Group;

(m) any member of the Group or SaleCo becomes insolvent, or an act occurs or an omission is made which is likely to result in a member of the Group or SaleCo becoming insolvent;

(n) any event specified in the timetable set out in the Underwriting Agreement is delayed for more than three Business Days, other than any delay that is agreed between Redbubble, SaleCo and the Joint Lead Managers;

(o) Redbubble or SaleCo does not provide a closing certificate as and when required by the Underwriting Agreement; or

(p) any of the ASIC modifications or ASX waivers are withdrawn, revoked or amended without the prior written approval of a Joint Lead Manager.

#### 9.1.1.5. Termination events subject to materiality



If any of the following termination events occurs before the date of Completion of the Offer, a Joint Lead Manager may immediately terminate the Underwriting Agreement without cost or liability to itself so that it is relieved of all of its obligations under the Underwriting Agreement, so long as the termination event (in the reasonable opinion of the Joint Lead Manager):

- has had or is likely to have a material adverse effect on:
  - the ability of that Joint Lead Manager to promote the Offer;
  - the willingness of persons to apply for, or settle obligations to subscribe for, the Shares under the Offer; or
  - the price or likely price at which Shares are likely to trade on the ASX following the date on which the Shares are expected to commence trading on a deferred settlement basis; or
- has given or is likely to give rise to:
  - a contravention by that Joint Lead Manager of, or that Joint Lead Manager being involved in a contravention of, the Corporations Act or any other applicable law; or
  - a liability of that Joint Lead Manager.

The termination events are:

(a) the report of the due diligence committee established in connection with the Offer, the verification materials or any other information supplied by or on behalf of Redbubble or SaleCo to the Joint Lead Managers in relation to the Group or the Offer (including information supplied prior to the date of the Underwriting Agreement) is or becomes false or misleading or deceptive, including by way of omission;

(b) a representation, warranty or undertaking contained in the Underwriting Agreement on the part of Redbubble or SaleCo is breached, becomes not true or correct or is not performed;

(c) Redbubble or SaleCo fails to comply with one or more of its obligations under the Underwriting Agreement;

(d) a statement in a closing certificate furnished under the Underwriting Agreement is untrue, incorrect or misleading or deceptive (including by omission);

(e) any of the Offer Documents or any aspect of the Offer does not comply with the Corporations Act, the Constitution, the ASX Listing Rules or any other applicable law;

(f) any:

(i) Director or SaleCo Director is charged with an indictable offence;

(ii) governmental agency commences any public action against Redbubble or SaleCo or any Director and SaleCo Director, or announces that it intends to take any such action; or

(iii) Director or SaleCo Director is disqualified from managing a corporation under Part 2D.6 of the Corporations Act;

(g) any of the voluntary escrow arrangements are breached, varied, terminated, rescinded, altered or amended without the prior written consent of the Joint Lead Managers or found to be void, voidable or otherwise non-binding;

(h) any of the deed polls in respect of the sale of the Existing Shares are breached, varied, terminated, rescinded, altered or amended without the prior written consent of the Joint Lead Managers or found to be void, voidable or otherwise non-binding;

(i) in respect of any one or more of Australia, New Zealand, the United States, Japan, the United Kingdom, the People's Republic of China, Singapore, Hong Kong, Russia or any member state of the European Union:

(i) hostilities not presently existing commence (whether or not war has been declared);

(ii) a major escalation in existing hostilities occurs (whether or not war has been declared);

(iii) a declaration is made of a national emergency or war; or

(iv) a significant terrorist act is perpetrated in any of those countries or a diplomatic, military or political establishment of any of those countries elsewhere in the world;



(j) there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of the Australia, the United States, the United Kingdom or any State or Territory of Australia a new law, or the Reserve Bank of Australia or any Commonwealth or State authority adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the Underwriting Agreement);

(k) any of the following occurs:

(i) any adverse effect on the financial markets in Australia, the United Kingdom or the United States, or in foreign exchange rates or any development involving a prospective change in political, financial or economic conditions in any of those countries;

(ii) a general moratorium on commercial banking activities in Australia, the United Kingdom or the United States is declared by the relevant central banking authority in any of those countries, or there is a disruption in commercial banking or security settlement or clearance services in any of those countries; or

(iii) trading in all securities quoted or listed on ASX, the London Stock Exchange or the New York Stock Exchange is suspended for at least one day on which that exchange is open for trading; or

(l) a change in the Directors, SaleCo Directors or senior management occurs, or a Director, a SaleCo Director, or any member of senior management dies or becomes permanently incapacitated.

## 9.2. Incorporation

Redbubble was incorporated in Victoria, Australia, on 10 April 2006 as a proprietary company limited by shares and was converted to a public company limited by shares on 9 January 2015.

SaleCo was incorporated in Victoria, Australia, on 21 March 2016 as a public company limited by shares.

## 9.3. Sale of Shares by SaleCo

SaleCo, a special purpose vehicle, has been established to facilitate the sale of Existing Shares by the Selling Shareholders.

SaleCo has no material assets, liabilities or operations other than its interest in the deed polls. The Directors of SaleCo are Richard Cawsey, Martin Hosking and Grant Murdoch, each of whom are Directors of Redbubble. The sole shareholder of SaleCo is Martin Hosking. Redbubble has indemnified SaleCo and the SaleCo Directors for any loss which SaleCo or the SaleCo Directors may incur as a consequence of the Offer.

## 9.4. Capital structure

### 9.4.1. Capital structure as at the date of Prospectus

As at the date of this Prospectus, the Company has on issue the securities set out below.

| Securities | Number |
|---|---|
| Shares | 145,429,196 |
| Cumulative Redeemable Preference Shares | 476,774 |
| Convertible Notes | 122,500 |
| Options | In respect of 19,617,338 unissued Shares |
| Performance Rights | 5,740,244 |
| Warrants | 16,364, in respect of 654,560 unissued Shares |



#### 9.4.1.1. Cumulative Redeemable Preference Shares

The Cumulative Redeemable Preference Shares (**CRPS**) were issued in May 2015. Each CRPS has a face value of $32.51 and accrues interest at a rate of 5% per annum.

The CRPS will convert into Shares upon admission of Redbubble to the Official List in connection with the Offer. The number of Shares into which CRPS will convert will be determined by dividing the aggregate of the face value of the CRPS ($32.51) and any accrued but unpaid interest by $0.81275 (subject to rounding).

Based on the indicative timetable for the Offer, the CRPS will convert into 20,022,554 Shares.

#### 9.4.1.2. Pre-IPO Convertible Notes

The Pre-IPO Convertible Notes (**Convertible Notes**) were issued in March 2016. Each Note represents an unsecured obligation of the Company to repay the face value of the Convertible Note ($100), together with any accrued but unpaid interest. No interest will accrue in respect of the Convertible Notes if the Company completes an initial public offering and is admitted to the Official List by September 2016.

The Convertible Notes will convert into Shares upon admission of Redbubble to the Official List in connection with the Offer. Based on the indicative timetable for the Offer, the number of Shares into which the Convertible Notes will convert will be determined by dividing the aggregate of the face value of the Convertible Notes ($12.25 million) by the discounted Offer Price ($1.197) (subject to rounding). Accordingly, the Convertible Notes will convert into 10,233,919 Shares.

#### 9.4.1.3. Options

The Company has granted options in respect of unissued Shares (**Options**) to executives and employees under the Employee Equity Plans described in Section 6.3.2.5 and various other employee incentive arrangements.

Some Options have already vested and the remaining Options are subject to time based vesting conditions, with the last of the Options vesting in 2026.

Vesting of Options is generally conditional upon the holder of the Options remaining employed by the Redbubble group as at the applicable vesting date. Further, if a holder of Options ceases to be employed by the Redbubble group, the exercise period in respect of any vested Options held by them will generally be shortened. The Board has the discretion to determine that some or all of an employee's unvested Options will vest on an accelerated basis if there is a change of control of the Company.

Details of the Options on issue are as follows:

| Exercise price per Share | Number of Shares the subject of Options | Expiry Date |
|---|---|---|
| $0.05 | 720,000 | 1 March 2017 |
| $0.125 | 467,200 | 21 July 2017 |
| $0.05 | 720,000 | 1 October 2017 |
| $0.1375 | 1,600,200 | 1 October 2018 |
| $0.37475 | 731,520 | 12 May 2021 |
| $0.4805 | 400,000 | 1 July 2024 |
| $0.4805 | 2,056,000 | 1 October 2024 |
| $0.5085 | 340,000 | 28 January 2025 |
| $0.5085 | 3,403,200 | 5 March 2025 |
| $0.7475 | 200,000 | 1 April 2025 |
| $0.5085 | 400,000 | 14 May 2025 |
| $0.7475 | 160,000 | 29 June 2025 |
| $0.85375 | 915,958 | 1 October 2025 |
| nil | 335,000 | 1 November 2025 |
| $0.7475 | 480,000 | 1 November 2025 |
| $0.85375 | 4,234,000 | 1 November 2025 |
| nil | 658,720 | 1 December 2025 |
| $0.85375 | 238,000 | 1 December 2025 |
| $1.20425 | 1,200,000 | 14 December 2025 |
| nil | 89,540 | 1 February 2026 |
| $1.20425 | 28,000 | 1 February 2026 |
| $1.20425 | 240,000 | 1 March 2026 |
| **Total** | **19,617,338** | |



#### 9.4.1.4. Performance Rights

The Company has granted performance rights (also referred to as Restricted Stock Units) (**Performance Rights**) to executives and employees under the Employee Equity Plans described in Section 6.3.2.5 and various other employee incentive arrangements. Each Performance Right entitles the holder to receive one Share for no consideration, subject to the satisfaction of prescribed performance and time based vesting conditions.

Details of the Performance Rights on issue are set out in the table below. As shown in the table, some Performance Rights remain subject to performance (as well as time) based vesting conditions, while others will vest upon Completion of the Offer. The remaining Performance Rights are subject to time based vesting conditions, and will progressively vest from Completion of the Offer, with the last of the Performance Rights vesting in November 2019.

| | |
|---|---|
| Performance Rights that will vest (and convert into Shares) upon Completion of the Offer | 3,010,618 |
| Performance Rights that will remain subject to time based vesting conditions following Completion of the Offer | 2,729,626 |

Vesting of Performance Rights is generally conditional upon the holder of the Performance Rights remaining employed by the Redbubble group as at the applicable vesting date. However, in most cases the Board has a general discretion to determine that some or all of an employee's unvested Performance Rights will vest notwithstanding cessation of employment (for example, where the employee is a 'good leaver'). The Board also has the discretion to determine that some or all of an employee's unvested Performance Rights will vest on an accelerated basis if there is a change of control of the Company.

#### 9.4.1.5. Warrants

In December 2012, the Company issued 16,364 Warrants (effectively options to subscribe for Shares) to Denali Capital Managers Pty Ltd, an entity associated with Richard Cawsey, as consideration for Denali providing a loan facility to the Company (see Section 6.3.4).

Each Warrant has an exercise price of $5.50 and collectively the Warrants entitle the holder to be issued 654,560 Shares upon exercise (with each Warrant entitling the holder to receive 40 Shares on exercise, which gives an effective issue price of $0.1375 per Share). The Warrants may be exercised at any time up to and including 31 December 2016.

### 9.4.2. Pro forma capital structure as at Completion of the Offer

The table below shows the pro forma capital structure of the Company as at Completion of the Offer, reflecting the following assumptions:

(a) the issue of 22,556,391 New Shares pursuant to the Offer;

(b) the conversion of the CRPS and Convertible Notes into Shares, as discussed above;

(c) the issue of Shares as a result of the vesting of Performance Rights upon Completion of the Offer; and

(d) none of the Options or Warrants that have vested, or that will vest as a result of successful Completion of the Offer, have been exercised. (If any vested options or warrants are exercised, the number of Shares on issue would increase and the number of outstanding options and warrants would decrease.)



| Securities | Number |
|---|---|
| Shares | 201,252,678 |
| Options | In respect of 19,617,338 unissued Shares |
| Performance Rights | 2,729,626 |
| Warrants | 16,364, in respect of 654,560 unissued Shares |

Further information regarding the effect of the Offer on the Company's capital structure is set out in Section 7.1.4.

## 9.5. Corporate structure

As at the date of this Prospectus, Redbubble has two wholly-owned subsidiaries. The names and the nature of their business is set out below.

| Name of subsidiary | Nature of business of subsidiary |
|---|---|
| Redbubble Inc. | Operating entity incorporated in the United States |
| Redbubble Europe Limited | Non-operating entity incorporated in England and Wales |

## 9.6. Litigation and claims

As at the date of this Prospectus, there have been three lawsuits filed against the Company since its inception. The Company is currently engaged in one court proceeding with Hells Angels Motorcycle Corporation (Australia) Pty Ltd (**Hells Angels**) in the Federal Court of Australia. Hells Angels have alleged that the Company has committed copyright infringement, trade mark infringement and has contravened the Australian Consumer Law. While the Company has attempted to set up all aspects of its business with the intention of complying with all relevant laws and is currently defending all claims made by Hells Angels, litigation is inherently uncertain and there is a risk that the case may result in an unfavourable judgment if Redbubble's defence of the claim is unsuccessful (in whole or in part). It is not presently possible for Redbubble to provide any reliable assessment of the likely quantum of damages that may become payable or the extent of any other relief (such as declarations or injunctions) that the Court may order. It is possible that any such orders may have a material adverse impact on the Company's business, financial performance and operations.

The Company has also been served with proceedings commenced by Pokémon Company International (**Pokémon**) in the Federal Court of Australia. Pokémon has alleged that the Company has committed copyright infringement and has contravened the Australian Consumer Law. As noted in relation to the proceedings brought by Hells Angels, the Company has attempted to set up all aspects of its business with the intention of complying with all relevant laws and intends to defend all claims made by Pokémon, but it is possible that Redbubble may be unsuccessful (in whole or in part). It is not presently possible for Redbubble to provide any reliable assessment of the likely quantum of damages that may become payable or the extent of any other relief (such as declarations or injunctions) that the Court may order. It is possible that any such orders may have a material adverse impact on the Company's business, financial performance and operations.

So far as the Directors are aware, there are no other current or threatened civil litigation proceedings, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions of a material nature in which Redbubble is directly or indirectly concerned which is likely to have a material adverse effect on the business or financial position of Redbubble.



## 9.7. Consents to be named and disclaimers of responsibility

Each of the following parties (each a **Consenting Party**) has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named:

- Canaccord Genuity (Australia) Ltd;
- Morgans Corporate Limited;
- EM Advisory Pty Ltd;
- Allens;
- Ernst & Young;
- Ernst & Young Transaction Advisory Services Limited;
- ShineWing Australia; and
- Link Market Services Limited.

Each of the Consenting Parties, to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, makes no representations regarding and takes no responsibility for any statements in or omissions from this Prospectus, other than the reference to its name in the form and context in which it is named and a statement or report included in this Prospectus with its consent as specified below.

Each of the Consenting Parties has not authorised or caused the issue of this Prospectus, and makes no representation or warranty, express or implied, as to the fairness, accuracy or completeness of the information contained in this Prospectus. Each Consenting Party excludes and disclaims all liability or any damage, loss (whether direct, indirect or consequential), cost or expense that may be incurred by you as a result of this Prospectus being inaccurate or incomplete in any way for any reason.

None of the Consenting Parties has made, or purported to make, any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, other than as specified below:

- Ernst & Young has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to the being named in this Prospectus as auditor to Redbubble in respect of FY2015 in the form and context in which it is named;
- ShineWing Australia has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to the being named in this Prospectus as auditor to Redbubble in respect of FY2013 and FY2014 in the form and context in which it is named; and
- Ernst & Young Transaction Advisory Services Limited has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to the inclusion in this Prospectus of its Independent Limited Assurance Report on the Financial Information in Section 8 in the form and context in which it is included.

## 9.8. Description of the syndicate

The Joint Lead Managers to the Offer are Canaccord Genuity (Australia) Ltd and Morgans Corporate Limited.

## 9.9. Taxation considerations

The comments in this Section provide a general outline of Australian tax issues for Australian tax resident Shareholders who acquire ordinary shares under this Prospectus and that hold Shares in the Company on capital account for Australian income tax purposes. The categories of Shareholders considered in this summary are limited to individuals, companies (other than life insurance companies), trusts, partnerships and complying superannuation funds that hold their shares on capital account.

This summary does not consider the consequences for foreign resident Shareholders, insurance companies, banks and Shareholders that hold their Shares on revenue account or carry on a business of trading in shares, or Shareholders who are exempt from Australian tax. This summary also does not cover the consequences for Shareholders who are subject to the Taxation of Financial Arrangements rules contained in Division 230 of the Income Tax Assessment Act 1997 (Cth).



The summary in this Section is general in nature and is not exhaustive of all income tax consequences that could apply in all circumstances of any given Shareholder. The individual circumstances of each Shareholder may affect the taxation implications of the investment of the Shareholder.

It is recommended that all Shareholders consult their own independent tax advisers regarding the income tax consequences, including capital gains tax, stamp duty and Australian goods and services tax consequences of acquiring, owning and disposing of Shares, having regard to their specific circumstances.

The summary in this Section is based on the relevant Australian tax law in force, established interpretations of that law and understanding of the practice of the relevant tax authority at the time of issue of this Prospectus. The summary does not take into account the tax law of countries other than Australia.

Tax laws are complex and subject to ongoing change. The tax consequences discussed in this section does not take into account or anticipate any changes in law (by legislation or judicial decision) or any changes in the administrative practice or interpretation by the relevant tax authorities. If there is a change, including a change having retrospective effect, the income tax, stamp duty and GST consequences should be reconsidered by Shareholders in light of the changes. The precise implications of ownership or disposal of the Shares will depend upon each Shareholder's specific circumstances.

This summary does not constitute financial product advice as defined in the Corporations Act. This summary is confined to Australian taxation issues and is only one of the matters which needs to be considered by Shareholders before making a decision about their investments. Shareholders should consider taking advice from a licenced advisor, before making a decision about their investment to acquire shares under this Prospectus.

The Company and its advisers disclaim all liability to any Shareholder or other party for all costs, losses, damages and liabilities that the Shareholder or other party may suffer or incur arising from or relating to or in any way connected

with the contents of this summary or the provision of this summary to the Shareholder or any other party or the reliance on it by the Shareholder or any other party.

### 9.9.1 Income tax treatment of dividends received for Australian resident Shareholders

#### 9.9.1.1 Australian tax resident individuals and complying superannuation entities

Where dividends on a Share are paid by the Company, those dividends should constitute assessable income of an Australian tax resident Shareholder. Australian tax resident Shareholders who are individuals or complying superannuation entities should include the dividend in their assessable income in the year the dividend is paid, together with any franking credits attached to that dividend.

The rate of tax payable by each Australian Shareholder that is an individual will depend on the individual circumstances of the Shareholder and his or her prevailing marginal rate of income tax.

Shareholders who are individuals or complying superannuation entities should be entitled to a 'tax offset' equal to the franking credits attached to the dividend, subject to being a 'qualified person' (refer further comments below). The tax offset can be applied to reduce the tax payable on the Shareholder's taxable income. Where the tax offset exceeds the tax payable on the Shareholder's taxable income, such Shareholders should be entitled to a tax refund.

Where a dividend paid by the Company is unfranked, the Shareholder should generally be taxed at his or her prevailing marginal rate on the dividend received, with no tax offset.

#### 9.9.1.2 Australian tax resident corporate shareholders

Corporate Shareholders are also required to include both the dividend and associated franking credits in their assessable income. A tax offset should then be allowed up to the amount of the franking credits on the dividend.

An Australian resident corporate Shareholder should be entitled to a credit in its own franking account to the extent of the franking credits attached to the dividend received. Such corporate Shareholders can pass on the benefit of the franking credits to their own shareholder(s) on the payment of franked dividends.



Excess franking credits received by a corporate Shareholder cannot give rise to a refund, but may in certain circumstances be converted into carry forward tax losses.

#### 9.9.1.3 Australian tax resident trusts and partnerships

Australian tax resident Shareholders who are trustees (other than trustees of 'complying superannuation entities') or partnerships should include the dividend and franking credits in determining the net income of the trust or partnership. A beneficiary, trustee or partner may be entitled to a tax offset equal to the beneficiary's or partner's share of the net income of the trust or partnership as the case may be.

#### 9.9.1.4 Australian tax resident shares held 'at risk'

To be eligible for the benefit of franking credits and tax offset, a Shareholder must satisfy both the 'holding period' and 'related payment' rules. This requires that a Shareholder hold the Shares in the Company 'at risk' for more than 45 days continuously (not including the date of acquisition and disposal).

Any day on which a Shareholder has a materially diminished risk of loss or opportunity for gain in respect of the Shares (e.g. through transactions such as granting options or warrants over Shares or entering into a contract to sell the Shares) will not be counted as a day on which the Shareholder held the Shares 'at risk'. In addition, a Shareholder must not be obliged to make a 'related payment' in respect of any dividend, unless they hold the Shares 'at risk' for the required holding period.

Where these rules are not satisfied, the Shareholder will not include an amount for the franking credits in their assessable income and should not be entitled to a tax offset.

This holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed $5,000. Special rules apply to trusts and beneficiaries.

Shareholders should obtain their own professional tax advice to determine if these requirements, as they apply to them, have been satisfied.

Shareholders should also consider the impact of the integrity measures relating to the denial of franking tax offsets to certain 'distribution washing' arrangements. These integrity measures apply to distributions, including dividends, paid on or after 1 July 2013. Shareholders should have regard to these 'distribution washing' measures together with the broader integrity provisions that apply to the claiming of tax offsets, having regard to their own facts and circumstances.

### 9.9.2 Australian capital gains tax implications for Australian tax resident Shareholders on a disposal of Shares

The disposal of a Share by a Shareholder will be a CGT event. A capital gain should arise where the 'capital proceeds' on disposal exceed the 'cost base' of the share (broadly, the amount paid to acquire the share plus any transaction costs incurred in relation to the acquisition or disposal of the shares). In the case of an 'arm's length' on-market sale, the capital proceeds should generally be the cash proceeds received from the sale of the shares.

A CGT discount may be applied against the net capital gain where the Shareholder is an individual, complying superannuation entity or trustee, and the Shares have been held for at least 12 months prior to the CGT event. Where the CGT discount applies, any capital gain arising to individuals and entities acting as Trustees (other than a trust that is a complying superannuation entity) may be reduced by one-half after offsetting current year or prior year capital losses. For a complying superannuation entity, any capital gain may be reduced by one-third, after offsetting current year or prior year capital losses.

Where the Shareholder is the trustee of a trust that has held the Shares for at least 12 months before disposal, the CGT discount may flow through to the beneficiaries of the trust if those beneficiaries are not companies or non-residents. Shareholders that are trustees should seek specific advice regarding the tax consequences of distributions to beneficiaries who may qualify for discounted capital gains.

A capital loss should be realised where the reduced cost base of the share exceeds the capital proceeds from disposal. Capital losses may only be offset against capital gains realised by the Shareholder in the same income year or future income years, subject to certain loss recoupment tests being satisfied. Capital losses cannot be offset against other forms of assessable income.



### 9.9.3 Tax File Numbers

Shareholders are not required to quote their Tax File Number, or, where relevant, Australian Business Number to the Company. However, if a valid TFN, a valid ABN or exemption details are not provided, Australian tax may be required to be deducted by the Company from distributions and/or unfranked dividends at the maximum marginal tax rate plus any relevant levy (for example, the Medicare levy). Australian tax should not be required to be deducted by the Company in respect of fully franked dividends.

A Shareholder that holds Shares as part of an enterprise may quote their ABN instead of their TFN. Non-residents are exempt from this requirement.

### 9.9.4 Stamp duty

Shareholders should not be liable for stamp duty in respect of the acquisition of their Shares, unless they acquire, either alone or with an associated/related person, an interest of 90% or more in the Company. Under current stamp duty legislation, no stamp duty would ordinarily be payable by Shareholders on any subsequent transfer of their Shares while the Company remains listed.

### 9.9.5 Australian Goods and Services Tax

No GST should be payable by Shareholders in respect of the acquisition or disposal of their Shares in the Company, regardless of whether or not the Shareholder is registered for GST.

Shareholders may not be entitled to claim full input tax credits in respect of any GST included in the costs they have incurred in connection with their acquisition of the Shares. Separate GST advice should be sought by Shareholders in this respect relevant to their particular circumstances.

No GST should be payable by Shareholders on receiving dividends distributed by the Company.

## 9.10. Privacy

Redbubble and the Share Registry on its behalf, will collect, hold and use personal information to process your application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration. Once you have become a Shareholder, the Corporations Act requires that information about you (including your name, address and details of the Shares you hold) are included in Redbubble's share register. The information must continue to be included in Redbubble's share register if you cease to be a Shareholder. If you do not provide all the information requested, your Application Form may not be able to be processed.

Redbubble and the Share Registry may disclose your personal information for purposes or matters related to your investment to their agents and service providers including the following or as otherwise authorised under the Privacy Act 1988 (Cth): (i) the Share Registry for ongoing administration of the Redbubble share register, (ii) the Joint Lead Managers in order to assess your application, (iii) printers and other companies for the purpose of preparation and administration of documents and for handling mail, (iv) market research companies for the purpose of analysing the Shareholder base and for product development and planning, and (v) legal and accounting firms, auditors, management consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

You may request access to your personal information held by or on behalf of Redbubble. You can request access to your personal information or obtain further information about Redbubble's privacy practices by contacting the Share Registry. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. Redbubble aims to ensure that the personal information it retains about you is accurate, complete and up-to-date. To assist with this, please contact the Share Registry if any of the details you have provided change. In accordance with the requirements of the Corporations Act, information on the share register will be accessible by members of the public.



## 9.11. Compliance Offer

In addition to the Offer, this Prospectus also relates to an offer to nominated employees of the Company for the issue of up to a further 10 Shares (the **Compliance Offer**). The Compliance Offer opens on the closing date of the Broker Firm Offer and will close 10 Business Days after the commencement of trading of Shares on the ASX (or on any earlier date that the Board determines). The Company reserves the right not to accept any applications in respect of the Compliance Offer.

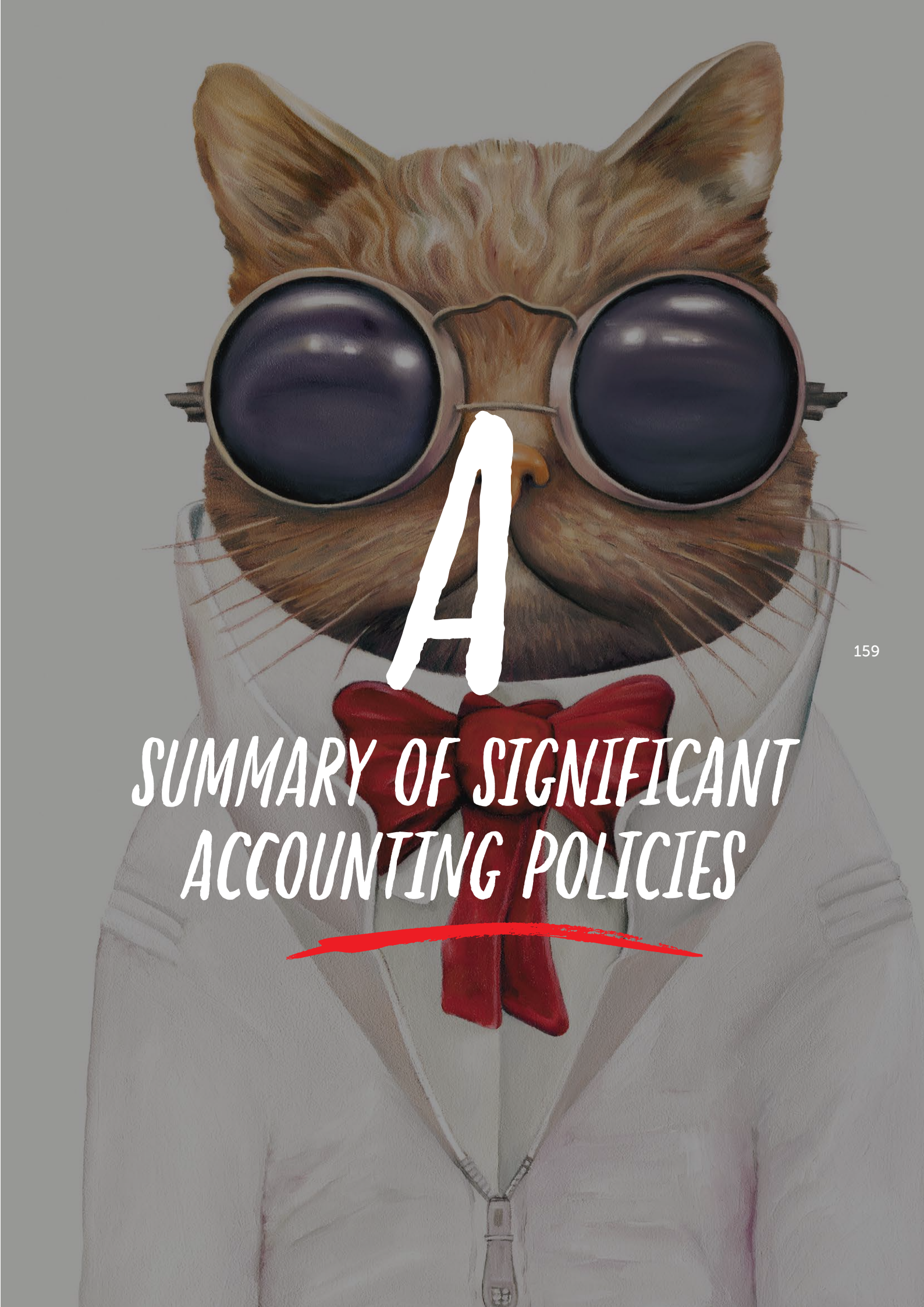
As noted in Sections 9.4.1.1 and 9.4.1.2, Shares will be issued as a result of the conversion of the CRPS and Convertible Notes upon admission of the Company to the Official List in connection with the Offer. The existence of the Compliance Offer will enable holders of those Shares to rely on the exception (contained in section 708A(11) of the Corporations Act) to the on-sale restrictions in section 707(3) of the Corporations Act that would otherwise limit the ability of those holders to sell their Shares in the 12 month period after their date of issue.

## 9.12. Governing law

This Prospectus and the contracts that arise from the acceptance of the applications and bids under this Prospectus are governed by the law applicable in Victoria and each applicant and bidder submits to the exclusive jurisdiction of the courts of Victoria.

## 9.13. Statement of Directors

The issue of this Prospectus has been authorised by each Director and each SaleCo Director. Each Director and each SaleCo Director has consented to the lodgement of the Prospectus with ASIC and has not withdrawn that consent.



# A

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

# A Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the Financial Information are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

### (a) Basis of preparation

Compliance with the Australian Accounting Standards ensures that the Financial Information complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Financial Information has been prepared under the historical cost convention.

*New, revised or amending Accounting Standards adopted*

Redbubble has adopted all of the new recognition and measurement requirements, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory as at 31 December 2015.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. Redbubble is evaluating its revenue recognition policy under the Australian Accounting Standards Board (AASB) 15 – Revenue from Contracts with Customers. A one-year deferral of the operative date of AASB 15 to 1 January 2018 has now been implemented with the release of AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15. At 31 December 2015 Redbubble is assessing the impact of the new AASB 15.

### (b) Principles of consolidation



The Financial Information comprises the financial statements of Redbubble Limited and its consolidated subsidiaries as at and for each of the periods disclosed.

Subsidiaries are all entities (including structured entities) over which Redbubble has control. Control is established when Redbubble is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date on which Redbubble gains control. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains or losses on transactions between Redbubble entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by Redbubble.

The audited 2015 financial statements lodged with ASIC contain further information on Redbubble's subsidiaries.

### (c) Foreign currency transaction

*(i) Functional and presentation currency*

The functional currency of each of Redbubble's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

*(ii) Transaction and balances*

Transactions in foreign currencies are initially recorded by Redbubble's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

At the end of the reporting period:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value are translated using the rate at the date when fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in prior reporting periods are recognised through profit or loss, except where they relate to an item of other comprehensive income.

*(iii) Redbubble companies*

The results and financial position of all Redbubble entities that have a functional currency different from the presentation currency are translated into the presentation currency (none of which has the currency of a hyperinflationary economy) as follows:

- Assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates; and
- All resulting exchange differences are recognised in other comprehensive income.

(d) Revenue recognition

*(i) Revenue from rendering of services*

Redbubble provides an internet based marketplace platform and associated logistics services to facilitate the sale of goods from artists to those who want to purchase goods bearing the artists designs. A community of artists display and sell art via Redbubble's website. Redbubble aggregates demand from the buyers to support preferential relationships between third party manufacturers and drop shippers and the artist community, using Redbubble's platform.

Revenue from services provided in connection with facilitating the sale of goods is recognised when the amount can be measured reliably at the value of the consideration received or receivable. Redbubble is acting as the artists' agent in arranging for the selling of the artist's goods to customers. The amounts collected on behalf of artists are not recognised in the income statement. The revenue recognised by Redbubble is effectively the cost of fulfilment and shipment plus Redbubble's margin.



Amounts disclosed as revenue are net of trade discounts, returns, rebates, taxes and fraud.

*(ii) Finance income*

Finance income is recognised on a time proportion basis using the effective interest method (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

(e) Government grants

Grants from government are recognised at the fair value when there is reasonable assurance that the grant will be received and the consolidated entity has complied with the required conditions. Grants relating to expense items are recognised as income over the periods necessary to match the grant to costs they are compensating.

(f) Income tax

The tax expense recognised in the statement of comprehensive income relates to current income tax expense plus deferred tax expense (being the movement in deferred tax assets and liabilities and unused tax losses during the year).

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for the year and is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided on temporary differences which are determined by comparing the carrying amounts of tax bases of assets and liabilities to the carrying amounts in the consolidated financial statements.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised.

Current tax assets and liabilities are offset where there is a legally enforceable right to set off the recognised amounts and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset where there is or would be a legal right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Current and deferred tax is recognised as income or an expense and included in profit or loss for the period except where the tax arises from a transaction which is recognised in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income or equity respectively.

### (g) Property, plant and equipment

Plant and equipment are measured on the cost basis and are therefore carried at cost less accumulated depreciation and any accumulated impairment losses.

*Depreciation*

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to Redbubble commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable asset are shown below



| Class of Fixed Assets | Useful life |
|---|---|
| Leasehold improvements | Life of lease |
| Computer equipment | 3 years |
| Furniture and equipment | 2-5 years |

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

### (h) Intangible assets other than goodwill

*Capitalised development costs*

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably.

Capitalised development costs have a finite useful life and are amortised on a straight-line basis based on the future economic benefits over the useful life of the project, typically between 2-5 years.

### (i) Impairment of non-financial assets

At the end of each reporting period, Redbubble assesses whether there is any indication that an asset may be impaired. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to dispose, and value in use to the asset's carrying amount.

Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116: Property, Plant and Equipment). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, Redbubble estimates the recoverable amount of the cash-generating unit to which the asset belongs.

### (j) Inventories

Inventories of packing materials are measured at the lower of cost and net realisable value. Cost of inventory is determined using the first-in-first-out basis and are net of any rebates and discounts received.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the costs necessary to make the sale. Net realisable value is estimated using the most reliable evidence available at the reporting date and inventory is written down through an obsolescence provision if necessary.

### (k) Financial assets

Loans, trade and other receivables and other financial assets do not include derivative financial assets without fixed or determinable payments that are quoted in an active market.

After initial recognition these are measured at amortised cost using the effective interest method. Any change in their value is recognised in profit or loss.

Collectability of financial assets is reviewed on an ongoing basis. Financial assets which are known to be uncollectible are written off by reducing the carrying amount directly.

### (l) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and short term deposits which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

### (m) Trade and other payables

Trade and other payables represent the liabilities for goods and services received by Redbubble that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.



### (n) Employee benefits

*(i) Wages, salaries, annual and long service leave*

Provision is made for Redbubble's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits expected to be settled more than twelve months after the end of the reporting period have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Cash flows are discounted using market yields on corporate bonds with terms to maturity that match the expected timing of cash flows.

Changes in the measurement of the liability are recognised in profit or loss.

Employee benefits are presented as current liabilities in the balance sheet if Redbubble does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date regardless of the classification of the liability for measurement purposes under AASB 119.

*(ii) Defined contribution schemes*

Obligations for contributions to defined contribution superannuation plans are recognised as an employee benefit expense in profit or loss in the periods in which services are provided by employees.

*(iii) Termination benefits*

Termination benefits are those benefits paid to an employee as a result of either the entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

Termination benefits are recorded as a provision when the entity can no longer withdraw the offer of those benefits.

### (o) Leases

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

### (p) Goods and Services Tax (GST), Value Added Tax (VAT) and Sales Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), value added tax (VAT) and sales tax, except where the amount of GST, VAT and sales tax incurred is not recoverable from the Australian Taxation Office (ATO) or other similar International bodies.

Receivables and payable are stated inclusive of GST, VAT and sales tax.

The net amount of GST, VAT and sales tax recoverable from, or payable to, the ATO or other similar International bodies is included as part of receivables or payables in the statement of financial position.

The statement of cash flows includes cash on a gross basis and the GST, VAT and sales tax component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

US operations are subject to sales tax and UK operations are subject to VAT.

### (q) Equity-settled compensation

Redbubble operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account.

The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The amount to be expensed is determined by reference to the fair value of the options or shares granted, this expense takes into account any market performance conditions and the impact of any non-vesting conditions but ignores the effect of any service and non-market performance vesting conditions. Non-market vesting conditions are taken into account when considering the number of options expected to vest and at the end of each reporting period, Redbubble revisits its estimate. Revisions to the prior period estimate are recognised in profit or loss and equity.



The fair value of performance rights is determined in accordance with the fair market value of the shares available at the grant date. The fair value of shares is ascertained by carrying out an independent valuation. Most of the performance rights are issued subject to a liquidity event condition. An expense is recognised in relation to all the performance rights granted on account of a liquidity event being probable.

### (r) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as transaction costs of the loan to the extent that it is probable that some or all the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is amortised on a straight-line basis over the term of the facility.

Borrowings are classified as current liabilities unless Redbubble has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### (s) Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under circumstances. Redbubble makes estimates and assumptions concerning the future which may not equal the related actual results. These are discussed below.

*(i) Revenue recognition principal versus agent*

Redbubble is acting as the artists' agent in arranging for the selling of the artist's goods to customers for accounting purposes only. The amounts collected on behalf of artists are not recognised in the income statement.

The revenue recognised by Redbubble is effectively the cost of fulfilment and shipping plus Redbubble's margin. Given the nature of the relationship between Redbubble and product fulfillers and the associated risks and rewards, Redbubble has determined, for accounting purposes only, that it is acting as a principal as opposed to as an agent with respect to fulfillers.

*(ii) Development costs – capitalisation, valuation and impairment*

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably. Determining the feasibility of the project and the likelihood of the project delivering future economic benefits, which can be measured reliably, is a significant management estimate and judgement.

Capitalised development costs have a finite useful life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project, typically between 2-5 years and are considered for impairment at each reporting date.

*(iii) Recognition of deferred tax assets (other tax issues)*

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense and from incurrence of tax losses and entitlements to non-refundable tax offsets. In evaluating the entity's ability to recover deferred tax assets within the jurisdiction from which they arise, the entity considers all available positive and negative evidence, including probability of achieving appropriate continuity of ownership levels, likelihood of meeting relevant definitions of "same business", scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. This evaluation requires significant management judgement.



*(iv) Share-based payments*

Equity-settled share-based payments with employees are measured at the fair value of the equity instrument at the grant date. Fair value of options is measured by using a Black-Scholes model and fair value of performance rights is measured by using the fair value of shares available at the grant date. The fair value of shares is determined by carrying out an independent valuation.

*(v) US sales tax*

Redbubble currently collects and remits sales tax on sales made to customers in the US state of California via the Redbubble website. Management believes a sales tax nexus may exist due to its own offices being situated in that state. Significant management judgement is required to determine if nexus exists in other states. Management has determined that no taxes are payable in relation to sales in other states.

# B

# GLOSSARY

# B Glossary

| Term | Meaning |
|---|---|
| 1H FY2016 | Half year ended 31 December 2015. |
| 1H FY2017 | Half year ending 31 December 2016. |
| API | Application programming interface is a set of protocols that provide a common way for technologies to integrate with each other. |
| Appendix | An Appendix to this Prospectus. |
| Application Amount | The number of Shares applied for by an applicant. |
| Application Form | The application form attached to or accompanying this Prospectus. |
| Application Monies | The amount of money accompanying an Application Form submitted by an applicant. |
| Artist Margin | The mark-up that Artists set and earn for products which bear their designs and creative works and are sold on Redbubble, being the difference between the product's cost plus Redbubble's service fee and the product's selling price. |
| Artist | An artist who has uploaded at least one design or creative work onto the Redbubble website, making that design or creative work available (through printing on products) for sale by the Artist to Customers. |
| ASIC | Australian Securities and Investments Commission. |
| Associated Entities | Has the meaning given in Section 6.3.1.4. |
| ASX | ASX Limited (ABN 98 008 624 691) or, as the case requires, the Australian Securities Exchange (being the financial market operated by it). |
| ASX Listing Rules | The official listing rules of ASX. |
| ASX Recommendations | The ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (3rd Edition). |
| ASX Settlement Operating Rules | The operating rules of ASX Settlement Pty Limited (ABN 49 008 504 532) and, to the extent that they are applicable, the operating rules of each of the ASX and ASX Clear Pty Limited (ABN 48 001 314 503). |
| AUD, A$, $ or Australian Dollar | Australian dollar, the official currency of Australia. |
| Australian Accounting Standards | Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board and Urgent Issues Company Interpretations. |
| Australian Plan | Has the meaning given in Section 6.3.2.5. |
| Average Order Value or AOV | The value derived from dividing Gross Transaction Value by the total number of transactions. |
| Board or Board of Directors | The board of directors of Redbubble. |
| Broker | Any ASX participating organisation selected by the Joint Lead Managers to participate in the Broker Firm Offer. |

| Term | Meaning |
|---|---|
| Broker Firm Offer | The offer of Shares under this Prospectus to retail investors who have received a firm allocation of Shares from their Broker and who have a registered address in Australia. |
| Business Day | Has the meaning given in the ASX Listing Rules. |
| CAGR | Compound annual growth rate. |
| CGT | Capital gains tax. |
| Chargebacks | The charge a payment provider pays to a customer after the customer successfully disputes the transaction. |
| CHESS | Clearing House Electronic Subregister System operated in accordance with the ASX Settlement Operating Rules. |
| COGS | Cost of goods sold. |
| Completion of the Offer | Completion in respect of the issue and transfer of Shares under the Offer in accordance with the Underwriting Agreement. |
| Compliance Offer | Has the meaning given in Section 9.11. |
| Consenting Party | Has the meaning given in Section 9.7. |
| Constant currency | Constant currency numbers are derived by converting the underlying historical GTV and revenue, generated in the four currencies other than Australian dollars, into Australian dollars at the same rates assumed for the forecast instead of the rates used in preparing the IFRS financial statements. The exchange rates used for the forecast are set out in the third column of the foreign exchange rates table in Section 4.7.2.3. Management believes inclusion of constant currency numbers for GTV and revenue enables a clearer understanding of the underlying growth of the business by removing the impact of historical fluctuations in foreign exchange rates. |
| Constitution | The constitution of Redbubble. |
| Convertible Note | Has the meaning given in Section 9.4.1.2. |
| Corporations Act | Corporations Act 2001 (Cth). |
| Cumulative Redeemable Preference Share or CRPS | Has the meaning given in Section 9.4.1.1. |
| Customer | A person who acquires from an Artist on the Redbubble marketplace a product on which that Artist's design or creative work has been printed. |
| Direct | Visits to the Redbubble website from entering the website address directly in a browser or through browser bookmarks. |
| Director | Each of the directors of Redbubble from time to time. |
| Drop shipping | A service offered by third party fulfillers where products are shipped directly from the fulfillers, with title passing to the Customer on shipment. |
| Early Investor Shareholders | Shareholders who acquired their Shares in connection with a founding or early stage investment in Redbubble. |
| EBIT | Earnings before interest and income tax. |
| EBITDA | Earnings before interest, income tax, depreciation and amortisation. |
| Employee Equity Plans | The employee equity incentive plans described in Section 6.3.2.5. |

| Term | Meaning |
|---|---|
| Escrowed Shareholders | Shareholders who have agreed to be subject to the escrow restrictions described in Section 7.7, comprising Insider Escrowed Shareholders and Non-Insider Escrowed Shareholders. |
| EUR or € | Euro, the official currency of the European Union. |
| Existing Shareholders | The Shareholders as at the Prospectus Date. |
| Existing Shares | Shares held by all Existing Shareholders as at the Prospectus Date. |
| Expiry Date | The date which is 13 months after the date of the Original Prospectus. |
| Exposure Period | The 14 day period after the lodgement of the Original Prospectus with ASIC. |
| Financial Information | Has the meaning given in Section 4.1. |
| Forecast Financial Information | Has the meaning given in Section 4.1. |
| Fulfiller | Third party providers who print Customer's orders on demand. |
| FY2013 | Financial year ended 30 June 2013. |
| FY2014 | Financial year ended 30 June 2014. |
| FY2015 | Financial year ended 30 June 2015. |
| FY2016 | Financial year ending 30 June 2016. |
| FY2017 | Financial year ending 30 June 2017. |
| GBP or British Pound | Great British pound, the official currency of the United Kingdom. |
| Group | Redbubble and each of its wholly-owned subsidiaries. |
| GST | Goods and services tax or similar tax imposed in Australia. |
| GTV or Gross Transaction Value | Gross Transaction Value, calculated as the total amount of sales processed through Redbubble less refunds, fraudulent transactions and Chargebacks. GTV therefore equates to the value of cash receipts from customers (as defined in AASB107 Statement of Cash Flows published by the Australian Accounting Standards Board) as represented in Redbubble's statutory and pro forma historical and forecast cash flows. |
| HIN | Holder Identification Number. |
| Historical Financial Information | Has the meaning given in Section 4.1. |
| Independent Limited Assurance Report | The Independent Limited Assurance Report set out in Section 8. |
| Insider Escrowed Shareholders | Management Shareholders and Early Investor Shareholders. |

| Term | Meaning |
|---|---|
| Institutional Investor | An investor who is:<br>• a person in Australia who is a wholesale client under section 761G of the Corporations Act and either a "professional investor" or "sophisticated investor" under sections 708(11) and 708(8) of the Corporations Act; or<br>• an institutional investor in certain other jurisdictions, as agreed between Redbubble and the Joint Lead Managers, to whom offers of Shares may lawfully be made without the need for a lodged or registered prospectus or other form of disclosure document or filing with, or approval by, any governmental agency (except one with which Redbubble and SaleCo are willing, in their absolute discretion, to comply),<br>provided that, in each case, such person is not in the United States. |
| Institutional Offer | The invitation to Institutional Investors to acquire Shares under this Prospectus as described in Section 7.3. |
| Investigating Accountant | Ernst & Young Transaction Advisory Services Limited (ACN 003 599 844). |
| IT | Information technology. |
| Joint Lead Managers | Canaccord Genuity (Australia) Ltd (ABN 19 075 071 466) and Morgans Corporate Limited (ABN 32 010 539 607). |
| Listing | Admission of Redbubble to the Official List. |
| Management Shareholders | Shareholders who are persons who occupy or have occupied a senior management position in Redbubble (or who are associated with any such person). |
| Mass Customisation | The result of digital printing technology being able to print customised designs or creative works onto products on demand. |
| Millennial | Persons currently aged 17 to 34 years old. |
| New Shares | The new Shares to be issued by Redbubble under the Offer. |
| Non-Insider Escrowed Shareholders | Escrowed Shareholders who are not Insider Escrowed Shareholders. |
| NPAT | Net profit after tax. |
| NPS | Has the meaning given in Section 3.11. |
| Offer | The offer of Shares under this Prospectus, comprising the offer of 22.6 million New Shares to be issued by Redbubble, and 7.4 million Existing Shares to be sold by SaleCo, but excluding the offer of Shares under the Compliance Offer. |
| Offer Documents | Has the meaning given in Section 9.1.1.2. |
| Offer Price | $1.33 per Share. |
| Official List | Official list of entities that ASX has admitted to and not removed from listing. |
| Option | Has the meaning given in Section 9.4.1.3. |
| Organic Search | Visits to the Redbubble website from clicks on listings on search engine results pages that appear because of their relevance to the search terms, as opposed to their being advertisements. |
| Original Prospectus | The prospectus dated 19 April 2016 and lodged with ASIC on that date, which this Prospectus replaces. |
| Paid channels | Visits to the Redbubble website from clicks on paid advertisements. Examples include pay per click advertising on search engines like Google and advertising on Facebook. |

| Term | Meaning |
|---|---|
| Payment Gateway Providers | Entities which offer online services for accepting electronic payments. |
| Performance Right | Has the meaning given in Section 9.4.1.4. |
| Performance Rights Plan | Has the meaning given in Section 6.3.2.5. |
| POD | Print-on-demand. |
| Pro Forma Forecast Financial Information | Has the meaning given in Section 4.1. |
| Pro Forma Historical Consolidated Balance Sheet | Redbubble's statutory historical consolidated balance sheet as at 31 December 2015, adjusted for certain pro forma adjustments to reflect the impact of the Offer and the change in capital structure that will take place as part of the Offer, as if it was in place at 31 December 2015 as set out in Section 4.4.1. |
| Pro Forma Historical Income Statements | Has the meaning given in Section 4.1. |
| Pro Forma Historical Financial Information | Has the meaning given in Section 4.1. |
| Prospectus | This document (including the electronic form of this Prospectus) and any supplementary or replacement prospectus in relation to this document. |
| Prospectus Date | The date on which a copy of this Prospectus was lodged with ASIC, being 3 May 2016. |
| Redbubble or the Company | Redbubble Limited (ABN 11 119 200 592) or, as the case requires, the website and/or marketplace operated by it. |
| Redbubble User Agreement | An agreement that each Artist must enter into with Redbubble before offering their designs and creative works for sale on the Redbubble marketplace. A summary of the terms of the Redbubble User Agreement is set out in Section 3.3.1. |
| Repeat Customer | A Customer who has previously purchased an item on Redbubble in a previous period of time. |
| Repeat GTV | GTV that is generated by Repeat Customers. |
| Responsive | Website design that provides for optimal viewing across a range of devices, automatically adapting to screen technology from desktop to mobile phones. |
| Saleable Designs | Designs or creative works available on Redbubble that are able to be purchased on at least one product. |
| SaleCo | Redbubble SaleCo Limited (ACN 611 424 634). |
| SaleCo Directors | The directors of SaleCo from time to time, currently Richard Cawsey, Martin Hosking and Grant Murdoch. |
| Sales | The total amount of sales processed through Redbubble (inclusive of refunds, fraudulent transactions and Chargebacks). |
| Selling Shareholder | An Existing Shareholder that has agreed to sell all or some of their Existing Shares under the Offer. |
| SEO | Search Engine Optimisation. |
| Share | A fully paid ordinary share in the Company. |
| Share Registry | Link Market Services Limited (ACN 083 214 537) or any other registry that Redbubble appoints to maintain the register of members of Redbubble. |

| Term | Meaning |
|---|---|
| Shareholder | The registered holder of a Share. |
| Senior Leadership Team or SLT | The Senior Leadership Team of Redbubble, described in Section 6.2. |
| SRN | Securityholder Reference Number. |
| Statutory Forecast Financial Information | Has the meaning given in Section 4.1. |
| Statutory Historical Financial Information | Has the meaning given in Section 4.1. |
| STI | Short term incentive. |
| STI Plan | Has the meaning given in Sections 6.3.2.1 and 6.3.2.4. |
| Supplier | Third party providers of "blanks" (t-shirts, note books, cushions, etc.) on which Artists' designs or creative works are printed-on-demand by fulfillers. |
| Underwriting Agreement | The underwriting agreement between Redbubble, SaleCo and the Joint Lead Managers described in Section 9.1.1. |
| United Kingdom | The United Kingdom of Great Britain and Northern Ireland. |
| United States | United States of America, its territories and provinces, any state of the United States of America and the District of Columbia. |
| US Option Plan | Has the meaning given in Section 6.3.2.5. |
| US Person | Has the meaning given in Rule 902(k) of Regulation S promulgated under the US Securities Act. |
| US Securities Act | United States Securities Act of 1933, as amended from time to time. |
| USD, US$ or US Dollar | United States dollar, the official currency of the United States. |
| Warrant | Has the meaning given in Section 9.4.1.5. |

# Corporate Directory

## Redbubble Limited

Redbubble Limited
Level 3
271 Collins Street
Melbourne VIC 3000
www.redbubble.com

## Joint Lead Managers and Underwriters

**Canaccord Genuity (Australia) Ltd**

Level 4
60 Collins Street
Melbourne VIC 3000
www.canaccordgenuity.com

**Morgans Corporate Limited**

Level 29
123 Eagle Street
Brisbane QLD 4000
www.morgans.com.au

## Financial Adviser

**EM Advisory**

Level 9
140 Queen Street
Melbourne VIC 3000
www.emadvisory.com

## Australian Legal Adviser

**Allens**

Level 37
101 Collins Street
Melbourne VIC 3000
www.allens.com.au

## Investigating Accountant

**Ernst & Young Transaction Advisory Services Limited**

8 Exhibition Street
Melbourne VIC 3000
www.ey.com

## Auditor

**Ernst & Young**

8 Exhibition Street
Melbourne VIC 3000
www.ey.com

## Share Registry

**Link Market Services Limited**

Level 1
333 Collins Street
Melbourne VIC 3000
www.linkmarketservices.com.au

REDBUBBLE