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Shopify leadership manages expectations for 2020 despite 'spectacular' fourth quarter

Its 47% year over year revenue growth is 'not something we expect can happen every quarter,' says CEO

Amy Shapero



The company forecasts revenue growth of around 36 per cent, although analysts expect it will do better than that. *Peter J. Thompson/National Post files*

Shopify Inc. senior executives on Wednesday appeared to be managing expectations for 2020, especially when it comes to the company's nascent fulfillment network, even after reporting surprisingly strong fourth-quarter revenue growth.

Shopify's stock shot up more than 17 per cent when markets opened Wednesday after the company announced 47 per cent year-over-year revenue growth during Q4, marking the first quarter since 2015 that the company's year-over-year growth rate has risen.

The stock pulled back to a mere 7.7 per cent increase by day's end, perhaps heeding chief financial officer Amy Shapero's words that investors shouldn't expect more revenue acceleration in the coming year.

- [Shopify shares soar to new record after revenue jumps by almost 50%](#)
- [Shopify puts late 2019 swoon behind it as shares hit new all-time high](#)
- [Can indie merchants compete with mega retailers on Cyber Monday shipping, discounts? Shopify COO thinks yes — podcast](#)

"Q4 was just a spectacular quarter. Every part of the business was contributing. We had strong merchant growth," Shapiro said on the earnings call with analysts. "That's not going to be something that we expect can happen every quarter."

Shopify posted a net loss of US\$124.8 million during fiscal 2019, but revenue was up 47 per cent to US\$1.6 billion.

For 2020, the company is forecasting revenue growth of around 36 per cent, although analysts said they expect Shopify will do better than that. The company is forecasting a GAAP loss of between US\$158 million and US\$168 million, driven by increased investment.

"They have a pattern of exceeding consensus revenue estimates, and the guidance that they establish for themselves, so I expect that pattern to continue," said **Chris Silvestre**, an equity analyst at **Veritas Research**. "In my own projections, I expect the company to beat for every quarter for the next two years, actually."

Another key area for which Shopify leadership tried to temper expectations was the nascent Shopify Fulfillment Network, which promises to provide two-day shipping throughout the continental United States for merchants using the company's platform.

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Chris Silvestre, equity analyst, *Veritas Research*

Shopify's bread and butter remains the e-commerce platform that handles online sales and payments, but in recent years it has been building out ancillary value-add services to offer to merchants.

The fulfilment network, announced in 2019, was initially described as a US\$1-billion investment to handle warehousing, packing and shipping for customers. At the time, the company said it planned to scale it up by the end of the year.

But on Wednesday's earnings call, Shopify revealed that it has processed fewer than one million fulfilments so far, and chief executive Tobi Lutke emphasized the complexity of the undertaking.

"It's impossible to build complex things that work unless you start with something very, very simple and then organically build it," he said. "If you build something that tries to solve for complexity immediately, it fails every single time."

The company also confirmed it is opening a research and development centre in Ottawa to grapple with difficult problems associated with shipping and warehousing.

"At the R&D centre in Ottawa, we don't want to just make plans for the periphery," chief operating officer Harley Finkelstein said. "We want to actually get into it and really figure out what we need to do."

Finkelstein said the company is trying to work out the kinks before it goes big with the network.

"We currently have dozens of merchants in this early access phase and, really, the objective right now is to optimize for experience," he said. "We want to make sure that they not only are getting value from it, but are also going to become big promoters of what we're doing here."

This attitude is a bit of a change from last June, when chief product officer Craig Miller told an audience that Shopify planned to scale up by the end of 2019.

“By the end of this year, we should be able to serve merchants that send out 30,000 packages per day all the way down to those that are sending out three packages per day,” he said at the time.

Silvestre said it was notable the company is using “startup language” to describe the fulfilment network and talking about finding a product-market fit for the service. Handling warehousing and shipping is one of merchants’ biggest frustrations.

“Merchants definitely want it. It is the biggest pain point,” he said. “You can have them banging at the door for it, but that doesn’t necessarily mean that you can develop an offering that is compelling, and that allows you to make money. So I think that’s the part that they’re working on right now.”

Silvestre said fulfilment might end up costing the company more than the US\$1 billion initially forecast, which did not include the acquisition of a robotics company last summer to assist in the effort.

“Initially, they said US\$1 billion in investment, but then they spent US\$450 million on 6 River Systems, to which they said, well, that’s not part of the billion,” he said.

“I’m not sure if it will happen, I’m not sure when it will happen, but I think what could cause the market to be more concerned is either capex or opex that isn’t expected.”

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