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Shutterfly, Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from Imran Khan - JP Morgan Securities, Inc.

Imran Khan - JP Morgan Securities, Inc.

First, if I look at your Q3 guidance on the midpoint, you're guiding six percentage point growth and the fourth quarter you're guiding midpoint roughly 30% percentage point growth. I know you talked about how there's no holiday in the third quarter so I'm trying to understand if you can increase our comfort levels, what kind of growth rate you are seeing during the holiday season on a year-over-year basis to feel comfort level that you can grow your business 30% on a year-over-year basis in the fourth quarter?

Mark J. Rubash

What we saw this quarter, and I'll use rough numbers because there's no precise way to actually know exactly what was attributed to a holiday, but in those periods around Mother's Day and Father's Day we saw anywhere from a 6% and 7% to a 12% lift in revenues versus other parts of the quarter. So it was clear and insignificant during those peak holiday periods.

Imran Khan - JP Morgan Securities, Inc.

Secondly, it seems like your average order value increased despite a weaker macroeconomic environment to me and it's counter intuitive. So can you help us to understand what's driving such a healthy growth in AOV?

Jeffrey T. Housenbold

I think primarily what we saw was the continuing mix shift from prints to personalized products and services that have an inherent higher average order value. We also last year at this time had kicked off our summer memories campaign where we were giving away five million 4x6 prints associated with various activities on the website and as customers were redeeming that the average order value was lower because part of their basket was free prints. So as you saw personalized products and services go from 52% of revenue last year to 55% that was driving the average order value.

Operator

Our next question comes from Troy Mastin - William Blair & Company.

Troy Mastin - William Blair & Company

What kind of impact do you think you'll see in 2009 as a result of the move away from Hayward into the new facility in Phoenix?

Mark J. Rubash

Basically the big difference, just like Charlotte is the labor costs in the Phoenix area. That's where the lion's share of savings will come from and the labor costs in Phoenix are about the same as Charlotte and that's about a 30% to 35% reduction from Hayward levels. So it will depend on obviously the mix of products and to what extent we're moving from low labor content products to higher labor content but that's where we'll see the most significant savings. After that there's also savings on the cost of the facility itself and power and shipping should be pretty consistent with the Bay area since it's a West Coast location.

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