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Shutterfly Q4 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

The question and answer session will be conducted electronically. (Operator Instructions) We'll go first to Imran Khan with JP Morgan.

Imran Khan – JP Morgan Securities Inc.

Two questions, one specific to Q1 guidance. I think your fourth quarter revenue was up 48.5% year-over-year and your Q1 guidance on a high end is 35%. I'm trying to better understand, I know you talked about the economy slowdown, are you seeing an economy slowdown? Is that why you're guiding such a deceleration in Q4 to Q1 growth rate on a year-over-year basis? Second question, if I look at the customer count and order growth rate but accelerated in the quarter but in average order size growth rate was only up 3%, is that because of promotion? Are you seeing a change in average buying behavior by the customers? Can you give us some color?

Jeff

Our Q1 guidance incorporates where we are within the first 30 days of the month. We're seeing very healthy visitation, registration, uploads and sharing on the platform which is a sign of vitality and continued growth in the business. We're seeing a little bit of trepidation on our customer's part in then actually turning that into ecommerce transactions. But, remember in the quarter we still have two big holidays coming up, Valentine's Day and Easter occurs in the first quarter of this year. So, I think what you're seeing is us being prudent about the macroeconomic trends but still a very strong belief in the full year guidance of \$245 to \$255 million.

As it relates to AOB, there are a couple of things, one is we're lapping a full year now of our new 12x12 and 8x8 customized photo books and then also we delivered significantly more on the top line in the fourth quarter and some of that was through additional promotions and merchandising on the site to get people to try cross categories. To get them to try a new photo book, to try out new designer cards and we believe once they touch them and feel them and purchase them then we're going to be able to get downstream orders and increasing lifetime value from those customers.

Operator

We'll take our next question from Yousseff Squali with Jeffries & Company.

Yousseff Squali – Jeffries & Company

A couple questions, first does your guidance contemplate a price cut on the print side of the business? And second, if I look at your sales and marketing year-on-year it kind of shows negative

leverage in Q4 of 07 over Q406. Can you speak to that? Your customer acquisition went up a little bit. Can you kind of talk about is this kind of a mix of channels, some of the new channels that you're trying out?

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