

## Revision to original Shopify Report

Unfortunately, it seems we have made a mistake with one of the two models which we used to calculate the number of domains churning off. We have discovered this mistake in the early hours of June 29, 2018. We would hereby like to make a correction of the second churn model and show how it affects the calculations in the report. We apologize for the inconvenience.

We could have stayed silent about this error (especially because it doesn't change much in our thesis) but our upbringing and conscience didn't permit this.

These are the key things that change:

- In the original report we claimed that, using the second method to calculate churn, 93.3% of domains 1 year or younger churn off. We now believe the right number is 78.97%.
- If we combine with the first churn method (looking at churn through expiring domains), which doesn't change, we now think that the percentage of clients that die before they reach their first anniversary is 77%, not 85% as we stated in the original report. 77% is still a very significant number.
- Because of this change, we now believe that the average customer lifetime is not 14 months, but 15.58 months. Still a very low number in comparison to other SaaS companies.
- Since we were overcounting churned domains, we now think that Shopify is still adding more domains than losing in the .com realm. In the previous report we alluded to the fact that domains added are starting to be very close or almost equal to domains lost.
- The lengthening of the customer lifetime slightly affects the Dollar-based retention rates we calculated for Shopify.
- There are some changes in the analysis of the Weebly zone file as well. We claimed that Shopify's number of domains churning to the total number of domains hosted is about 4.3x more than at Weebly for a similar number of domains hosted. We now believe this number to be 2.57x.
- Because of the slight increase in Shopify customer lifetimes we raise our price target from \$60 to \$65.

It is important to understand that these changes only affect the first part of our report that deals with Shopify customer churn and Dollar-based retention rates. The other sections that deal with Shopify's operating leverage, top250 clients, health of Shopify's customer base, Facebook, Shopify Capital and Shopify Plus are unchanged.

We would also like to say something about how this error was made. It is very technical. Essentially, we discovered that a very small subset of domains hosted by Shopify (and Weebly) have wrongly set DNS records. Essentially, they have their original DNS settings and new DNS settings related to Shopify as well. This causes the domain to resolve to Shopify's IP address on some days and to another IP address on another day, for example. So, this artificially increased the number of domains churning off. With this revision of this report we have now gotten rid of this misleading effect.

Now we would like to show how some of the tables we presented change after this revision. We always include the former table and the new table after the corrections have been made so you do not have to look back and forth between the reports.

Original table dealing with total domains lost by Shopify and domains lost 1 year or younger:

Date	Total domains lost	domains less than 1 yr. old lost
2018-06-10	1991	863
2018-06-11	2379	1111
2018-06-12	2351	1081
2018-06-13	3213	1552
2018-06-14	2387	985
2018-06-15	2304	931
2018-06-16	2144	930
2018-06-17	2391	1009
2018-06-18	2275	1000
2018-06-19	2223	898
<b>Average per day</b>	<b>2365.8</b>	<b>1036</b>

Revised version:

Date	Total domains lost	domains less than 1 yr. old lost
2018-06-10	747	566
2018-06-11	1829	1409
2018-06-12	921	722
2018-06-13	1661	1287
2018-06-14	1421	982
2018-06-15	1166	910
2018-06-16	783	623
2018-06-17	1081	828
2018-06-18	656	543
2018-06-19	1120	893

<b>Average per day</b>	<b>1138.5</b>	<b>876.3</b>
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In the original report we showed an example of how we believe a cohort's gross margin decreases over time:

	<b>T=0</b>	<b>T=12 conservative</b>	<b>T=12 optimistic</b>	<b>T=12 super optimistic</b>
Number of stores	100	15	15	15
Fee per store	52	52	85,8	119,6
Subscription revenue from cohort	5200	780	1287	1794
Gross margin from subs revenue (76.9%)	3998.80	599.82	989.70	1379.58
Merchant Revenue from cohort	0	4940	4433	3926
Gross margin from merch revenue (41.1%)	0	2030.34	1821.96	1613.58
Total revenue from cohort	5200	5720	5720	5720
Gross margin from cohort	3998.80	2630.80	2811.67	2993.17
Difference in gross margin after 12 months		1368.64	1187.13	1005.63
%		<b>-34.20%</b>	<b>-29.60%</b>	<b>-25.10%</b>

This is the revised version that reflects the improved survival rate of Shopify stores:

	<b>T=0</b>	<b>T=12 conservative</b>	<b>T=12 optimistic</b>	<b>T=12 super optimistic</b>
Number of stores	100	23	23	23
Fee per store	52	52	85.8	119.6
Subscription revenue from cohort	5200	1196	1973.4	2750.8
Gross margin from subs revenue (76.9%)	3998.8	919.724	1517.5446	2115.3652
Merchant Revenue from cohort	0	4524	3746.6	2969.2
Gross margin from merch revenue (41.1%)	0	1859.364	1539.8526	1220.3412
Total revenue from cohort	5200	5720	5720	5720
Gross margin from cohort	3998.8	2779.088	3057.3972	3335.7064

Difference in gross margin after 12 months		1219.712	941.4028	663.0936
%		<b>-30.50%</b>	<b>-23.54%</b>	<b>-16.58%</b>

These were Shopify's Dollar-based retention rates if only subscription revenue would be included in the original report:

	Dollar based retention rate
Shopify conservative scenario \$52/month	15.00%
Shopify optimistic \$85,8/month	24.75%
Shopify super optimistic \$119,6/month	34.50%

These are the new revised Dollar-based retention rates if only subscription revenue is included:

	Dollar based retention rate
Shopify conservative scenario \$52/month	23.00%
Shopify optimistic \$85,8/month	37.95%
Shopify super optimistic \$119,6/month	32.90%

These were the original Dollar-based retention rates taking into account various weightings of Merchant solution gross margins:

Shopify conservative scenario \$52/month + 30% merch GM	30.23%
Shopify conservative scenario \$52/month + 50% merch GM	40.39%
Shopify conservative scenario \$52/month + 70% merch GM	50.54%
Shopify conservative scenario \$52/month + 100% merch GM	65.77%
Shopify optimistic \$85,8/month + 30% merch GM	38.42%
Shopify optimistic \$85,8/month + 50% merch GM	47.53%
Shopify optimistic \$85,8/month + 70% merch GM	56.64%
Shopify optimistic \$85,8/month + 100% merch GM	70.31%
Shopify super optimistic \$119,6/month + 30% merch GM	46.61%
Shopify super optimistic \$119,6/month + 50% merch GM	54.68%
Shopify super optimistic \$119,6/month + 70% merch GM	62.75%
Shopify super optimistic \$119,6/month + 100% merch GM	74.85%

These are revised ones:

Shopify conservative scenario \$52/month + 30% merch GM	36.95%
Shopify conservative scenario \$52/month + 50% merch GM	46.25%
Shopify conservative scenario \$52/month + 70% merch GM	55.55%
Shopify conservative scenario \$52/month + 100% merch GM	69.50%
Shopify optimistic \$85,8/month + 30% merch GM	49.50%

Shopify optimistic \$85,8/month + 50% merch GM	57.20%
Shopify optimistic \$85,8/month + 70% merch GM	64.91%
Shopify optimistic \$85,8/month + 100% merch GM	76.46%
Shopify super optimistic \$119,6/month + 30% merch GM	62.06%
Shopify super optimistic \$119,6/month + 50% merch GM	68.16%
Shopify super optimistic \$119,6/month + 70% merch GM	74.26%
Shopify super optimistic \$119,6/month + 100% merch GM	83.42%

The error in the method also affected the number of domains churning off from Weebly. These are the original Weebly numbers of total domains churning off:

2018-06-10	272
2018-06-11	900
2018-06-12	354
2018-06-13	756
2018-06-14	433
2018-06-15	579
2018-06-16	381
2018-06-17	640
2018-06-18	203
2018-06-19	922
<b>Average</b>	<b>544</b>

These are the revised numbers for the total number of domains churning off from Weebly per day:

2018-06-10.	245
2018-06-11	864
2018-06-12	341
2018-06-13	726
2018-06-14	415
2018-06-15	553
2018-06-16	356
2018-06-17	602
2018-06-18	187
2018-06-19	522

No other tables were affected through the error. We apologize for the inaccuracies and calculation mistakes which were included in the original version.

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