

# Shopify (SHOP) Q2 2024 Earnings Call Transcript

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**Shopify (SHOP -0.39%)**

Q2 2024 Earnings Call

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## Prepared Remarks:

**Carrie Gillard** -- *Director, Investor Relations*

Good morning and thank you for joining Shopify's second quarter 2024 conference call. I am Carrie Gillard, director of investor relations, and joining us today are Harley Finkelstein, Shopify's president, and Jeff Hoffmeister, our CFO. After their prepared remarks, we will open it up for your questions.

**Harley Finkelstein** -- *President*

Good morning, everyone and thank you for joining. We cannot wait to walk you through all the outstanding results from the last quarter. Our relentless focus on our mission has not only empowered our merchants but has also strengthened Shopify significantly. We are at our strongest yet and we could not be more excited about the future of commerce and the future of Shopify.

So first, let's break it down at a high level. In Q2, we saw 25% revenue growth when excluding logistics, with gross profit growing faster than revenue. Operating expenses decreased quarter over quarter and our free cash flow margin more than doubled to 16% from last year. A couple of other highlights from Q2 were the

release of our latest editions at the end of June with over 150 new product updates and features, passing a massive milestone as we cross the \$1 trillion mark for cumulative GMV that has been processed through Shopify, and our offline business surpassed \$100 billion in cumulative GMV.

These results reiterate what we've been saying all along, we are building for the long term, and our business model is working. As you may have seen in our recent edition, unification was the central theme. So what do we mean by that? Well, we believe that the mark of great software is that as it scales and grows, each new feature is built as if it were there from the very beginning. Everything works together harmoniously, crafted in consistent style and quality.

This is a key value proposition for Shopify and something that as we have evolved from an online store to a comprehensive unified operating system for commerce anywhere, anytime is becoming increasingly more important. Whether online or offline, direct-to-consumer or B2B, domestic or global, Shopify captures it all. What makes Shopify so powerful is how seamlessly all parts of the product work together, reducing complexity at every stage of a merchant's journey. We understand that starting a business is hard and expanding into new markets adds even more complexity.

As our merchants grow, Shopify tackles these challenges so they don't have to. So one of the coolest things we rolled out at this edition was Markets. What used to be Markets and Markets Pro are now streamlined into cross border products, international selling and managed markets respectively. This means our merchants no longer have to worry about juggling multiple stores or wrestling with new workflows.

Whether you're aiming to sell in a new country, break into a B2B market, or launch a physical retail store, the process is straightforward. You set up a new market, you tweak it to your liking, and boom, you are good to go. I remember sitting down with one of our merchants in the UK about 18 months ago and discussing this exact challenge with them. And to see how quickly we move to address it is really huge.

I can't understate how big of a game changer this will be for so many merchants globally. No other platform on the planet offers merchants the opportunity to expand their reach at this scale, this speed, this efficiently with this level of seamless integration and control, all out of the box. OK, now let's dive into how

we're fueling merchant growth across offline, B2B, international and the Shop app. Let's start with our offline business.

Our point of sale solution continues to rapidly gain traction, unifying online and offline commerce in ways that no one else can match. In Q2, offline GMV was up 27% year over year as we continued to attract larger global merchants with multiple store locations. Two of our most recent examples of this are multinational brands EVEREVE and MAJOURI, both of whom are launching online and offline with Shopify, which combined includes over 130 locations across four regions. Offline commerce is still a huge deal for us, still happening in physical stores.

So we are taking advantage of this by continuing to roll out targeted marketing initiatives that target our point-of-sale offering. We're introducing the features they care about most like improving operating efficiency such as the new remote smart grid layout editor, omnichannel return rules, and the ability to stack multiple discounts at checkout which makes it easier for merchants to customize the promotional strategies. And with point-of-sale's seamless integration with markets, multinational retailers can now manage their entire omnichannel business from a single Shopify admin. Just as we've streamlined operations for SMB retailers, we are now removing barriers for global omnichannel businesses on Shopify.

Another long-term and largely untapped channel we're unlocking is B2B commerce, and we're making great progress. In Q2, we recorded our highest ever B2B GMV month with a 140% year-over-year increase fueled by the growth of our Plus merchants. Our B2B offering also saw a six x increase in online orders compared to last year, underscoring the value of self-serve B2B purchasing. We're making our B2B offering even more competitive with features like deposits at checkout and manual payment methods.

This functionality combined with our modern approach and unified back-in makes it easier for merchants to manage and track their business seamlessly across channels. Plus, we've seen a 34% increase in the number of merchants getting B2B orders on Shopify compared to last year. This is something that many large brands have been searching for, and is yet another example of the work we are doing to drive our leadership position in unified commerce. So, how do we know that we're hitting the mark? Well, brands like home fragrance company Pura and skincare brand Dermalogica have recently adopted B2B and is attracting new

brands like Progress Lighting and Therabody who recently signed up to join Shopify because they're attracted by the ability to manage all their channels from a single admin.

Ultimately, B2B is a great example of how we're expanding our total addressable market. Let's talk about cross-border. Cross-border sales made up about 14% of our GMV in Q2, and merchants are really eager to reach new regions, especially when they notice more and more international traffic on their sites. So, just like when they branch out into social channels or B2B, they have to think about everything from pricing and localization to availability in merchandising, all tailored for the end consumer.

And that is why we've made it super easy to sell globally right from the start. With our new Markets feature, merchants can expand wherever they want and customize what they need really effortlessly. Take well-known baby apparel company, Caden Lane. After signing up for Managed Markets, Caden Lane experienced a 692% year-over-year growth in international sales.

Or wine glassware merchant Glasvin, which experienced 71% international sales growth and over 100% boost in conversion to sales in Canada and Australia. Both of these merchants signed up for Managed Markets and are very quickly reaping the benefits. And lastly, we know that one of the biggest challenges that merchants face when selling internationally is after they make the sale. Now, they've got to actually get the purchase to the buyer.

So, we've added support for UPS and managed markets in Q2, which makes it even easier for merchants to get great expedited shipping rates to their international buyers. We've also made it simple to understand catalog restrictions that we automatically apply based on customs rules, which prevent packages getting stuck at customs and adds the ability to make prices inclusive of duty and tax to improve international conversion. Let's talk about Shopify Payments and our accelerated checkout, Shop Pay, which are crucial parts of our unified commerce platform, especially as our merchants scale globally. In Q2, Shopify Payments penetration was 61% and Shop Pay facilitated \$16 billion in GMV, up 45% from last year.

We see significant growth potential for payments through international expansion, enterprise, and increasing activity in offline and B2B channels, all of which will drive higher GMV and GPV, boost merchant adoption, and ultimately strengthen

our ecosystem. Now, whether it's merchants like Grove Collaborative or Tonal signing up or existing brands like SodaStream and Athletic Greens adopting our payment solutions, it's all fueling our growth. Recognized as the world's best converting accelerated checkout, Shop Pay is not just boosting inversion rates across our merchant stores. Time and time again, it's a major draw for enterprise brands considering Shopify.

I can personally attest this, as I am often on the call with the CEOs of these brands, and without fail, they cite checkout as one of the biggest historical challenges and one of the top reasons they want to move to Shopify. Our conversion rate enabled by these products is absolutely a key differentiator that helps Shopify close the deal time and time again. For merchants, Shop Pay is more than just a digital wallet. It offers comprehensive order tracking via the Shop app and allows buyers to earn Shop Cash redeemable for purchases within the app.

This builds greater customer engagement and unlocks additional opportunities to reach customers. During Shop Week in early June, we teamed up with brands like Stanley and Glossier to widen their audience. Thousands of top consumer brands joined in, leveraging Shop Cash and shop campaigns to draw in new buyers. This led to over 10, 000 merchants posting their best GMV week ever on the Shop app, showcasing the solid progress we're making in helping merchants strengthen and expand their customer relationships.

Now, beyond the ways we're helping our merchants grow, which in turn fuels our own growth, let me quickly touch on the great progress we're making across two other growth strategies for Shopify, international and enterprise. Our international GMV growth continues to outpace North America, up 27% from last year, driven by two main goals, expanding our presence and introducing more products in more markets. And in Q2, our marketing and go-to-market efforts led to a 30% increase in international merchant growth year over year. Notably in Europe, where GMV grew by 32%, we welcomed major brands like UK football club Newcastle United and French luxury apparel company Ami Paris to Shopify.

We also signed a global agreement with Luxottica, the Italian eyewear conglomerate, to launch the first of what we hope will be many brands coming to Shopify in the future. And with their recent announcement on acquiring Supreme, who is already on Shopify, we know that the best brands come and stay on Shopify. From a product standpoint, we remain obsessively focused on simplifying

the signup process and localizing more products to enhance the user and end-user customer experience. In Q2, we rolled out Point of Sale terminal to eight additional countries, contributing to an impressive 2.4 increase in GMV through our Point of Sale terminal compared to Q1.

And in Japan, we rolled out Shopify plans available in Japanese yen and launched our latest first-party flagship theme called Rise, which is specifically designed with unique aesthetics of Japanese e-commerce UX in mind. Every market-specific product feature we launch enhances our competitiveness and helps merchants succeed locally. This relentless commitment to helping merchants start and grow in all facets of their business ultimately brings more merchants into Shopify, fueling our flywheel and extending our ability to make commerce better for everyone. Now, within the enterprise opportunity, our flexibility, our speed and our value is strongly resonating with larger high volume brands and they continue to flock to Shopify.

We sign new deals across a diverse set of verticals, industries, and geographies. Brands like shopping channel, QVC, bookseller Barnes & Noble, luggage brand Away, golf apparel brand TravisMathew, trading card company Topps, designer footwear line Vince Camuto, and mattress manufacturer Casper. Additionally, the well-known toy retailer Toys "R" Us launched on Shopify along with some incredible celebrity brands like Mas+ by Lionel Messi and Dios Mio Coffee by Sofia Vergara all launched on our platform during the quarter and are now powered by Shopify. Our progress in continuing to bring on these high-profile, high-volume merchants underscores the growing recognition of Shopify as the premier commerce platform.

Combined with our growing partner ecosystem, including a new partnership that we announced with Oracle in the quarter, these wins not only validate our strategy, but also convey our ability to cater to the unique needs of the biggest brands on the planet. Now, looking at our marketing strategy for this year, you can see that we are all in. It's about leading confidently, leveraging our strength, and continually adapting to stay ahead of the game. This strategy is not new, but how we implement it is continually evolving, thanks in large part to the truly sophisticated marketing platform that we've built.

Our aim remains clear, push the envelope, maximize returns and stay ahead of the curve. This is Shopify doing what Shopify does best, leading from the front, data

informed and backed by strategies designed to maximize returns and create value. But here's where we truly excel, data-driven decision-making. We relentlessly test and optimize every single channel, keeping well within our average 18-month guardrail.

Our tools and our AI models are crafted not just to operate but to excel leveraging emerging technologies to enhance our feedback loops. These tools provide sharper, more iterative feedback, enable more precise analysis, and deliver quicker signals, letting us identify patterns faster than ever, so we can swiftly adapt and respond. Now, to give some examples of this agility and this discipline, consider this. After experimenting in a leading digital channel, a new emerging social platform in Q1, and observing substantial growth, we intensified our efforts in Q2.

This led to a 51% increase in merchant acquisition quarter over quarter on that platform, all while staying within our financial guardrails. We also saw a boost on our growth internationally with over 50% of the merchant that joined our platform in Q2 coming from outside the core English-speaking markets of the US, Canada, UK, Ireland, Australia and New Zealand. At the same time, we scaled back in other channels focusing on further testing and experimentation to uncover new high-return opportunities. Now, for the back half of 2024, we will continue with this playbook, testing, exploring and optimizing our core performance marketing within our guardrails.

By remaining flexible in our approach across our portfolio of investments, we can better target and support our growth efforts, especially in areas such as enterprise, point-of-sale and international markets. By dynamically allocating resources across all of these channels and growth areas, we believe we can continue to drive our performance from the front and redefine industry standards. Now, before I turn it over to Jeff, I want to briefly share my thoughts on the incredible success of our recent Shopify Summit in Toronto. This annual event brought our entire company together to discuss Shopify's future, to align as a team in our priorities, and to host our Hack Days, which have produced some of our best products over the years.

The energy, optimism and enthusiasm coming out of the event were incredible, which reconfirm that this is truly the best team and the best version of Shopify yet. Before I close, I feel I need to make something really clear. Shopify is rapidly

strengthening its position as a leading enabler of global commerce and entrepreneurship. We are investing in sustainable growth and driving profitability for the long term.

This very unique ability that we have to serve the largest brands while also inspiring new entrepreneurs to launch and scale businesses make Shopify an incredibly durable company. We are so well positioned to power more commerce globally for the years to come. And with that, let me turn the call over to Jeff.

**Jeff Hoffmeister** -- *Chief Financial Officer*

Thank you, Harley. Our second quarter was incredibly strong, demonstrating the power of our business model and our ability to execute across every metric we delivered. Let's discuss our Q2 results. GMV in Q2 was \$67.2 billion, up 22% year over year.

The strong Q2 GMV was driven by same-store sales growth of our existing merchants, led by our Plus merchants, continued growth in the number of merchants on our platform globally, strength in Europe, which grew 32% year over year from both strong same-store sales growth from our existing merchant base, and new merchant acquisition, with same-store sales growth being a slightly larger contributor this quarter. This quarter represents the fifth straight quarter where we have delivered GMV growth in Europe exceeding 30%. Our strength in Europe was broad-based with growth in both our larger markets of the UK, Germany, France, Spain and Italy, as well as EMEA more broadly. And the last key driver was point of sale, which grew 27% year over year.

We saw solid growth across verticals with robust performance in health and beauty and food and beverages. We also saw solid growth in our largest category, apparel and accessories. Notably, this strength in GMV came against a backdrop of mixed consumer spend. We continue to gain market share in the US e-commerce market and abroad.

Q2 revenue was \$2 billion, up 21% year over year, which equates to 25% year-over-year growth when excluding the logistics businesses. This marks the fifth straight quarter where our revenue growth, excluding logistics, has grown 25% or greater. Our consistency and stability of performance reflects the quality and breadth of our software solutions, the success of our merchant acquisition engine, the breadth of the industries, geographies and merchant sizes that we serve, and quite simply, our ability to execute. For the quarter, the key drivers of our revenue



growth were the GMV strength I just discussed, growth in subscription solutions revenue stemming from the growth in the number of merchants on our platform, the pricing changes that have been implemented in the past year, both standard, and to a lesser degree, Plus, and the impact of the shortened paid trials, and as a third key driver, increased payments penetration, which is 61% for Q2.

Relative to our outlook, revenue came in better than expected, primarily from stronger GMV from Plus merchants and outperformance in Europe, notably with the FX headwinds playing out largely as we anticipated. Q2 Merchant Solutions were \$1.5 billion, increasing 19% year over year driven by the continued growth in GMV and the penetration of Shopify Payments. Those primary contributors were partially offset by the absence of the logistics business and lower non-cash revenue from strategic partnerships. As a reminder, this is the final quarter where the year-over-year revenue growth rate is impacted by the sale of our logistics business.

And as noted above, the absence of logistics had an approximate 400 basis point headwind to total revenue, and all of the logistics revenue sat within Merchant Solutions, \$41 billion of GMV was processed on Shopify Payments in Q2, 30% higher than last year. The penetration rate of Shopify Payments as a percentage of GMV was 61%, compared to 58% in Q2 of 2023. Several factors powered the quarter's higher gross payments volume, including the strong performance of those merchants utilizing Shopify Payments, an increasing percentage of which are Shopify Plus, more merchants across the globe adopting payments and greater penetration of Shop Pay, which was 39% of GPV in the quarter. These items were partially offset by the continued strength of our business in Europe, which was a larger percentage of GMV, but where we have a lower GPV penetration than North America.

Subscription Solutions revenue was \$563 million, up 27% over Q2 of last year. The primary source of the growth was an increase in the number of merchants on our platform, driven by three items, shortening the paid trial offering on our standard plans from three months to one month, strong growth internationally, and the work of our marketing initiatives. This growth in the number of merchants was complemented by the change to our pricing plans for Standard and Plus. Two reminders regarding our pricing plan changes.

Our existing Plus merchants had until the end of April to commit to existing rights or move to a new pricing plan. So our Q2 subscription revenue included two-thirds of quarterly impact of the Plus pricing change. As stated on our last call, we are not anticipating as much of a benefit from the pricing change on Plus as we did from the pricing change on our Standard plans. Our Standard pricing changes went into effect at the end of April of last year.

So for purposes of the year-over-year comparison, Q2 of this year had a full quarter of the Standard pricing change, whereas Q2 of last year had only two-thirds of a quarter. The impact of these two pricing changes though was a smaller contributor to this quarter's subscription revenue growth versus overall growth in the number of merchants. Q2 MRR was \$169 million, up 25% year over year. We saw growth both year over year and quarter over quarter in each of Standard, Plus and offline point-of-sale.

The largest driver for all three segments was the growth in the number of merchants on our platform, with growth internationally being a key component contributing to our growth in our Standard plans. Standard and offline point-of-sale benefited from the shortening of paid trials, which went into effect near the end of the first quarter and the marketing initiatives that we have discussed. For Plus MRR, the largest driver of the year-over-year increase was the acquisition of new merchants, with the change in Plus pricing providing some benefit as well. In Q2, our attach rate was 3.04%.

As a reminder, and as we discussed back at our investor day, we consider attach rates an output of platform activity, not an input or metric that drives our growth strategy. Our Q2 attach rate was up year over year when excluding the logistics business. The key drivers of this increase were the continued gains in GPV penetration and higher subscription revenue, offset by lower non-cash revenues from strategic partnerships. On a sequential quarter basis, our attach rate was down slightly as the gains in GPV penetration were offset by lower non-cash revenues from strategic partnerships and lower shipping revenue.

Moving to gross profit. Gross profit was \$1 billion for the quarter, up 25% year over year, growing faster than our revenue growth rate. Our Q2 gross margin was 51.1%, compared to 49.3% in the prior year. Breaking it down a bit more.

Gross margin for Subscription Solutions was 82.8%, compared to 80.9% in Q2 of 2023. The increase is primarily driven by pricing changes on Standard plans, as

well as the impact of merchant growth from the shortened paid trials. Gross margin for Merchant Solutions was 39.1%, compared to 38.1% in Q2 of 2023. Our improvement in gross margin for Merchant Solutions was primarily from the absence of logistics.

When excluding the impact of logistics, our Merchant Solutions gross margin was down year over year, primarily from lower non-cash revenues from certain partnerships and growth in our lower margin payments business. Operating expenses were \$804 million for the quarter, which includes a benefit of a reversal of a \$55 million litigation accrual that we established in Q3 of 2022. Without this reversal, operating expenses would have been \$859 million or 42% of revenues. Compared to the prior year and excluding onetime items in both periods, Q2 operating expenses were up \$41 million or 5% year over year, driven primarily by four items.

Increases in marketing, we had a year-over-year increase in our affiliate partner payouts. And since these payouts happen only upon a new merchant joining, there's a clear sign of adding more merchants to the platform, and incremental marketing to support our growing enterprise and point-of-sale businesses. Secondly, our Summit event, which, as a reminder, was our first in-person summit event since 2018. Higher absolute dollar losses on capital loans and payments losses, simply as a result of higher volumes from both of these growth businesses.

And offsetting these was the absence of the logistics business. Our Q2 operating expenses came in better than expectations, driven primarily by three items. First, lower marketing expenses. Some marketing related to enterprise we shifted out of Q2 into the second half of the year, stemming largely from one campaign that we decided we will launch toward the end of Q3.

We also cut back spending in a couple of channels in Q2. We consistently run tests to assess where we can further enhance the returns of our marketing spend, implementing the learnings from these tests, and scaling back spending in some areas. We recognize that a returns-based approach to marketing can cause fluctuations in spending in any given quarter, however, it prioritizes the quality and efficacy of our spend. The second component of better-than-expected opex was lower compensation expense.

And thirdly, we executed our extremely successful Summit event under budget. Worth noting that this 5% year-over-year growth in opex stands in contrast to the

impressive revenue growth over that same period. Moving to operating income. For the quarter, operating income was \$241 million or 12% of revenue, marking our fourth consecutive quarter of operating profit since the sale of our logistics businesses and our headcount reduction in Q2 of last year.

Stock-based compensation for Q2 was \$109 million and capital expenditures were \$7 million for the quarter. Q2 free cash flow was \$333 million or 16% of revenue, more than doubling as a percentage of revenue versus our Q2 2023 free cash flow margin of 6%. This came in better than our expectations largely as a result of stronger GMV and the resulting flow-through to revenues and lower operating expenses. We believe that we can continue to drive operating leverage through four key things, disciplined growth in headcount, which we have kept essentially flat for five quarters and where we expect we can keep headcount growth well below revenue growth, strategic returns-based marketing to support and sustain our long-term revenue growth, internal use of AI and automation to drive productivity, and leveraging and continuing to enhance our internally built GSD and Shopify OS systems, which allow us to smartly aim the product development work and size the team for maximum impact and efficiency.

One other item to cover before we move to outlook. Since our last earnings call, we made three small acquisitions. The first acquisition added some enhancements to allow Plus merchants to do easier customizations of the checkout process. The second gives mid-market and enterprise merchants greater visibility into their inventory across our multiple stores and channels.

The third brings a team that will enhance our abilities to get early stage merchants on platform and ramp the success of their businesses. All three of these acquisitions were small in terms of dollar amount and immaterial to our financials, but are important additions to enhancing our merchant efforts. Moreover, these acquisitions bring us some great founders who were specifically drawn here by the quality of our existing team. Let's now turn to our Q3 outlook, which as a reminder is the first quarter where we will no longer have the impact of the sale of logistics on our business.

First, on revenue. We expect Q3 year-over-year revenue growth to grow at a low to mid-20s percentage rate, driven by the same factors that have contributed to our growth throughout the first half of the year. Q3 gross margin is expected to be

up approximately 50 basis points from Q2 of 2024, stemming from a higher mix of subscription solutions. Turning to operating expenses.

We expect our GAAP Q3 operating expenses to be 41% to 42% of revenues, representing a 300 basis point to 400 basis point improvement over Q3 of last year at 45%. As we stated last quarter, we believe considering operating expenses as a percentage of our revenue, especially as we lap the sale of our logistics businesses, better aligns with our goal of striking an optimal balance between growth and operational leverage to deliver improving profitability over time. The largest drivers of our Q3 operating expense growth compared to the prior year are marketing and compensation expenses. On marketing, we plan to continue spending on opportunities that fall within an average 18-month payback period and the opportunities to support our key growth initiatives, including international markets, enterprise and point of sale.

This includes increased marketing spend to support our enterprise efforts that I mentioned earlier. Higher year-over-year compensation expense is expected to be driven primarily by two items. First, we implemented pay increases on July 1 as part of our biannual review cycle, similar to what we discussed in Q1. This resulted in a low single-digit percentage increase across our overall employee base.

Additionally, while our headcount has remained essentially flat for the past five quarters, in Q3, we do plan to hire some key roles within sales and R&D. Even with these additions, we still expect to end the year with minimal headcount growth compared to the 8,300 employees that we had at the end of 2023. Moving to stock-based compensation. Q3 SBC is expected to be \$120 million.

On capex, note that we will no longer guide to capex separately given that following the sale of logistics, capex has averaged over the past four quarters only \$4 million, and we do not expect that to change materially. Finally, on free cash flow. For Q3, we expect our free cash flow margin to be similar to Q2 of 2024. We continue to expect to deliver double-digit free cash flow margin for the rest of the year.

Over each of the past five quarters, we have delivered top line growth, excluding logistics of 25% or more and positive free cash flow, with our free cash flow margins consistently improving over that time and reaching double digits over the past four quarters. We have accomplished this growth while keeping our team size steady and have accomplished these margins even as we ramped up investments.

This business can deliver growth and margins, all while concurrently creating and leading into opportunities that enhance our future growth. The strength of this business allows us to accomplish all three, growth, margins and investments for the future.

In closing, we are showing quarter after quarter that we are executing against the plans that we have laid out and that our business model is incredibly compelling with plenty of runway ahead. With that, I'll now turn the call back over to Carrie for your questions.

**Carrie Gillard** -- *Director, Investor Relations*

[Operator instructions] Our first question comes from Bhavin Shah at Deutsche Bank.

**Bhavin Shah** -- *Deutsche Bank -- Analyst*

Great. Thanks for taking my question. Jeff, just on the MRR growth, it was really impressive in the quarter, and it looks like a lot of the strength came from merchant adds. Can you just maybe elaborate on where you're seeing a lot of that success? What type of merchants are you now bringing to the platform? And how much of it is a function of the marketing spend that you've seen kind of bear fruit?

**Jeff Hoffmeister** -- *Chief Financial Officer*

Yeah. We're seeing a lot of strength in terms of the types of merchants that we're bringing on board, and it's really a full spectrum. And so, it's been very strong, it's been very impressive in terms of what we're seeing. It is a combination, as you point out.

Some of it is the marketing and some of it too is also the paid trials, but I think -- in terms of shortening the paid trials. But I think the key message for us is we're seeing strength in terms of merchant additions across the board, it's been very, very healthy. So it's been very, very well received. And I don't think there's any particular spot to call out other than, in general, it's all geographies and all sizes really in terms of merchants.

**Carrie Gillard** -- *Director, Investor Relations*

Thanks, Bhavin. Our next question will come from Ken Wong at Oppenheimer. Are you there, Ken?

**Kenneth Wong** -- *Analyst*

Yep. Sorry, I was on mute. Can you hear me?

**Carrie Gillard** -- *Director, Investor Relations*

Yes.

**Kenneth Wong** -- *Analyst*

OK. Great. My question was just on take rate. Jeff, you mentioned some of the moving pieces that might have pressured it this quarter.

Just wanted to get a sense for how you're thinking about take rate, attach rate going forward. Is it going to move up from kind of the current levels now that we've accounted for the -- kind of the partner deferred?

**Jeff Hoffmeister** -- *Chief Financial Officer*

Yeah. I think on attach rate, in terms of the overall perspective, I'd go back to a lot of the things I talked about at investor day in terms of the general things which help driving up attach rate and some of the things which, in general, are headwinds to attach rate. We do feel strongly that this will continue to move in the right direction given all the things we're seeing in terms of increased payments penetration, in terms of adoption of new products, in terms of pricing, all those things are helping drive attach rates. We will, as we do more in Europe, some of those attach rates will be a little bit lower.

As we do more with some high-volume merchants, much larger enterprises, some of that will be a headwind to attach rate. But while there may be some variability quarter-to-quarter, this still is a metric for us which continues to go in the right direction. I would say, though, and I talked about this a little bit on the earnings call, this is an output for us. It's not an input.

As we think about on a daily basis how we run our business, we obviously want to have our merchants take more and more of our solutions. But this is not a metric where we track and say how do we drive up attach rate. We're trying to drive as much value to merchants as we can, and that will be reflected in the attach rate.

**Carrie Gillard** -- *Director, Investor Relations*

Great. All right. Our next question will come from Brad Sills at Bank of America. Brad?

**Brad Sills** -- *Analyst*

Great. Thank you so much. Can you hear me, OK?

**Carrie Gillard** -- *Director, Investor Relations*

Yes, we can.

**Brad Sills** -- *Analyst*

Wonderful. Just a question here on some of the efforts you alluded to earlier in the call with regard to some of the testing and performance areas that you're exploring with marketing spend. You alluded to some guardrails, Harley. I'd love to get some color from you on just how you're thinking philosophically on testing effort to optimize the marketing spend.

Thank you so much.

**Harley Finkelstein** -- *President*

Thanks for the question. Look, we built these marketing systems over a very long time. And now they're really producing the results that we need, which is we want to have highly analytical data-driven approach to how we find new customers in new areas. The other thing that's changed over the course of the years at Shopify is there's not just one on-ramp to Shopify, it's not just small businesses in the US or in North America, English-speaking world.

Now, we have a whole different swath of types of merchants and customers that come to us now, whether it's B2B, it's point of sale, it's enterprise. It's across every geography on the planet. So we've built these marketing systems to allow us to get the most out of every single existing channel. Now, we do have guardrails in place that are important to us.

We won an 18-month payback, I mentioned that a couple of times now. But we also are trying to find new channels to both experiment with, and also when they do turn out to be successful channels, to double down on. The example that I gave in the call, which I'll spend a second on right now, it's important, it's illustrative of exactly the way we like to run our marketing channels, which is that we leaned into a new emerging social platform in Q1. We tested, we saw a good result, and then in Q2, we doubled down.

The result of that was a 51% quarter over quarter merchant acquisition increase for Q2. In that same channel, we also saw international growth outside of English countries grow -- it was actually over 50% of merchants that joined in Q2. So for



us, it's about looking at where we can push the envelope, but it's important that we maximize returns ahead of the curve. And so, what I think you'll see from Shopify from a marketing, and performance marketing in particular, perspective, is that we're going to optimize our spend to focus on the most compelling opportunities, both near and also long term.

And in places where we're seeing a little bit less return, we're going to pull back on that. But the idea is to have this very fluid, very dynamic marketing sophistication to allow us to double down things and stay ahead of the curve across, frankly, everyone else in our industry.

**Carrie Gillard** -- *Director, Investor Relations*

Thanks, Brad. Our next question comes from Gabriela Borges with Goldman Sachs.

**Gabriela Borges** -- *Analyst*

Hi, good morning. Thank you. I wanted to ask about your progress in the enterprise market. I would love to hear, especially given those investments tend to take a little bit longer, what are some of the milestones that we can be watching from the outside? And if you could just clarify what drove your decision to push that one campaign into the back half of the year? Thank you.

**Harley Finkelstein** -- *President*

Yeah. Data. We will obviously, as I mentioned in the previous answer, we want to get the most bang for bucket of every single campaign. And when we know that we can get a higher return by moving it slightly by either a couple weeks or a couple of months, we're always going to take that.

So it was just data, it was only one campaign. I wouldn't read too much beyond that other than we care a lot about optimizing every single dollar we spend on marketing. In terms of enterprise, we are gaining traction. It's working really well.

Marketing is really doing well there. Go-to-market is doing well there. And we're seeing these big brands, some of the more established brands I mentioned, like Toys "R" Us, for example, or Barnes & Noble or QVC, but also a lot of the first-gen direct-to-consumer companies that has historically built their own stacks in-house are now coming to Shopify. In the enterprise, in terms of the product mix that we offer, there's something for everyone now.

We have headless with Hydrogen. If you want one size fits all, we have Shopify Plus. And of course, if you want to pick and choose something like checkout or Shop Pay, we have CCS. And so, the fact that I think we're offering something for everyone is very compelling.

At the same time, I think the go-to-market transformation is really -- we've built this disciplined playbook to drive up market presence and the momentum just keeps growing. We're getting much better at not only getting to the table in these negotiations, but also winning these deals. And there is a little bit of -- like there is a momentum thing here, whereby the more larger brands come to us, the more other brands want to know why they're not on Shopify. The key for us, though, is the value of the enterprise offering is leaps and bounds ahead of everyone else in the market.

The speed, agility, the flexibility, the fact that things like Shop Pay have a conversion rate of like something like 36% relative to our competitors and 15% better on average, it's becoming a competitive disadvantage to not be using Shopify enterprise. And that's all working really, really well. We're also obviously working on larger partnerships. I mentioned what we're doing with Oracle.

Larger agencies are effectively building entire enterprise e-commerce practice around Shopify's enterprise offering. So all these things are working in unison. And the results of it is that whether it's your favorite brands like Gymshark, Viori, Brooklinen or Mattel or Supreme, who are already on Shopify and staying with us for the long run, or new companies that are coming on, Vince Camuto and Topps and companies like that, these efforts are producing results.

**Carrie Gillard** -- *Director, Investor Relations*

Thank you, Gabriela. Our next question comes from Craig Maurer at Financial Technology Partners.

**Craig Maurer** -- *Analyst*

Good morning. Thanks for taking the question. I wanted to ask about Shopify Payments and considering that it is a drag on margins as you grow that business, how should we think about the yield in that business changing over time, as you push upmarket into enterprise while also expanding internationally, and how those two factors play against what's already established? Thanks.

**Harley Finkelstein** -- *President*

It's to be clear, on the larger enterprise side, we're seeing expansion in enterprise and high-volume merchants adopting Shopify Payments. We're also seeing our offline business, which we primarily monetize, their payments grow as well. So it was historically true that some of the larger brands and merchants that were migrating to us didn't necessarily always take Shopify Payments as they came with their own. That's happening less and less.

I mean, this quarter alone, Grove, Tonal, SodaStream, Athletic Greens, these were merchants that were already on Shopify, but now have adopted Shopify Payments more recently. So I think you're seeing more of that. The other thing is, remember that with things like Shop Pay, Shop Pay Installments, Shopify Balance, the Audiences product, these are all incredible features and functionality of the platform that require you to be on Payments. And so, I think you're going to continue to see healthy penetration across merchant type, region and channel.

Jeff, I don't know if you have anything else to add on that one.

**Jeff Hoffmeister** -- *Chief Financial Officer*

Yeah. The two things I'd add, Craig, is, and Harley just alluded to one of them, obviously, a lot of times Payments is the first product, but that brings even though the margins on that are a little bit lower than some of our other Merchant Solutions, that will bring those other solutions along. So when you think about a blended margin, it's incremental. So it's sometimes -- a lot of times just the first step.

And the same is really true of Europe. In Europe, we've got, in general, some lower attach rates. But what you're seeing is just a function as much as anything else, it's just us not having as many products available in Europe as we do in North America. So over time, we will have a lot of those products that are available in North America that will become available in Europe.

And so, the opportunity in Europe will continue to expand. When we look at the cohorts, when we look at the profiles of merchants in Europe, and we compare them to what we see in North America, very, very similar. So it's not a function and somehow there's less buying power or there's less interest in getting the full functionality of Shopify. That's just a function of us, over time, rolling out more and more solutions to Europe.

So it's the tip of the spear for us in many respects.

**Carrie Gillard** -- *Director, Investor Relations*

Thank you for your question. Our next question will come from Keith Weiss at Morgan Stanley.

**Keith Weiss** -- *Analyst*

Excellent. Thank you, guys, for taking the question and congratulations on a really solid quarter. In an environment that I would say investors are probably getting increasingly worried about, particularly when it comes to consumer spending, Jeff, I know you said that it's still an uneven macro backdrop. I was hoping you could give us some directionality to that.

Do you see it getting any worse? Do you see it getting any better? How did it trend through the quarter for you guys?

**Jeff Hoffmeister** -- *Chief Financial Officer*

Yeah. Keith, from our vantage point, the quarter was pretty consistent in terms of what we've seen. I do know that there are a lot of people out there talking about softening consumer spend, and we hear that, too. I think from us, the key point is we are working with our merchants to help them be very successful in this environment.

We didn't see any significant deterioration or improvement throughout the quarter. On the last call, we talked a little bit about, from a European perspective, what we may see in terms of FX headwinds, and we talked a little bit about what we saw in terms of consumer spend. It played out essentially exactly as we expected going into the quarter. So, I recognize and hear the commentary from others out there in terms of what they're seeing.

I just think we're -- from our vantage point, we're not seeing that the data in terms of our merchants having issues. We're -- I think we're just simply taking share, I think is the best way to say it.

**Harley Finkelstein** -- *President*

The only thing I'll add to that, Keith, is keep in mind, we have a very diverse set of verticals and merchants across geos and merchant types. You think about like we have scrubs from FIGS, we have pet products from BarkBox, and razors from Flamingo. We have Nestle and Heinz and Mattel and Staples. So the wonderful

part of our business model is it's not relying on one particular type of merchant and one particular geography.

We have merchants coming to us for B2B and merchants that doing direct-to-consumer. In one particular geography, we also have massive multinationals that are using us to sell to get in front of their consumers as well. And so, I think that our merchants do seem to be outperforming and doing better than others. And I think a big part of the reason that we are not seeing the same thing that others might is because we simply have merchants across a ton of verticals and across a ton of geos.

**Carrie Gillard** -- *Director, Investor Relations*

Thank you for your question, Keith. Our next question will come from Paul Treiber at RBC Capital.

**Paul Treiber** -- *Analyst*

Thanks very much and good morning. You're seeing very good success after the changes that you've made in performance marketing. The question is, why is the 12-month payback period, the right return threshold, considerably, you could lower the payback to drive faster growth and market share gains? And then, would that view change over time as you scale and operating margins continue to rise?

**Jeff Hoffmeister** -- *Chief Financial Officer*

Yeah. From my vantage point, we've obviously talked about the 18-month payback as the guardrails that we use here, Paul. I think from our vantage point, and Harley alluded to this in terms of how we're using data to be really thoughtful in the returns we're seeing, and we continue to think about it that way. Yes, we could adjust our paybacks.

But this is something that we -- I mean, for years, we've been very mindful in terms of how we're using data, how we're using feedback loops, how we're using the technology internally that we've built to look at marketing, to figure out what the right payback periods are, where we allocate our dollars, how we support our emerging products like enterprise and international, point of sale, all those things. So I hear you that in theory we could shorten it even more. But I -- as I alluded to in one of the questions earlier and some of the movements in MRR, some of that has been the shortening of the paid trials. But some of that is already from some

of the success we're seeing in terms of adding new merchants on the platform is a function of what we're doing on the marketing side.

So, from our vantage point, this feels like the right mix.

**Harley Finkelstein** -- *President*

I'd also say that, ultimately, what we care about from a marketing perspective is where can we push the envelope, how do we maximize returns, and how do we stay ahead of competition and ahead of the curve. We are really confident in this incredibly powerful low-latency marketing platform that we've built here. And we've optimized it around this 18-month guardrail. Now, that being said, there are some longer payback periods for things like enterprise, for example, whereby we begin to talk to a merchant, they may not only -- they may not launch for a year or two afterwards.

But we think by having this guardrail and then very specifically targeting the channels and marketing that we think are going to have an outsized return, and then pivoting our spend based on that data, that allows us to keep testing, keep experimenting, but ultimately keep -- stay very disciplined in achieving and unlocking as many opportunities as we can. But that 18-month average payback period is a really good guardrail for us because it holds everyone here accountable for delivering the highest bang for buck.

**Carrie Gillard** -- *Director, Investor Relations*

Thank you for your question. Our next question will come from Tim Chiodo at UBS. Tim, are you there?

**Tim Chiodo** -- *Analyst*

I am. Hi. Good morning. Thank you for taking the question.

I know that you mentioned some of the success that many merchants had with Shop App this past quarter, and I believe that it was in Q4 that you gave a little bit of a sense of the Shop App penetration of overall GMV. I was hoping you could give a little bit more context on how large Shop App is in terms of your overall GMV mix. And then, maybe within that, how much of that volume is benefiting from shop campaigns? Thanks a lot.

**Harley Finkelstein** -- *President*

Yeah. So as I -- as you alluded to in Q4, we talked about Shop App has nearly reached about \$100 million in GMV in a single month. We also talked about over 70% of Shopify's online checkouts in the past year were made via phones or other small devices. So, obviously, we know that the consumers that buy from the merchants who use Shopify like Shop App, and this is how they prefer to do it.

But Shop App is this incredibly owned first-party channel for merchants, and we know it helps them drive traffic. What was so interesting and neat about the Shop Week was that merchants have been using Shop App for a while, but the fact that 10,000 merchants on their own posted their best GMV week ever on the Shop App, allowed us to reintroduce the power of this incredible app and this tool to them as a main channel. So we'll continue to do that. We're unleashing new ways for merchants to engage and to drive these incredible connections.

Also, we think that from an advertising perspective, I mean, you mentioned shop campaigns, these are ways that we can also help merchants not only find new buyers, but also increase their -- the lifetime value or the sales and the checkout rates they have with those buyers. And so, we're seeing brands like Feastables and Steve Madden and Spanx now who consistently come back to us to do this marketing, specifically on the Shop App, using Shop Cash with their audiences. And those that use it, their GMV grows and they grow their user base, they keep coming back. No new data to give out just yet on the Shop App, but you can -- I mean, if you're watching things like our Edition release we did in the summer and you're just looking at the tea leaves here, you see that the Shop App continuously gets better in time, both for consumers but also from a merchant perspective, as this incredible channel for them to drive new traffic.

And again, that is one more thing that if you want to leverage that, you want to utilize that, as a merchant, you have to be on Shopify.

**Carrie Gillard** -- *Director, Investor Relations*

Thank you for your question. Our next question comes from Tyler Radke at Citi Investment.

**Tyler Radke** -- *Citi -- Analyst*

There we go. Can you hear me, OK?

**Carrie Gillard** -- *Director, Investor Relations*

Yes.

**Tyler Radke** -- *Citi -- Analyst*

Awesome. Thanks so much for taking the question. Question on just how to kind of unpack the third quarter revenue guidance. Obviously, you talked about some of the MRR moving pieces in Q2.

But I'm just curious how we should be thinking about the growth of MRR in the second half of the year just given what you're seeing in terms of the pricing actions on the Plus SKU. And then, is the thought that still we should expect all these performance marketing investments to be an accelerant or an incremental kind of revenue uplift into 2025? Just give us your latest thoughts in terms of the timing of when you see those paybacks and incremental revenue streams coming into the model. Thank you.

**Jeff Hoffmeister** -- *Chief Financial Officer*

Yeah, Tyler, a lot in there, but let me pull it apart from a couple of different pieces, maybe in reverse order. I mean, we do, as we think about the marketing spend, we do, based on the 18-month average payback periods, think about this as something which drives 2025 more than it does 2024. I did talk, though, before on one of the earlier questions about the impact on MRR in Q2 was indeed a strong uplift, in particular, in a couple of pieces, and some of that was the shortening of the paid trials. And so, that will be this quarter.

That's not a dynamic you would see next quarter. But some of that is -- some of the merchants joining the platform, the acquisition engine working, and a big piece of that is marketing. So we do think we've had a lot of success and Q2 was particularly strong in terms of getting more platform -- excuse me, more merchants on platform. I'm not obviously going to comment in terms of what that means for Q4.

I've given you guidance for Q3 in terms of the revenue growth. I think when you look at the revenue growth over the past, and this is reflective in the Q3 guidance, when you look at the revenue growth over the past four to six quarters, you do it on a pro forma basis ex logistics and you think about some other things around pricing changes that maybe had an impact on that. Without pulling this apart too much, I think you've seen some very consistent, stable delivery revenue growth. And that's what's reflected in the Q3 numbers.



So, I mentioned to Keith earlier some of the dynamics we're seeing from a macro perspective. That's folded in there, too. But we feel really good about what we are -- where we are in terms of adding more merchants to the platform. And I think as you know, MRR, I guess the other piece to this, too, is the pricing changes and some of the things in the marketing.

Obviously, from a pricing change perspective, that's -- the Standard pricing change, of course, is well reflected in there. The Plus pricing change is reflected in MRR. They will be a little bit more incremental as you think about Q3 revenues because obviously that was done mid-quarter. So that's not fully captured in the quarter.

But it's a tailwind that we see in terms of getting to the revenue guidance that we gave. Our business is simply performing well, and that's reflected in the numbers you saw.

**Carrie Gillard** -- *Director, Investor Relations*

Thank you for your question. And our final question will come from Richard Tse at National Bank.

**Richard Tse** -- *Analyst*

Yes. With respect to point of sale, you seem to be getting some good momentum there. I'm just curious, are you displacing the incumbents in the market? Are these sales to vendors without a service provider, meaning they're sort of newer enterprises?

**Harley Finkelstein** -- *President*

Two sides. One is there's a lot of incumbent legacy systems that, frankly, are not very good that a lot of retailers have. And it is high time that they look for a better solution that's future-proof, that has far more functionality, that is way more of a delight to use for both their staff but also the consumers that use it. And then, of course, there are -- one of the best parts of Shopify's business model is that we also create and help to sort of incubate what will be the hottest brands tomorrow.

And as they open up more stores or they enter the physical retail space, they will bring Shopify with them. The reason I mentioned brands like Mejuri, for example, is Mejuri has had a lot of stores for a very long time, and the fact that they're replacing their existing systems with ours both online and off-line is indicative of

what we're seeing. But we are winning larger merchants. We're winning merchants now with over 100 locations, physical locations, across many regions.

We now have launched point-of-sale terminal in eight additional countries, across the EU and APAC. We're also finding it to be a very compelling pitch to say that there's no reason for you to have separate systems running online and offline that are completely disconnected, but rather centralizing your business into one single place, which is this unified commerce system that Shopify provides is really helpful. And then, obviously, the results speak for themselves. I mean, Q2 GMV growth of 27% from off-line, and we expect it will be a key driver for us, not just this year, but certainly in the future.

And then, we'll continue to get brands like Frank and Oak, for example, and Cherry Republic and Banana Republic Home, and these really amazing brands that have tons of locations that are now using us are also becoming wonderful sort of force multipliers to get other brands and other retailers like them. So it's a really important part of our business, and it's growing really well.

**Carrie Gillard** -- *Director, Investor Relations*

All right. Thank you for that question. I'll now turn it back to Harley for closing comments.

**Harley Finkelstein** -- *President*

Yeah, just a quick word before we close. I wanted to say a couple of things here because I think it's really important, particularly right now. Those of you that have been following the company for -- since the IPO and hopefully well before that, we've always been a company that built for the long term. And I think what you're seeing today is that we are seizing these opportunities and making investments to further establish ourselves as the leader in commerce.

We are executing on the plan that we laid out for all of you last year, and you're seeing it in our results. But I think these results, in particular, demonstrate an important trend, which is that we can achieve a seriously meaningful combination of both growth and profitability, and we continue to invest in areas that we think will be incredibly meaningful in the future. You're hopefully seeing this. If you're not, please do a double-click on this, but we are building the most impactful products on the planet for merchants and businesses of every size.

And I know I've said this a few times on this call, but I'm going to say it again, this is by far the best version of Shopify. And thank you for joining us on this call.

**Carrie Gillard** -- *Director, Investor Relations*

That concludes our call. Thank you.

**Duration: 0 minutes**

## **Call participants:**

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**Harley Finkelstein** -- *President*

**Jeff Hoffmeister** -- *Chief Financial Officer*

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**Kenneth Wong** -- *Analyst*

**Ken Wong** -- *Analyst*

**Brad Sills** -- *Analyst*

**Gabriela Borges** -- *Analyst*

**Craig Maurer** -- *Analyst*

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