



If You Think Shopify Inc. Is Unprofitable, Think Again

Description

Shopify Inc. (TSX:SH)([NYSE:SHOP](#)) is easily Canada's hottest technology stock, having gone public just last month. The U.S.-listed shares have rocketed past their IPO price of US\$17, even trading above US\$40 at one point.

But not everyone is sold. Detractors rightly point out that the shares are very expensive, and that Shopify can't possibly keep up its rapid growth rate. Stronger competitors could easily emerge. All of this could cause a dramatic fall in the share price.

The skeptics point to one other factor: Shopify has been posting net losses for years. Last year alone the company lost \$22.3 million. Yet that doesn't mean Shopify isn't unprofitable. We take a closer look below.

How Shopify is actually profitable

Small technology companies, especially fast-growing ones, are notorious for posting losses. And they always have plenty of excuses. Some claim that profits will come once scale is reached. Others claim that growth should be the number one priority. But here's the problem: all too often, the profits never arrive, even after the company gets much bigger.

So, is Shopify one of these companies? Well, to answer this question, let's take a closer look at the numbers.

Last year Shopify spent roughly \$46 million on sales and marketing, and increased its customer count by 51,000. So, it cost the company a little less than \$1,000 to attract each new merchant. And each merchant generates roughly \$600 in gross profit *per year*. That's not a bad return at all.

With those kinds of numbers, it makes perfect sense for Shopify to maximize its sales & marketing spending. Ideally, all profits should be poured back into these efforts—or perhaps more, if there's enough money available.

And that's exactly what Shopify is doing, which is why it's posting these losses. Not to worry though,

the company can turn on the profits' tap whenever it wants. Now is certainly not the right time.

We've seen this plenty of times before. For example, **Amazon** posted losses for years, and still makes very thin profit margins, all in the name of growing the top line. And as Amazon gets bigger, it becomes harder for competitors to muscle their way in. It's a virtuous cycle that has benefited shareholders for years. Shopify would do well to emulate this.

Should you buy Shopify?

This doesn't mean you should be buying Shopify. The company is still very expensive, and has very high expectations.

But you shouldn't let Shopify's net losses deter you from buying the stock. And if you do own shares, you should be waiting very patiently for the company to post a profit.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. NYSE:SHOP (Shopify Inc.)

Category

1. Investing
2. Tech Stocks

Date

2025/07/21

Date Created

2015/06/22

Author

bensinclair

default watermark

default watermark