



## Why Shopify Inc. Surged as Much as 20% on Wednesday

### Description

**Shopify Inc.** (TSX:SH)([NYSE:SHOP](#)) shares were surging on Wednesday morning after a strong earnings announcement. The technology company's U.S.-listed shares reached a high of US\$24.81 on the day, an increase of more than 20% off of Tuesday's close.

We'll take a look at why investors have reacted so favourably and if the shares are still a great opportunity.

### Soaring growth

Shopify posted US\$70.2 million of revenue in the fourth quarter, a 99% increase year over year and US\$10 million above analyst estimates. The company also posted a net loss of US\$6.3 million, which also beat estimates (Shopify has yet to post a profit as a public company). Perhaps more importantly, there are 243,000 merchants using Shopify, an increase from just 200,000 the *previous quarter*.

There are a few reasons for the revenue beat. Shopify benefited from a strong holiday shopping season, especially for shopping on mobile devices and social networks. The company came out with some compelling new services for its merchants, including innovative shipping options, features for mobile devices, and in-person selling solutions. But most importantly, Shopify's strong results are simply a reflection of the momentum the company has had throughout the year.

To illustrate the momentum Shopify has, the company beat revenue estimates in Q2 and Q3 by 18% and 11%, respectively. In a business where word of mouth matters significantly, such strong results tend to lead to more strong results. No one should be surprised that Shopify extended its winning streak in the fourth quarter.

### Are the shares worth holding?

There's something else that too many people forget about Shopify. The so-called monthly billings retention rate, which measures revenue from the existing cohort of merchants, exceeded 100% for the year. In plain English, this means that any revenues lost from merchants leaving Shopify were more than overcome by growth from the remaining merchants. In other words, the company's merchants are

loyal and they grow.

This makes each merchant incredibly valuable to Shopify—arguably, each merchant is worth US\$5,000 to the company. Thus the company’s existing merchants are worth well over US\$1 billion, not that far from Shopify’s market value.

Better yet, Shopify spends far less to recruit each new merchant than what they are ultimately worth. In the fourth quarter, sales and marketing expenses totaled \$500 for each new merchant. This allows the company to rapidly compound value over time.

By now it should be clear what a fantastic opportunity Shopify is. I am very comfortable being a shareholder.

## **CATEGORY**

1. Investing
2. Tech Stocks

## **TICKERS GLOBAL**

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

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