



## Shopify Inc. Is Unstoppable: Yet Another Earnings Beat

### Description

In the Canadian technology sector, no company stands out as much as burgeoning **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)). Operating in a high-growth industry and providing e-commerce solutions to small- to medium-sized brick-and-mortar merchants have proven to be very lucrative for Shopify. In the most recent earnings beat, the tech company exceeded 500,000 active merchants, which represents an additional 200,000 merchants from the company's numbers just one year ago.

The increase in merchants was reflected in the company's revenue numbers, which came in 75% higher than last year at more than US\$151 million — more than \$8 million higher than analyst expectations. Similarly, the company's net loss shrunk faster than expected to a loss of only \$2.9 million, which was \$3-5 million lower than the range posed by analysts for this most recent quarter.

This earnings beat represents the ninth such beat in a row. Given the substantial margin by which Shopify exceeded analyst and investor expectations in this most recent quarter, it appears that investors are pricing in additional forward momentum; they're expecting similar exceptional outperformance moving forward.

Shopify continues to set the bar higher, and although the company is still losing money, revenue growth, market penetration, and the network economics of having more than half-a-million merchants on their platform have propelled its stock price more than 10% higher in early trading Tuesday morning.

That being said, even factoring in expectations that revenue growth will continue at its torrid pace and earnings will eventually catch up, Shopify is priced at the extreme end of the valuation spectrum. Currently, the company has garnered a valuation of approximately 100 times 2019 earnings — something many analysts have pointed to as the main reason Shopify shares are likely to at least slow down (if not dip) in the near to medium term; after all, Shopify's US\$10 billion valuation now pegs the equity portion of the business higher than major Canadian retailer **Metro, Inc.** and approximately half of the valuation of **Loblaw Companies Ltd.**

### Bottom line

This most recent earnings beat shows just how impressive Shopify's business model is and how

successful the company has been in generating customer loyalty and market penetration in a relatively short amount of time.

That said, the company's current valuation remains at extreme levels, and while it may be possible that Shopify can hang with only the rarest examples of technology companies which have changed our world (think **Amazon.com, Inc.**), it appears expectations may be getting ahead of the fundamentals of the business. The biggest risk for investors is one "average" quarter for Shopify; should this company meet or slightly miss earnings in the coming quarters, investors can expect a sharp decline in Shopify's stock price.

Stay Foolish, my friends.

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