



Shopify Inc.'s Sales Grow in Q3 but Still Can't Keep up With Rising Costs

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) released its third-quarter results today. It was yet another strong earnings report with revenue continuing to rise. Sales of \$171 million were up 72% from last year, as the company's incredible growth continues. However, the company still posted a net loss of over \$9 million for the quarter.

Let's take a closer look at the results to see if investors should be buying Shopify today.

Expenses continue to rise

[As we saw in Q2](#), Shopify's expenses continue to grow at a faster pace than revenue. Although sales were up 72%, and the company had a higher gross profit in Q3, its operating expenses grew by 78%, which negated the growth and resulted in a bigger loss this quarter.

Research and development costs grew by 87%, sales and marketing was up 78%, while general and administrative expenses had the smallest increase of just 64%. As a percentage of revenue, operating expenses represented 66% of the company's top line, while those costs were just 64% of all sales last year.

The loss from operations was \$12 million and 34% higher from a year ago. Other income was up almost \$3 million this quarter and helped bring the company's bottom line to within 3% of last year's loss.

Company raises forecasts

The company announced that it would be raising its forecast for Q4 and the entire year with revenues expected to be between \$206 million and \$208 million for next quarter. Unfortunately, the forecast still expects an operating loss between \$12.5 million and \$14.5 million.

Criticisms of business model to be addressed

Early in October, the company [faced criticism that it was nothing more than a "get-rich-quick scheme,"](#)

which I thought was baseless, but the company plans to address the issues on its conference call. The critical report resulted in the stock plummeting down from nearly \$150 a share to \$115; however, the share price has seen a recovery back up to \$140 since then.

Are there bigger concerns for Shopify?

Investors should be careful not to be distracted by the criticisms about Shopify's business model, as those criticisms are unfounded and biased. Instead, investors should be concerned about why the company continues to see rising expenses and why, despite incredible growth from its top line, Shopify still can't post a profit.

The concern I would have is that when Shopify starts to slow down and the company no longer sees explosive sales growth, it could turn in some terrible quarters if expenses continue on this trajectory.

Should you buy Shopify?

Investors should be careful in deciding whether or not to buy Shopify, as the problems that were present in previous periods continue to persist. High costs and net losses are normal as a company experiences high growth. The problem is, Shopify's market cap is nearly \$14 billion, it has been on the TSX for over two years, and the latest results suggest the situation is still not improving.

The company may be doing well, and its share price will likely continue to climb on these results, but over the long term, I would have concerns as to how the company will be able to control its costs.

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