



Why Shopify's (TSX:SHOP) Q1 Beat Could Send the Stock Soaring Past \$500

Description

What a quarter!

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock [skyrocketed](#) right out of the gate after the company lifted the curtain on its [first-quarter results](#), but more interestingly, the stock has continued to creep higher, posting double-digit percentage moves in the trading sessions that followed the quarter to remember.

Why's the stock roaring like a pot stock?

The Q1 numbers were incredible, but I believe there was much more to love about the quarter than just the impressive numbers. As such, that's why it took investors a little bit longer for investors to digest the results and truly appreciate just how unbelievable the quarter was.

Sure, Shopify surpassed the high end of its own expectations when it came to revenue growth (up 50% year over year), but I don't think that was the biggest takeaway from the quarter. I think the long-term thesis has changed for the better, as there were fundamental improvements that suggest Shopify is still in the very early stages of its growth story.

The quarter was a grand-slam home run with big beats right across the board. Subscriptions popped 40% year over year and monthly recurring revenue (MRR) popped 36% year over year. Management raised its full-year guidance, and it was an all-around "beat-and-raise" quarter for the record books, but these numbers weren't what had me most excited.

When you have a closer look at the trends under the hood, it appears that the long-term investment thesis on Shopify has vastly improved. I think a handful of the short-seller concerns have been put to rest given the trends that were witnessed in Q1.

First, Shopify Plus contributed a larger portion to overall MRRs. As you may remember, one of the biggest bearish concerns was the fact that the number of lower-quality non-Plus users dwarfed the number of resilient Plus users. For the first quarter, Plus subscribers accounted for around 26% of MRRs versus 22% on a year-over-year basis. That's a ridiculously large bounce that essentially throws the "barely any Plus users" bear thesis right out the window.

Second, churn, another big issue highlighted by the shorts, is now much less of a sore spot for Shopify given the rising number of enterprise merchants that are coming on board as well as the international subscriber adds, which are soaring. Although churn rates may have been high, the subscriber additions are overwhelming the number of merchants who've been jumping ship, so given we're likely far, far away from peak subscribers, and the quality of subscribers is uptrending, churn is likely an issue that investors should put to rest over the medium term.

Foolish takeaway

Yes, the numbers were great, but the long-term thesis is even better. Shopify could realistically see a re-acceleration to its top-line growth, and as Plus users continue to account for more of MRRs, it's nearly impossible to have conviction in a short thesis at this juncture. The shorts are feeling the squeeze, and unless a recession is in the cards, Shopify will likely continue roaring much higher from here.

Stay hungry. Stay Foolish.

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