



## What Can You Expect from Shopify (TSX:SHOP) in its Upcoming Earnings?

### Description

Canada's multi-cloud e-commerce platform **Shopify** ([TSX:SHOP](#))([NYSE: SHOP](#)) is slated to announce its second-quarter earnings on August 1, 2019, and a lot will depend on its performance. Analysts expect Shopify to post revenue of \$350.46 million — a rise of 43.1% year over year. Its adjusted earnings per share (EPS) is estimated to rise by 50% to \$0.03.

In the second quarter of 2018, Shopify reported revenue of \$244.96 million and earnings of \$0.02. Will Shopify smash analyst estimates in the second quarter, or will results be below expectations? Shopify has a history of crushing analyst earnings estimates.

In the first quarter, Shopify reported earnings of \$0.09, which were 325% higher than estimates of -\$0.04. In the fourth quarter of 2018, Shopify's earnings of \$0.26 were 30% higher than estimates of \$0.2. In the third quarter of 2018, Shopify reported earnings of \$0.04, which were 300% above estimates of -\$0.02. In the second quarter of 2018, its earnings of \$0.02 were 166.7% higher than estimates of -\$0.03.

### Why Shopify's second-quarter earnings remain critical

Shopify stock has gained significant value over the years. The stock has easily outperformed peers and broader indices. Shopify has returned 115.6% year to date, 146.4% in the last 12 months, 197.5% in the last two years, and a mind-boggling 1,100% in the last five years.

These stupendous returns have meant that the stock is trading at a hefty premium. Shopify is still posting a GAAP (generally accepted accounting principles) loss and is trading at 40 times revenue, which is very expensive. Further, the stock is valued at 20 times its book value.

Shopify's robust revenue and earnings growth have supported this valuation. But any miss in the upcoming earnings or even a tepid guidance will drive the stock significantly lower.

## A look at Shopify's revenue and earnings growth

Shopify stock has generated significant returns driven by its solid earnings and revenue growth. Shopify's revenue more than doubled from \$389 million in 2016 to \$1.07 billion in 2018. It's estimated to rise to \$1.51 billion in 2019, \$2.01 billion in 2020, and \$2.71 billion in 2021.

Shopify's earnings are also expected to grow 50% in 2019, 64.9% in 2020, and at an annual rate of 56.8% over the next five years. In the first quarter, [Shopify's revenue rose](#) 50% year over year and its stock has gained over 25% since then. Will decelerating revenue in Q2 and beyond sway investors away?

[Shopify has recently set its eyes on expanding](#) in the media business by producing television shows. This is similar to what **Amazon** did with its Prime subscription. Shopify is also taking on Amazon in another category with the launch of its fulfillment network. Shopify will now store and package shipments on behalf of its channel partners.

Will this help Shopify gain traction in the e-commerce market? Is Shopify spreading its wings too far and taking on too much risk? While these expansions will help in driving revenue growth, it will also hurt profit margins, as producing content and setting up fulfillment centers are an expensive business.

## Is Shopify stock too risky at current prices?

Shopify is investing a billion dollars to set up these its centres. Will these new business lines help it displace one of the biggest players in e-commerce? These moves are risky, and the company will have to keep pumping in billions of dollars going forward.

Shopify will need to invest a lot more if it is eyeing international expansion. The stock price is on an upward spiral for a while and has just moved northwards, despite analyst concerns. Shopify is disrupting the e-commerce space, much like what Amazon did 20 years back. The question is, can it be as successful as Amazon in doing so?

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**Date**

2025/08/26

**Date Created**

2019/07/26

**Author**

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