



## Shopify (TSX:SHOP) Crushes Wall Street Estimates in Q3

### Description

Canada's e-commerce company disclosed its third-quarter results yesterday and reported revenue of US\$767.4 million — an increase of 96% year over year. Its adjusted earnings per share were US\$1.13 in Q3, up from just US\$0.29 in the prior year. Comparatively, analysts expected the company to post revenue of US\$663.4 million and earnings of US\$0.53 in the third quarter.

However, Shopify did not provide any guidance for Q4. The company said the near-term demand for its subscription and merchant solutions depends on several external factors, including federal benefits, unemployment rates, and the duration of the ongoing pandemic, which may impact consumer spending and new shop creation on its platform.

### Key metrics for Q3

Shopify's subscription sales in the September quarter stood at US\$245.3 million, up 48% year over year due to the addition of merchants on its platform. Comparatively, merchant solutions sales rose by 132% to US\$522.1 million, driven by the stellar growth in gross merchandise volume (GMV).

Shopify's monthly recurring revenue (MRR) stood at US\$74.4 million in Q3, and this growth accelerated to 47% year over year from its MRR of US\$50.7 million in the prior-year period. Shopify's GMV was up 109% at US\$30.9 billion and gross payments volume stood at US\$14 billion, accounting for 45% of GMV processed in Q3.

The company's adjusted gross profit rose 88% to US\$412.6 million, up from US\$219.4 million in Q3 of 2019. Further, adjusted operating income stood at \$131 million, or 17% of sales, up from \$10.5 million, or 3.5% of sales, in the prior-year period. We can see that Shopify has high operating leverage, which means its bottom line will increase at a faster pace than revenue.

### Analysts increase Shopify's price target

Shortly after Shopify released its Q3 results, several analysts increased their price target on the stock,

according to multiple reports from [TheFly.com](#).

- Baird analyst increased its price target from US\$1,200 to US\$1,250 and maintained an Outperform rating.
- RBC Capital increased its price target from US\$1,200 to US\$1,290 and maintained an Outperform rating.
- **Goldman Sachs** increased its price target from US\$1,318 to US\$1,323 and maintained a Buy rating.

Shopify managed to more than double its GMV for two consecutive quarters. The company's subscription sales are also forecast to drive top-line growth in the upcoming quarters, as merchants adopt new solutions. The number of merchants on Shopify's platform rose by 409,000 as well in the September quarter.

However, it remains to be seen if the e-commerce heavyweight will be able to maintain its robust growth rates in Q4 and beyond, as stimulus payments end in the U.S.

## Valuation and more

Shopify stock closed trading at \$1,296.4 in Q4, indicating a forward price-to-2021-sales multiple of 34 and a price-to-earnings multiple of 391. Canada's largest company in terms of market cap continues to trade at a sky-high valuation. But we can also see it is supported by strong growth rates.

The COVID-19 pandemic has [acted as a massive tailwind](#) for Shopify and e-commerce peers, making it one of the top stocks to buy and hold for 2020 and for the upcoming decade.

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