



## Shopify (TSX:SHOP) Third-Quarter Earnings: E-commerce Wave Is Still Alive

### Description

**Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) doubled its sales once again in the third quarter, proving that the e-commerce wave triggered by the pandemic is still alive. The bullish investors, which pushed the stock above \$1,400, or 80 times its sales per share, were not wrong. Shopify's revenue surged 96% year-over-year (YoY) to \$767.4 million, beating analysts' estimates of \$658 million.

Despite such strong growth, Shopify stock fell 9% ahead of its earnings as [investors were divided](#), whether or not the e-commerce giant will live up to the inflated expectations. That's pretty normal with high-value stocks. The third-quarter earnings showed that Shopify's efforts in adding features and enhancing services are paying off.

### Four key metrics driving Shopify's earnings

Shopify is an e-commerce platform that earns money from subscription fees and a commission on every transaction (Merchant solutions). Its revenue increases significantly when Merchant solutions grow, and its profit rises when Subscriptions grow. In the third quarter, both segments grew.

Shopify's revenue surged 7% sequentially, or ~\$53 million, of which \$48.9 million came from subscriptions. For the first time in over four years, its subscription revenue surged 24.9% sequentially. Three factors drove this growth: Shopify succeeded in converting a good number of new merchants on the 90-day free trial (pandemic-special offer) into paid customers; more enterprise customers subscribed to Shopify Plus, a premium offering that Shopify excluded from the 90-day free trial, and Shopify continued to get monthly recurring revenue (MRR) from its standard 14-day free trial.

The 90-day free trial accelerates its MRR growth to 47% YoY as compared to its average growth rate of 30%. Shopify noted that this accelerated growth won't continue in the fourth quarter.

The high subscription revenue improved its net income to \$191.1 million from \$36 million in the previous quarter. This is its first triple-digit net income ever. The question is will the company be able to sustain this income?

The last key metric is its merchant solutions revenue, which grew 132% YoY to \$522.1 million. This growth was driven by a 109% increase in gross merchandise volume and the increased commission (1.7%) of Shopify on every transaction. The e-commerce giant highlighted that its new buy-now-pay-later option added in the third quarter helped merchants boost sales. Moreover, many merchants availed Shopify Capital to prepare for the holiday selling season.

## What's in store for the fourth quarter?

The fourth quarter is seasonally strong for Shopify as this is the time Black Friday, Cyber Monday, and holiday season sales happen. This year's fourth quarter is important as the overall e-commerce traffic has surged because of the pandemic. Now, the resurgence of COVID-19 cases would encourage customers who returned to physical stores to buy online. Shopify is preparing its fulfillment network to handle the holiday season traffic.

While rival **Amazon** guided a 28%-38% YoY revenue growth for the [fourth quarter](#), Shopify refrained from providing guidance. Shopify stated that several macro factors, such as unemployment, fiscal stimulus, and the magnitude and duration of the pandemic, will impact consumer spending and new store opening on its platform.

On average, Shopify's fourth-quarter revenue surged 30% YoY in the last five years. This year, its fourth-quarter revenue growth could surpass 100%.

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## Shopify is a long-term bull

Shopify is prepared for a pullback as well as a scale-up. It has increased its cash reserves to \$6.1 billion from \$2.46 billion at the start of the year. It will use this cash for its future growth. In the medium term, it is focusing on international expansion and going beyond online to retail store point-of-sale (POS) solutions. In the long-term, it expects to expand its fulfillment network, Shopify Balance (a current account for its merchants), and wholesale business.

Shopify stock is currently trading below \$1,300, an attractive buy point. The stock tends to tread north between November and February. It could surge to \$1,500 despite its high valuation on the back of holiday season sales.

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2. Investing
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### Date

2025/08/18

### Date Created

2020/10/30

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