



Shopify Smashed Earnings: Why Is it Not Rising?

Description

On October 29, **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) reported its Q3 2020 earnings. Overall, the company showed very strong growth across its business. However, the company's stock proceeded to fall for the next two trading days, before finally rising on Tuesday. Since its earnings call, Shopify stock is still on the negative side.

Does the report indicate anything investors should be wary of? Is Shopify still a good company to hold in your portfolio? I will tackle these questions in this article.

Dissecting Shopify's earnings report

Although **Amazon** still holds the largest market share, by a long shot, among retail ecommerce sales in the United States, Shopify was able to hold its second-place position. Currently, the company has a market share of 5.89%. The next closest competitor is **eBay** with a 5.11% share. The rest of the field is much lower than the two of these companies.

Shopify's [revenue continues to grow](#) at a very strong pace. In Q3 2019, the company reported \$390.6 million in quarterly revenue. This year, it reported a quarterly revenue of \$767.4 million. This represents a year-over-year growth of 96%!

Shopify's monthly recurring revenue also skyrocketed this past quarter, as consumers continued to turn to online retail solutions. For Q3 2020, Shopify reported \$74.4 million in recurring revenue. This represents a compound annual growth rate of 47% since Q3 2015.

One final note about the company's revenue is that it continues to become more diversified. In Q3 2019, apps, themes, and domains only accounted for 11% of its revenue. At the same time, 23% of Shopify's revenue came from Shopify Plus customers and 65% came from its core business (entrepreneurs and small- and medium-sized businesses). In Q3 2020, these numbers were reported to be 20%, 22%, and 59%, respectively. This is great for the company, as Shopify can rely less on a certain area of its business to drive revenue.

The presentation ends with several highlights that Shopify management would like to remind investors of. First, the company continues to have a very strong balance sheet. Although the company is still very much in the high-growth stage, Shopify carries very little debt and emphasizes disciplined capital allocation.

The highlights also mention the fact that Shopify continues to build its partner ecosystem, which will be very hard for competitors to replicate. This allows it to continue to attack this massive market, during a time with increasing penetration.

Why is Shopify stock not performing well?

As I mentioned at the open, Shopify stock is still in the red since its earnings report. In fact, it has netted investors about a 0% return over the past four months. However, this is not surprising, considering Shopify stock gained over 200% since hitting its lowest point in March. In the past couple weeks, all growth stocks have seen significant decreases in value, as investors grew wary of the presidential election.

Foolish takeaway

Shopify has been a very strong performer [since its IPO](#). While the stock may need some time to cool off, after a red hot run this year, its business continues to show signs of growth and strength. If you believe Shopify will continue to be a leader in the e-commerce space, then any short-term stagnation or volatility in its stock price should not worry you.

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