



Shopify Inc (TSX:SHOP) Is Now Ultra Profitable

Description

It's official: **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) is now consistently profitable. Whether you use GAAP or adjusted figures, the company turned a profit for the 2020 fiscal year.

In its fourth-quarter/fiscal-2020 release, SHOP posted \$319 million in GAAP profits and \$491 million in adjusted profits, along with an 86% increase in revenue. These phenomenal results were driven primarily by exceptional results in the second, third and fourth quarters, which saw revenue growth accelerate. In this article, I'll explore Shopify's recent profitable quarters and argue that they are likely to be the beginning of a long-term trend.

Three consecutive profitable quarters

Prior to 2020, SHOP was intermittently profitable in non-GAAP terms. However, GAAP profits had been hard to come by. Companies are allowed to report adjusted measures in their financial statements as long as they report the GAAP numbers alongside them. That makes adjusted earnings vulnerable to manipulation, but it also helps take non-cash factors out of the equation.

In any case, Shopify started posting positive profits in both GAAP and non-GAAP terms in the second quarter. This continued in the third and fourth, leading to the profitable full year 2020. The question now is whether SHOP can keep it up — and it seems likely that it will.

Will revenue deceleration take a bite out of those profits?

Long before COVID-19 came on the scene, revenue-growth deceleration had been a huge concern for SHOP.

Its revenue growth was consistently high, but the *rate* of growth tended to decrease every year. For example, in its final quarter before COVID-19 hit, SHOP grew at 45% year over year, when it had been growing at [about 93% when it went public](#). The growth rate had been cut in half in five years.

Then COVID-19 happened, and Shopify utterly defied everybody's expectations. Growing at 97% and 96% in the second and third quarters, its growth actually accelerated. In the fourth quarter, the growth rate was 93% — down from prior quarters but up from the same period a year before. This strong revenue growth helped propel SHOP's profits in 2020.

Now, the company is saying this strong growth may not last. Just recently, SHOP put out a statement telling investors to [expect revenue deceleration](#). Given the COVID-19-led boom in e-commerce sales, it's reasonable to expect that Shopify's growth will slow when the economy re-opens. But I wouldn't count SHOP out just yet. The COVID-19 pandemic is far from over, and many businesses have had to close permanently because of the shutdowns. Maybe what we saw in 2020 was an acceleration of the secular "death of retail," rather than a temporary spike in e-commerce sales. We'll have to wait and see. But without a doubt, SHOP's best years are ahead of it.

Foolish takeaway

After soaring in 2020, SHOP is once again on the rise, trading at a whopping \$1,800 as of this writing. Amazingly, the stock may not be overvalued. Now profitable, the underlying company is doing better than anybody had expected. The only question is, how far can it go?

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