Shopify (TSX:SHOP) DESTROYS Profit Expectations and Jumps 10%

Description

Shopify Inc (TSX:SHOP)(NYSE:SHOP) just released its first-quarter results. And holy smokes, they were amazing. In the first quarter, the company posted solid top and bottom line growth, and out-performed on virtually every relevant metric. The quarter featured the company's biggest ever GAAP profit, as well as a massive adjusted profit. In this article I'll review Shopify's stellar Q1 results and what they mean for investors

Stunning growth

In the first quarter Shopify posted stunning growth in just about every line item. That includes:

- Revenue: $988.6 million. Up 110%.
- GAAP net income: $1.3 billion. Up from a loss.
- Adjusted diluted EPS: $2.01. Up approximately 1,000%.
- Monthly recurring revenue: $89.9 billion. Up 62%.

All of these results were way ahead of analyst estimates. Most people following SHOP were expecting revenue to decelerate in 2021 due to the pandemic re-opening. The pandemic caused a lot of stores to close, which led to a surge in shopping on online stores. That was expected to end this year, and cause deceleration for companies like SHOP and **Amazon.** So far, it hasn't happened.

The first quarter saw Shopify's strongest revenue growth yet. The 110% top-line growth accelerated dramatically from the best 2020 quarter, when it grew by 97%. On the strength of these results, Shopify's stock surged 10% in the span of a single trading day. For Shopify shareholders, it was one for the record books.

Can Shopify keep it up?

After producing one of its most impressive quarterly reports ever, Shopify is under a lot of pressure to keep up the momentum.

The stock trades at extremely high multiples, and is still expensive even after Q1's $1.3 billion GAAP profit.

So, can Shopify keep it up?

It depends on a few key things.

The first is the effect of the COVID-19 pandemic ending. When the pandemic ends, lockdowns will end, and that means retail stores will be allowed to operate normally. In theory, that should mean less sales for Shopify. But it really depends on how many retailers even manage to survive the pandemic at all. If COVID-19 goes on longer than expected, than a lot of brick and mortar stores will close permanently.

In that case, the online shopping craze of 2020/2021 may prove to be a secular trend. Remember: The "death of retail" was a big topic long before COVID-19 came on the scene. So it's far from guaranteed that Shopify will experience deceleration once COVID-19 is over.

Another important factor is the company's size. Now doing $1 billion in quarterly revenue, Shopify has a much larger base to grow from than it did when it meant public. That makes large percentage gains harder to achieve. As Warren Buffett likes to say, *"Size is the anchor of performance."* Shopify may continue growing at a fast pace, but we wouldn't expect 110% year-over-year growth to continue forever.

Last but not least, we have partnerships. Shopify is currently working on integrating its own tech with companies like **Facebook,** to try to expand its reach. If these projects may off, then that will give Shopify a much wider net. So far, it's too early to tell how these projects are playing out. Should they succeed, Shopify will have many more winning quarters ahead of it.

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