



Why Shopify (TSX:SHOP) Stock Surged Over 11% Yesterday

Description

Shares of Canadian tech giant **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) rose 11.4% yesterday on the back of strong Q1 results. The company's revenue soared by a stellar 110% year over year to US\$988.6 million. While merchant solutions sales were up 137% at US\$668 million, subscription sales surged 71% higher to US\$320.7 million.

Its earnings also rose over 11 times to \$2.01 per share. Comparatively, Wall Street expected Shopify to post revenue of US\$865 million and earnings of US\$0.73 per share in Q1.

In Shopify's [press release](#), its president Harley Finkelstein confirmed, "More entrepreneurs around the world are choosing Shopify to launch and grow their businesses, and for good reason. Our singular focus is on making entrepreneurship easier and making it easier for entrepreneurs to succeed."

Key takeaway's from Q1 earnings

It's quite evident that Shopify has continued to benefit from the shift towards online shopping that accelerated amid the pandemic. Shopify's GMV (gross merchandise volume), which is the total amount spent on its e-commerce platform was up 114% at US\$37.3 billion.

The company's MRR (monthly recurring revenue) rose 62% year over year from US\$55.4 million in Q1 of 2020 to almost US\$90 million in Q1 of 2021, driven by an increase in Shopify's merchant base. The MRR is calculated by multiplying the number of merchants by the average monthly subscription fee.

This massive growth allowed the company to improve its bottom line by a significant margin, indicating high operating leverage. Shopify's gross profit dollar growth was up 117% at US\$558.7 million. Comparatively, its operating income rose to US\$210.8 million, accounting for a healthy 21% of total sales. In the prior-year period, Shopify reported an operating loss of US\$7.3 million.

Merchant sales account for a majority of Shopify sales, and the company continues to focus on optimizing its software and network. In Q1, it introduced features that offer merchants greater insights into their inventory, which provided them with greater flexibility to manage orders.

Shop, a mobile shopping assistant that lets shoppers discover merchants, now has 107 million registered users and 24 million monthly active users. Further, Shop Pay, which was launched back in 2017, has now facilitated \$24 billion in cumulative GMV.

What's next for Shopify investors?

Despite another breakout quarter, Shopify's management cautioned investors that growth in the subsequent quarter will decelerate, as vaccinations ramp up and lockdown restrictions ease in its major markets. Shopify reconfirmed it expects top-line growth to grow at a slower rate compared to 2020. Last year, Shopify sales were up 86% year over year.

Now, Shopify aims to increase spending on growth initiatives going forward, which will hurt its bottom line. The company explained, "We expect full-year 2021 adjusted operating income to be below the level we achieved in 2020."

Shopify ended Q1 with a cash balance of almost \$8 billion, providing it with enough liquidity to increase sales and marketing spending in the near term.

Shopify stock was trading 25% [below its record high](#) a few days back. However, its impressive Q1 results have allowed it to stage a comeback, and the stock is now up 14% in 2021.

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