



Why Shopify Stock Could Erupt This Summer

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) is an iconic Canadian technology company. In the three months ended March 31, 2021, Shopify's subscription solutions revenues accounted for 32.4% of the company's total revenues, which decreased from 40% in the three months that ended in March 31, 2020. Shopify offers a range of plans that increase in price depending on [additional features](#) and economic considerations. This provides a variety of options to the end customer.

Offering high-end plans

The company's highest-end plan, Shopify Plus, is offered at a starting rate that is several times that of the company's standard Shopify plans. Shopify Plus solves for the [complexity of merchants](#), as businesses grow and scale globally, offering additional functionality, and support, including features like Shopify Flow and Launchpad, for e-commerce automation, and dedicated account management where appropriate.

Allbirds, Gymshark and Heinz are a few of the Shopify Plus merchants seeking a reliable, cost-effective and scalable commerce solution. The flexibility of Shopify's pricing plans is designed to help the company's merchants grow in a cost-effective manner and to provide more advanced features and support as the needs of the merchant's business evolve.

Lucrative subscription solutions segment

Revenue from subscription solutions is generated through the sale of subscriptions to Shopify's platform, including variable platform fees, as well as through the sale of subscriptions to the company's point-of-sale (POS) pro offering, the sale of themes, the sale of apps, and the registration of domain names.

Further, Shopify's subscription solutions revenues increased from \$187 million in the three months ended March 31, 2020, to \$321 million in the three months ended March 31, 2021, representing an increase of 70.9%. The company's merchants typically enter monthly subscription agreements. The

revenue from these agreements is recognized over time on a ratable basis over the contractual term, and therefore Shopify has deferred revenue on the company's balance sheet.

Monthly recurring revenue metric

An interesting point to note is that Shopify does not consider this deferred revenue balance to be a good indicator of future revenue. Instead, Shopify appears to believe that monthly recurring revenue (MRR) is most closely correlated with the long-term value of the company's merchant relationships.

At the end of the first quarter of fiscal 2021, MRR totaled \$90 million, representing an increase of 62% relative to MRR at the end of the first quarter of fiscal 2021. Shopify's subscription solutions revenue has been growing at a faster rate than MRR due to apps and platform fees increasing as a percentage of total subscription solutions.

Variety of merchant solutions

In addition, Shopify offers a variety of merchant solutions that are designed to add value to merchants and augment the company's subscription solutions. In the first quarter of fiscal 2021, merchant solutions revenues accounted for 68% of total revenues, which increased from 60% in the three months ended March 31, 2020.

Furthermore, Shopify principally generates merchant solutions revenues from payment processing fees from Shopify Payments. Shopify Payments is a fully integrated payment processing service that allows the company's merchants to accept and process payment cards online and offline. This represents a huge growth opportunity for Shopify; it could increase the company's stock price over the long term.

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