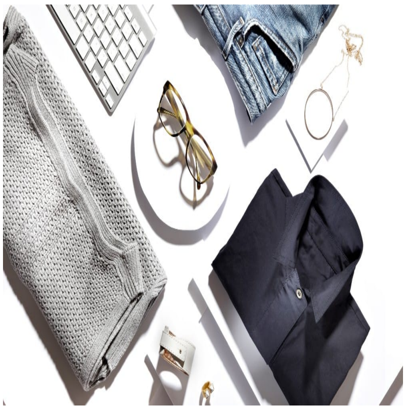

Why Shopify Demolished Q2 Earnings Estimates! (Just as I Expected)

Description

Shopify (TSX:SHOP)(NYSE:SHOP) announced its solid second-quarter results this morning. The company demolished Street analysts' consensus estimates by reporting a massive 113% YoY (year-over-year) jump in its Q2 earnings to US$2.24 per share. This was nearly 132% more than analysts' expectation of US$0.97 per share. Before we take a closer look at some other key highlights from its earnings report, let's take a closer look at what key factors helped Shopify crush Street's Q2 estimates.

Shopify's Q2 results

In the second quarter, the Ottawa-based e-commerce services provider's sales jumped by 57% from a year ago to US$1.1 billion — also more than 7% better than analysts' expectations. Interestingly, this was the first time Shopify posted more than US$1 billion in quarterly revenue.

On the profitability side, Shopify continued to report solid expansion in its profit margins. Its adjusted net profit margin stood at 25.4% in the last quarter — much stronger than 18.1% a year ago.

Key growth drivers

The continued strong momentum of digital commerce trends was one of the key factors that boosted Shopify's June quarter earnings. Also, continued strength in its revenue from subscription solutions and accelerating growth in monthly recurring revenue helped the company report better-than-expected Q2 total revenue.

Shopify's revenue from its subscription solutions jumped by about 70% to US$334 million, while its merchant solutions' revenue rose by 52% from a year ago. Similarly, its monthly recurring revenue rose by 67% on a year-over-year basis. In some of my recent articles, I've pointed out why a continued solid growth in Shopify's subscription solutions and monthly recurring revenues could become a key driver for its strong total sales performance in the coming quarters. And its latest quarterly results didn't disappoint me.

What to expect next

Shopify didn't make any major change in its yearly outlook today, as it admitted that "consumer spending beginning to rotate back to services and off-line retail, and e-commerce growing at a more normalized pace relative to 2020" amid reopening economies.

Nonetheless, its management continues to focus on innovative ways of attracting more merchants to its platform by adding new features to it and making it more user friendly. The management plans to aggressively reinvest its profits back into its business to drive more growth in the coming years. For example, Shopify has taken several steps in a couple of quarters to make its platform more customizable, faster, scalable, and developer friendly. These steps should help Shopify expand its customer base at a fast pace and post strong financial growth in the coming years, I believe.

Is Shopify stock worth buying now?

After posting outstanding more than 170% gains for two consecutive years, Shopify stock is currently trading with only 35% in 2021. Despite its much stronger-than-expected second-quarter earnings, the stock fell by nearly 1% this morning. If it sees any significant dip in its stock price in the coming sessions, I'll consider that a great buying opportunity for long-term investors, as its long-term growth outlook remains strong.

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