# Shopify (TSX:SHOP) Looks Tasty After Yesterday’s Earnings

## Description

**Shopify** (TSX:SHOP)(NYSE:SHOP) released its second-quarter earnings yesterday. The release defied expectations on just about every metric, yet the stock fell 1.1%. Revenue, net income, and EPS were all up big year over year. All three metrics beat analyst estimates. The company did experience some revenue deceleration but not a huge amount given the high sales in the base period. Overall, it was a killer quarter and the subsequent selloff may represent a buying opportunity for shrewd investors.



Let’s look at those earnings metrics in detail.

For the second quarter, SHOP posted:

- Revenue: $1.1 billion, up 57%.
- Gross profit: $620 million, up 66%.
- Operating income: $139 million.
- Net income (GAAP): $879 million, up 2,300%.
- Net income (adjusted): $284 million, up 120%.

These were solid results across the board. Revenue growth did decelerate, but you’d expect *some* deceleration when the base period quarter saw 97% growth. Size is the anchor of performance, and no company can grow at 90% forever. The fact that revenue was still growing at 57% with revenue nearly doubling in the base period is very impressive.

But that’s not the only impressive thing in Shopify’s second-quarter report. What’s *really* impressive in the report is the profitability metrics. GAAP net income, adjusted net income, and operating income were all positive, which is pretty impressive for a tech company just a little over five years from its initial public offering.

GAAP net income was heavily influenced by unrealized gains on investments, so the adjusted earnings figure is probably more reliable. Still, even with $284 million in net income, you get a 25% net margin–very impressive.

The question now is where Shopify goes from here. If it can keep delivering results like the ones it delivered in Q2, then SHOP is almost certain to rise. Clearly, revenue deceleration in the post-COVID period is not too severe.

As well, 57% is an admirable growth rate, and in fact, is superior to the growth Shopify was posting *before* COVID came on the scene. So there's a very good chance that Shopify will keep delivering strong earnings for the rest of the year.

If it does so, then shareholders will be handsomely rewarded. Recently SHOP hit an all-time high of $2,068 in anticipation of a knockout earnings release. Later it gave up some of the gains, but the Q2 release could get the gains started up again. SHOP is a pretty expensive stock, but not that expensive.

Compared to the likes of, say, **Tesla,** its multiples aren't that high. When you've got 57% growth on top of 97% growth in the base period, you can justify a high multiple. So, the recent selloff was probably just a blip on the screen.

Overall, things are looking good for Shopify in 2021. It's beating on revenue, earnings, and operational metrics, and its vendors are doing more sales than ever. Who knows whether this good news will continue for the remainder of the year.

But for now, at least, it looks like the thesis that the end of the pandemic would hurt Shopify is no more.



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