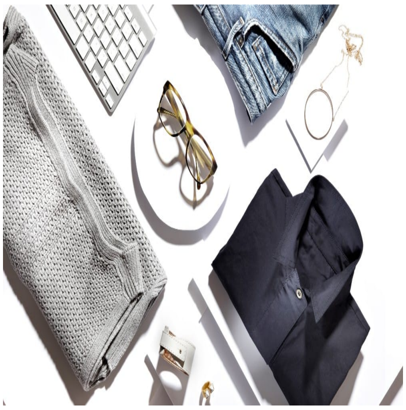

Shopify (TSX:SHOP) Soars 7% Despite Earnings Miss

Description

Shopify (TSX:SHOP)(NYSE:SHOP) just released its third-quarter results. And the stock is absolutely flying. Despite arguably being a miss, the results were taken extremely well by investors. As of this writing, SHOP was up 7% on Thursday — its biggest one-day gain in many months. The gains were probably helped along by overall bullishness in the markets, as tech stocks (measured by the NASDAQ) were soaring at the same time that Shopify rallied.

Still, it looks like a positive investor reaction to earnings was a big part of today's rally. SHOP rose much more than the average tech stock did today, and there hasn't been any major news about the company apart from the earnings release. In this article, I will explore that earnings release in detail to bring to light what it means for investors.

Third-quarter earnings: Beat or miss?

Depending on whether you look at GAAP earnings or adjusted earnings, Shopify's third quarter was either a miss or an enormous beat. My source for analyst estimates — the *Wall Street Journal* — does not clarify whether analysts were estimating for GAAP or adjusted results. Most media outlets are reporting the quarter as a miss on both earnings and revenue.

Shopify's $0.81 in adjusted EPS was about $0.42 shy of analyst estimates — a substantial miss. However, GAAP earnings came in at a whopping $9 per share — *seven times* what analysts expected. The discrepancy between GAAP and adjusted earnings was due to a huge $1.34 billion gain on Shopify's investment portfolio. This gain was the lion's share of earnings for the period.

Shopify owns stock in a number of smaller e-commerce companies, and those stocks fluctuate in the market all the time. When those stocks go up, they drive Shopify's GAAP earnings — but not its cash flow — higher. This type of non-cash gain is often excluded from earnings by analysts, as it doesn't reflect operating performance. It should be noted though that Shopify's investments are pretty liquid — it holds stock in publicly traded companies — so it could cash out these gains if it wanted to.

Other highlights from Q3

Apart from the $9 in GAAP EPS and $0.81 in adjusted EPS, SHOP posted a number of other interesting results for the third quarter:

- $1.123 billion in revenue, up 46% (miss)
- $336 million in subscription revenue, up 37%
- $42 billion in GMV, up 35%
- $608 million in gross profit, up 50%
- A $4.1 million GAAP operating loss
- $140 million in adjusted operating income

Overall, those are pretty solid results, but it does look like post-COVID-19 deceleration is beginning to occur. The COVID-19 pandemic benefitted Shopify because it closed down retail stores, leading to a surge in online shopping. It was long thought that as lockdowns ended, Shopify's revenue would begin to decelerate due to consumers having more brick-and-mortar options available. It took a long time for that to start to happen, but it is indeed happening now. Of course, analysts were already expecting it, so it's not a surprise. But Shopify's days of easy 90% revenue growth are over.

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