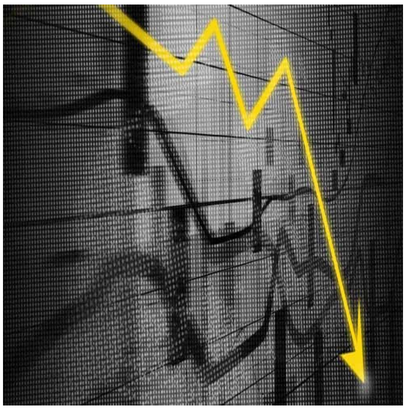

Why Shopify Stock Tanked 28% in February

**Description**

## What happened?



The shares of **Shopify** (TSX:SHOP)(NYSE:SHOP) continued to tumble for the third consecutive month in February. After starting the year on a bearish note by losing 29.6% of its value in January, SHOP stock extended its losses last month, as it slipped by 28.3% to $879.92 per share. With this, Shopify shares are now down by about 50% on a year-to-date basis.

## So what?

Shopify released its December quarter financial results last month on February 16. The Canadian e-commerce services provider continued to post strong positive growth in its top as well as the bottom line.

In Q4, its merchant solutions revenue exceeded the US$1 billion mark for the first time as it jumped by 47% YoY (year over year). Similarly, its monthly recurring revenue as of December 31, 2021, crossed the US$100 million level for the first time with the help of a 23% YoY gain. Meanwhile, SHOP's subscription solutions revenue also showed a decent 26% YoY increase to US$351.2 million In the fourth quarter. With all these positive growth aspects, Shopify's total revenue rose by 41.1% to US$1.38 billion — slightly higher compared to analysts' estimate of US$1.33 billion.

On the profitability side, its adjusted gross profit dollars so 37% gain to US$700.6 million in Q4 2021, and its adjusted operating margin stood at 9%. As a result, the company reported US$1.36 per share in adjusted earnings — nearly 10% stronger than analysts' estimates of US$1.24 per share.

Despite all these positive factors, its Q4 results seemingly failed to impress investors, as they reacted negatively to its earnings event. After Shopify revealed its expectations of a drop in its revenue growth rate in 2022, several notable Street analysts cut their target price on its stock. Following this, SHOP stock tanked by 17.1% on February 16 — the day of its Q4 earnings event. The recent tech sector-wide selloff also continued to pressure Shopify stock in February.

## Now what?

Shopify's total revenue rose by about 57% YoY in 2021. As I mentioned above, the company now expects its 2022 revenue-growth rate to remain lower than 57%.

I was already expecting Shopify's revenue growth rate to decline this year. A temporary and sudden jump in demand for e-commerce services during the COVID phase boosted its sales in the last couple of years. And it's natural for its sales YoY growth to drop in the post-pandemic era. That's why I don't see Shopify's 2022 revenue growth outlook as a bearish factor and a reason to sell its stock. Instead, I would pay more attention to the company's future growth and expansion plans.

In its latest earnings report, Shopify highlighted that it's accelerating hiring in sales and stepping up its marketing efforts internationally. These factors could help the company post stronger financial growth in the long term, which should help SHOP stock recover fast. Given these factors, I find its stock worth buying right now.



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