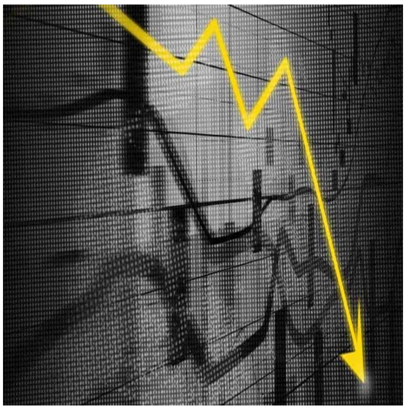

Shopify Stock Plunges 14% After Earnings and Revenue Miss in Q1 of 2022

Description

Shares of Canada-based e-commerce giant **Shopify** (TSX:SHOP)(NYSE:SHOP) fell by 14.3% on May 5 after the company announced its results for Q1 of 2022. In the quarter ended in March, Shopify reported revenue of US$1.2 billion and adjusted earnings per share of US$0.20.

Comparatively, analysts expected the company to report revenue of US$1.6 billion and adjusted earnings of US$0.80 per share in the quarter. In the year-ago period, Shopify's revenue and earnings stood at US$988.64 million and US$2.01 per share, respectively.

Shopify also stated its gross merchandise volume for Q1 stood at US$43.2 billion — an increase of 16% year over year, while gross payments volume grew 46% to US$22 billion.

We can see that Shopify's massive revenue and earnings miss left investors unimpressed, resulting in the selloff yesterday.

Shopify disclosed Deliverr acquisition for $2.1 billion

Shopify explained revenue growth will be lower in the first half of 2022 and will gain pace in Q4 this year as the e-commerce sector benefitted from COVID-19-related lockdowns in the prior-year period.

Shortly after Shopify reported its quarterly results, several analysts expectedly lower their 12-month average price target on the stock. In a report accessed by *TheFlyy,* Jeffries analyst Samad Samana stated investors were bracing for a weak Q1 given other e-commerce companies, such as **Amazon** and **Etsy**, also missed Wall Street estimates. However, Shopify's steep decline in profit margins, as well as tepid revenue growth, took market participants by surprise.

Another reason for the selloff can be attributed to the company's acquisition of Deliverr for $2.1 billion which is a fulfillment technology provider. Deliverr's suite of services allows merchants to integrate and simplify fragmented supply chains while its network of warehouse and shipping partners will provide faster delivery options.

Shopify will continue to invest heavily to build a robust fulfillment infrastructure, which is going to impact its profit margins significantly in the upcoming quarters. Additionally, the company forecasts capital expenditures of US$200 million in 2022, while stock-based compensation expenses and related payroll taxes are estimated at US$800 million.

What’s next for SHOP stock and investors?

Shopify’s revenue growth has decelerated at an alarming pace. In Q4 of 2021, its sales grew by 41% while it more than doubled in the year-ago period. It’s evident that with the relaxation of COVID-19 restrictions, people are shopping offline. Further, higher inflation rates will shift consumer spending towards staples and away from discretionary products.

In its press release, Shopify stated, “Factoring in the effects of an inflationary environment on consumer spending, we expect our adjusted operating results to reflect the reinvestments outlined above as well as the impact of Deliverr, which we expect to be dilutive to operating margin this year.”

SHOP stock is currently trading 75% below all-time highs valuing the company at $66.7 billion by market cap. Prior to Q1 results, Shopify was forecast to report revenue of $7.52 billion this year. These estimates will now be lowered due to the company’s decelerating top-line growth.

Even if Shopify reports sales of $7.2 billion, the stock is valued at nine times forward sales, which is quite steep. There is a good chance for SHOP stock to move lower if market sentiment remains bearish.

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Date
2025/07/21
Date Created
2022/05/06
Author
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