



Square Q3 Earnings: Looking for More Strong Growth

Description

Point-of-sale technology company **Square** (NYSE: SQ) has recently been growing rapidly. But its [growth](#) hasn't been good enough for the market — at least that's what an investor might assume by the stock's 28% decline over the past year.

Overall, the company has been doing everything right. Revenue has been coming in [above expectations](#) and the company's adjusted earnings before interest, taxes, depreciation, and amortization ([EBITDA](#)) has been soaring. But for now, high expectations have become the stock's crutch.

With Square's shares trading lower, investors will be looking to see if the company can finally impress investors with its latest quarterly results. The company reports its third-quarter earnings on November 6.

Ahead of the results, here's an overview of two items that investors will want to watch.

Revenue growth

Quarterly revenue crossed \$1 billion for the first time in Q2, coming in at \$1.17 billion. This was up 44% year over year. But the top-line figure watched more closely by analysts and investors is the company's adjusted revenue, or total net revenue less transaction-based costs, bitcoin costs, and the impact of deferred revenue adjustment related to purchase accounting. This revenue was up 46% year over year in Q2.

Square's adjusted revenue growth rate has recently decelerated rapidly. In the fourth quarter of 2018, adjusted revenue increased 68% year over year. This growth rate then fell to 59% in Q1 and 46% in Q2.

But this deceleration may moderate in Q3. Management guided for adjusted revenue during the period to be between \$590 million and \$600 million.

The midpoint of this guidance range implies 38% growth. But actual revenue typically comes in above management's guidance range. The high end of management's guidance range, therefore, is a better indicator of what to expect. Third-quarter adjusted revenue of \$600 million implies 39% growth.

Analysts, on average, are currently expecting Square's third-quarter revenue to come in at \$597.5 million.

Subscription and services-based revenue and gross profit

Square's subscription and services-based revenue has been a key driver for the company, as it's seeing outsized growth compared to its transaction-based and hardware revenue. Primary drivers in the segment include the Cash App, Square Capital, Caviar, and Instant Deposit.

Revenue from this segment rose 87% year over year to \$251 million. More impressively, the segment's gross profit was \$191 million, up 102% year over year. Can this segment keep up its strong momentum in Q3?

Investors should also keep an eye out for any news on the company's sale of Caviar, Square's food-ordering platform. The company entered an agreement with DoorDash on Aug. 1 to sell Caviar in a deal valued at \$410 million. The transaction is expected to close before the end of the year.

Square will report its third-quarter results after market close on Wednesday, Nov. 6.

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Date

2025/07/22

Date Created

2019/10/18

Author
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