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Shopify's Business Sells Itself, for Now

E-commerce rush rockets Shopify shares amid coronavirus, but all good sales can eventually come to an end

Shopify's second-quarter revenue jumped 97%, as more businesses signed on to use the company's e-commerce platform during the pandemic.

PHOTO: DAVID KAWAI/BLOOMBERG NEWS

By Laura Forman
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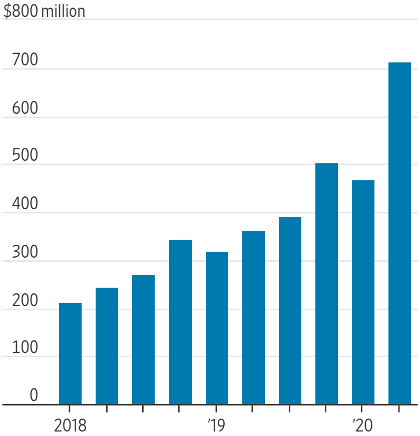
Overall U.S. retail sales were down in the second quarter, according to Census Bureau data. You would never know it from Shopify's SHOP **6.88%** ▲ results.

With the pandemic forcing store closures world-wide, e-commerce business is booming. Companies rushed to Shopify's online retail platform in the early months of the pandemic, driving eye-popping quarterly results for a company that was already growing at an impressive clip.

Second-quarter revenue was up 97% from a year earlier to $714 million—roughly 40% higher than Wall Street's expectations. Meanwhile, gross merchandise volume topped $30 billion, well above analysts' forecast of $19.9 billion and up 119% versus a year ago. That growth looks all the more impressive when compared with the 26% growth in gross merchandise volume eBay reported Tuesday evening. Shopify shares were up around 10% on Wednesday.

Full Cart

Shopify's quarter revenue



Source: the company

The company says its e-commerce platform is built to enable businesses of all sizes "to sell to anyone, anywhere." As the pandemic rages on, that value proposition has apparently been selling itself. Shopify managed to turn a slight operating profit, despite analysts' expectation for a loss, driven not only by top-line outperformance but also by lower sales and marketing costs versus Street expectations.

There were more incentives for business to come online this year than just the pandemic. Shopify said it recently extended its trial period for new standard plans from 14 to 90 days. That offer, which ended May 31, was very popular. The company said new stores created on its platform, or those who have provided billing information but for which the company doesn't yet collect a subscription fee, grew 71% in the second quarter versus the same period last year.

But is that kind of growth sustainable? Shopify is now a $127 billion market-cap company whose share price has risen roughly 70% over the past three months alone. And while the pandemic appears to be far from over, it could be that the initial rush online is moderating.

Hot Ticket

Shopify share price

Source: FactSet

In its earnings release, Shopify said data from June 15 to July 19 shows new stores created during its extended free trial were converting to paid subscriptions “at a slightly lower rate” than merchants who joined the platform before the pandemic. It also suggested more recent customers may be less established and therefore less valuable to its top line.

The company declined to provide a formal third-quarter outlook, citing both the unknown future impact of the pandemic and the greater likelihood of an extended global recession.

Shopify says it now has nearly 6% of U.S. e-commerce sales—more than eBay, Walmart, and Apple, but significantly lower than Amazon.com’s 37%. That highlights the upside opportunity for the platform to continue to grow and take share, especially given its wide range of subscription packages, priced anywhere from $29 to over $2,000 a month. Still, with shares trading at all-time highs, some correction seems likely, particularly if growth eases in the third quarter.

“The world is changing fast,” Shopify’s chief executive said in the company’s earnings release. The question is whether Shopify’s market value can continue to rise as quickly.

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