

Shopify: Despite 4 Big Risks, Upside Is Huge, Shares On Sale

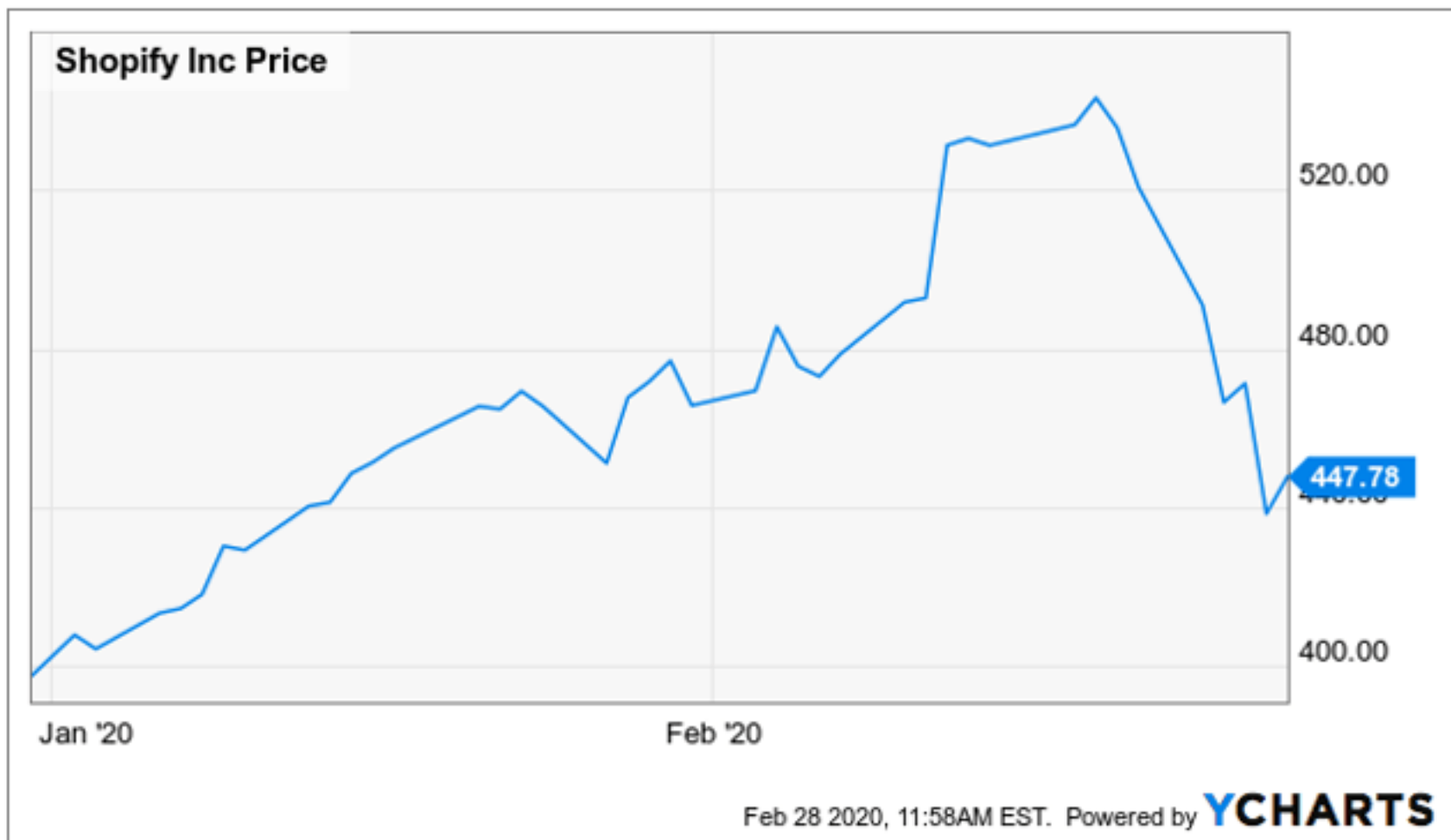
Feb. 28, 2020 1:30 PM ET111 comments | 18 Likes | 18 Likes

by: Left Brain Investment Research

Summary

- Despite its high valuation as per traditional valuation metrics, Shopify has tremendous ongoing long-term price appreciation potential, and the recent sell off provides an additional small margin of safety.
- We provide an overview of the business (and its attractive qualities), then review four big risks the company faces (valuation is the biggest one in some investors minds).
- We conclude with our opinion on why the shares are still dramatically undervalued by shortsighted investors.

Shopify (SHOP) is a global e-commerce software company that is building an indispensable, one-stop-shop e-commerce platform for small and medium sized businesses (BATS:SMB). And it is an absolute revenue growth juggernaut. However, by traditional valuation metrics it seems obscenely overvalued to some investors. In this article, we provide an overview of the business (and its attractive qualities, including the large—and expanding—total addressable market, the stickiness of its customers, and its track record of innovation), we review four big risks the company faces (including valuation relative to history and its SaaS peers), and then conclude with our opinion on why the shares are still dramatically undervalued by shortsighted investors, especially after the recent indiscriminate market-wide sell off that has inappropriately dragged the share price lower.



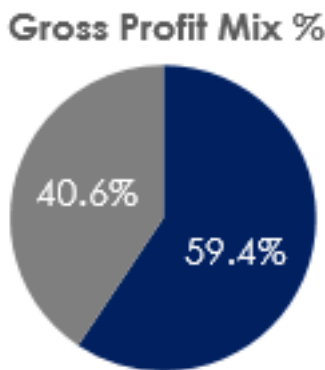
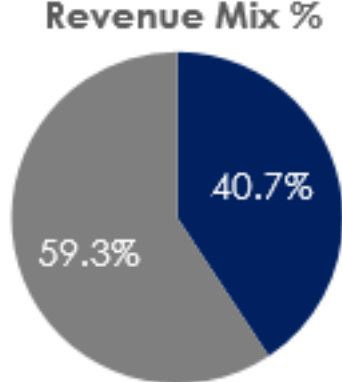
Overview:

The company provides ‘e-commerce as a service’ primarily to small-to-medium sized businesses in over 175 countries. The company’s platform is used by customers to set up both the e-commerce front end (web, mobile and social media) as well as to set up back end infrastructure that helps customers manage inventory, orders, payment, shipment, working capital financing and data analytics. The company was founded in 2004 by Tobias Lütke and Scott Lake. Shopify raised \$7M in series A round from Bessemer Venture Partners and FirstMark and went public in 2015.

Shopify essentially has two revenue streams:

Subscription Solutions: This segment includes revenue from company’s platform subscriptions as well as the sale of custom themes, apps and registration of domain names. It accounts for ~41% of revenue & has gross profit margin of 80%.

Merchant Solutions: This segment includes revenue from additional services to merchants that are not offered with subscription plans such as payments processing, shipping and fulfillment and financing of working capital. It accounts for ~60% of revenue & has gross profit margin of 38%.



■ Subscription solutions ■ Merchant solutions

(source: Shopify)

The company follows a tiered pricing structure. Below are the key differences between various plans it offers its customers:

	Shopify Lite	Basic Shopify	Shopify	Advanced Shopify	Shopify plus
Base Rate / Month	\$9	\$29	\$79	\$299	\$2,000+
Staff accounts	1	2	5	15	Unlimited
Online credit card rates	2.9% + 30 cents	2.9% + 30 cents	2.6% + 30 cents	2.4% + 30 cents	On Request
In-person credit card rates	2.70%	2.70%	2.50%	2.40%	On Request
Transaction charge when using 3 rd party payment provider	2%	2%	1%	0.50%	On Request
Shipping discount (USPS)	Not available	up to 15%	up to 90%	up to 90%	Better than Advanced Plan
Gift Cards	Not Available	Not Available	Available	Available	Available
Point of Sale – Inventory Tracking	3 stores	4 stores	5 stores	8 stores	20+ stores

Source: Shopify

E-Commerce - Large and growing addressable market

The global secular share shift from offline to online retail is continuing at a scorching pace. E-commerce sales are expected to increase from \$3.5T in 2019 to \$6.5T in 2023, a CAGR of 16.7%. Conservatively assuming that the SMB/Small Enterprises segment accounts for 25% of the global e-commerce retail sales and applying Shopify’s current take rate

(revenue % of GMV) to the SMB E-Commerce sales estimate, we get to a target addressable market of nearly \$23B. Based on Shopify's 2019 revenue, the company has reached just a 7% penetration rate as of now. Given the low penetration rate as well as growth in the broader ecommerce ecosystem, we expect the company to grow revenue at greater than 25-30% over the next five years.

Addressable Market Estimate	
Global E-Commerce Retail Sales (\$B)	3,500
SMB/Small Enterprises Market Share	25%
SMB/Small Enterprises Global E-Commerce Sales (\$B)	875
Shopify Take Rate %	2.6%
Addressable Market (\$B)	22.8
2019 Shopify Revenue (\$B)	1.58
Market Penetration %	7%

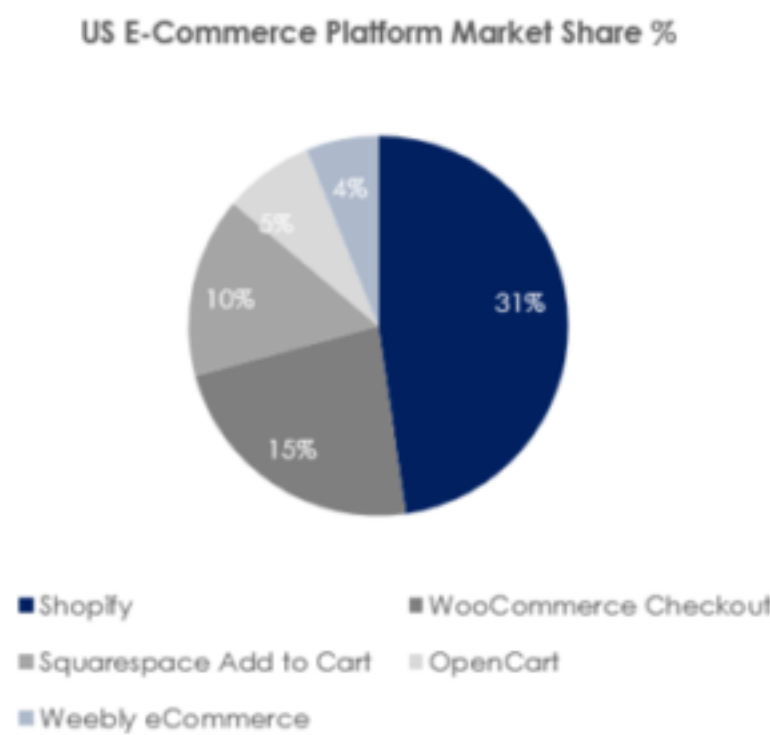


Source: eMarketer, Shopify, Left Brain Investment Research

Irreplaceable, all-encompassing e-commerce platform for SMBs with a dominant market share

The company has created an intuitive, easy to use software-as-a-service platform for SMBs that provides its typically resource-constrained customers with an exhaustive suite of services in both website development as well as e-commerce specific retail management. The platform has been made keeping in mind the less tech savvy small to medium business demographic and that ease of use has particularly helped the company take a dominant position in the e-commerce platform market. As per BuiltWith, a business intelligence firm, Shopify has a 31% market share in the US e-commerce platform market, almost twice that of the nearest competitor WooCommerce.

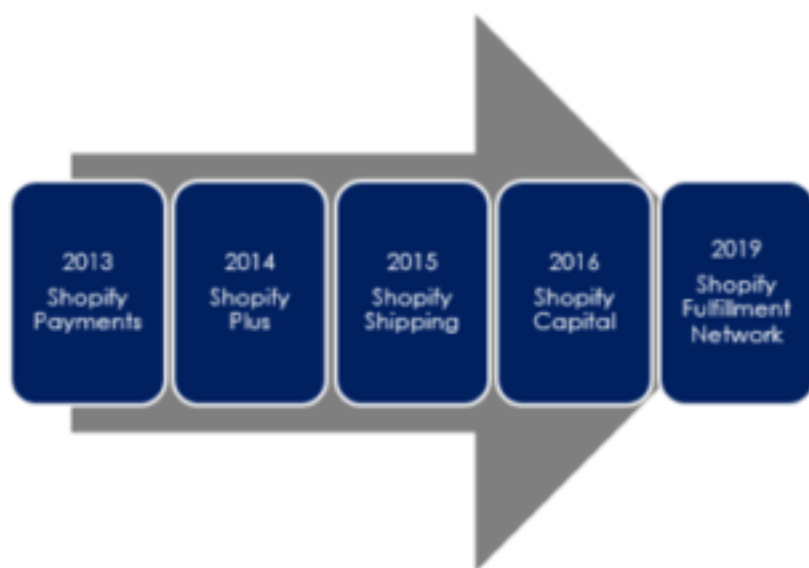
Shopify Web Development Solutions	Shopify E-Commerce Specific Solutions
<ul style="list-style-type: none">• Hosting• Website Templates• Website Designing/Editing	<ul style="list-style-type: none">• Admin panel store products details, data and process orders• Payments• POS• Shipping Management• Fulfilment• Inventory Financing• Social Media and Search Marketing Services• Data analytics



Source: Built With, Shopify, Left Brain Investment Research

Solid track record of innovation led growth

While the company has benefited from the surge in e-commerce activity globally, it has also taken a pro-active approach to expanding its opportunity set by continually introducing ancillary services to capture a bigger share of customer's wallet. Not surprisingly, the company's Gross Merchandise Value (GMV) has gone up nearly 700% since 2015. During this period, the company's payment processing service has increased its penetration of GMV from 35% in 2015 to 43% in 2019. Merchant cash advances to customers increased 60% in 2019 to \$437M. Shopify's shipping penetration reached 45% of eligible merchants on the Shopify system as of Q4 2019 as compared to 40% same time last year. Finally, Shopify Plus, which is the premium plan in the company's tiered offering, has increased its share of monthly recurring revenue from 21% in December 2017 to 27% in December 2019.



Source: Shopify, Left Brain Investment Research

More ammunition for growth ahead

Fulfillment Opportunity: Shopify is continuing to grow its addressable market by addressing additional pain points of its core SMB customer. The company launched Shopify Fulfilment, a 'fulfilment as a service' offering in June 2019. Between 2019-20, the company's focus is on building the software backbone and using third-party logistics providers for the physical layer. From 2021, the company will start building its own warehouse capacity. Using Shopify fulfillment, the company's customers will be able to link to a much more efficient, lower cost supply chain network as compared to managing these functions in-house at a small scale.

The addition of fulfillment will in turn allow Shopify to offer a real alternative to Amazon (AMZN) that already offers fulfillment services to its sellers (for more perspective, check out our latest Amazon report [here](#)). Unlike Amazon, brands on Shopify will be able to create a separate identity, traffic flow, by having their own website but at the same time benefiting from a larger partner's supply chain infrastructure. The company is looking to spend \$1B over five years to build its fulfillment network. Additionally, the company recently acquired 6 River Systems in Q3 2019 for \$450 million. 6 River System is a provider of warehouse solutions that are engineered by robots and AI.

International Opportunity: Currently, the company derives 68% of its revenue from the US while UK, Canada and Australia account for 4-7% each. The rest (around 15% of revenue) is generated in countries excluding these core geographies. The 'non-core' markets hold immense potential longer term and the company is localizing its services on a significant scale. The Shopify platform is now available in 20 languages out of which 13 languages including Hindi, traditional Chinese and simplified Chinese were added in 2019. Not surprisingly, the international merchant base, which was just 21% of the total company wide merchant base in 2015, now accounts for 29%.

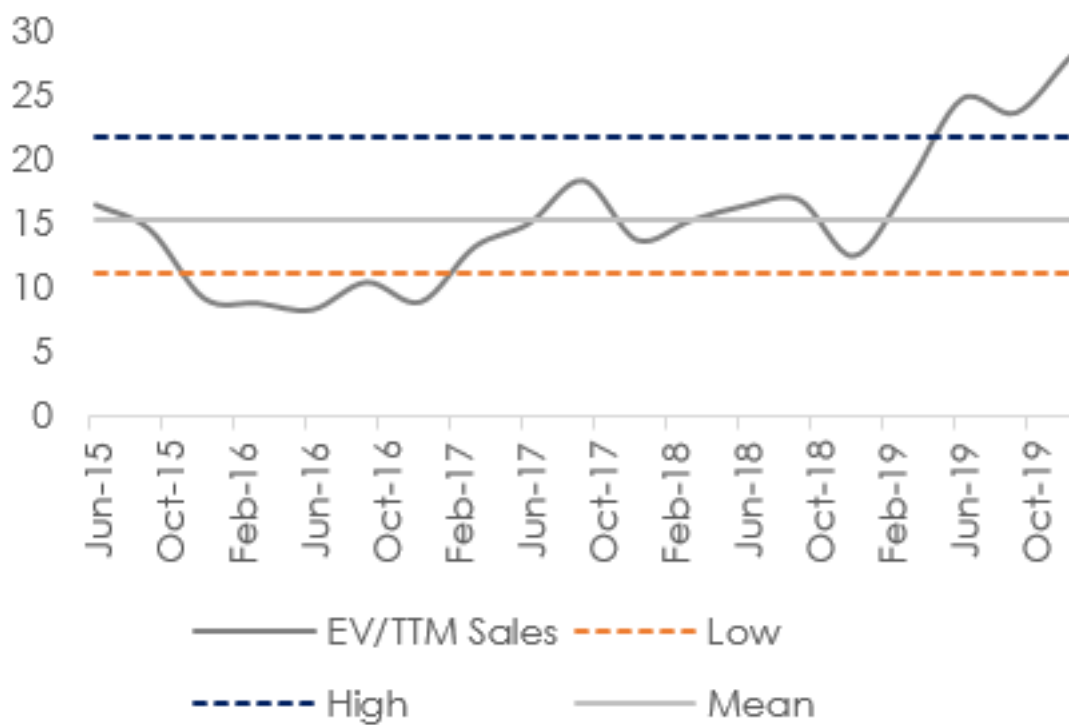
The company is also gradually rolling out ancillary services on top of its core platform in international markets. For example, Shopify Payments is now available in 15 countries including Australia and Singapore. Expansion of the portfolio of services internationally will further improve the monetization rate abroad.

Four Big Risks to Consider:

1. Unusual Capital Allocation and Valuation

Given the company's dominant position in the e-commerce platform segment, as well as strong growth in GMV over the years, coupled with solid drivers for growth in the future, valuation multiples have expanded significantly, especially since early 2019 as evident in the following chart.

Shopify Valuation

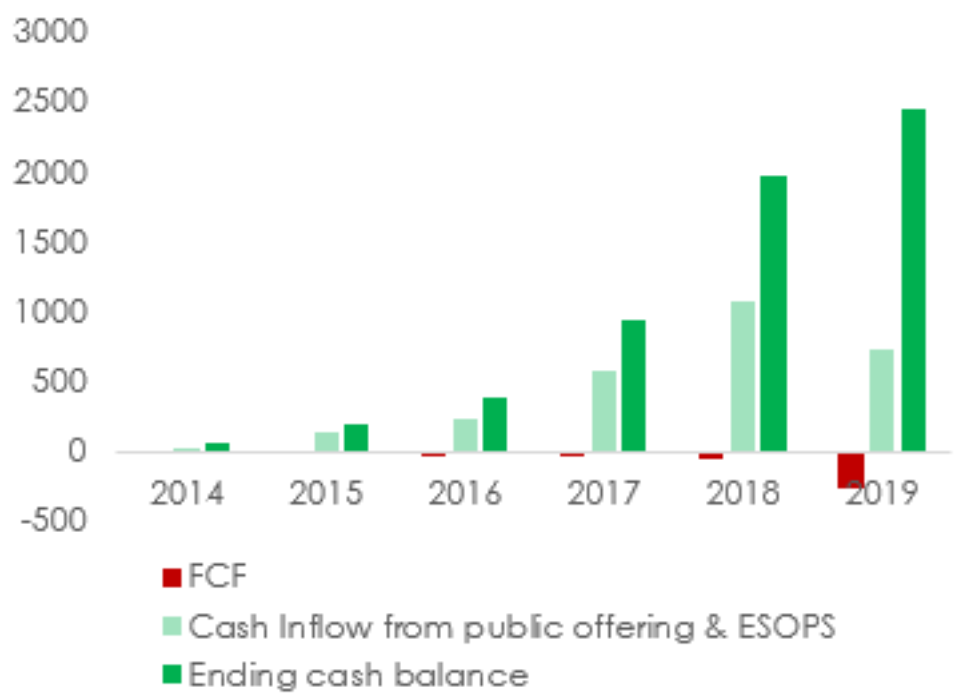


(source: *Left Brain Investment Research*)

Current EV/sales, TTM of around 27 times is above the high end of company's historical valuation band over the last five years. Further, the company also trades at a premium to public SaaS companies such as Workday (EV/Sales, TTM 11.6x), Paycom Software (22.5x) and ServiceNow (17.9x) (for more perspective, check out our latest update on ServiceNow [here](#)).

Further still, the company has been diluting its equity via public issuances as well as ESOPs. Between 2015 and 2019, the company's share count has gone up by nearly 45%. We are a bit perplexed why the company has been raising cash via public issuances despite its FCF being only marginally negative.

Shopify Fund Raising Vs Cash Needs



Source: Shopify, Left Brain Investment Research

In fact, the company’s cash and marketable securities balance has gone up from \$190M in 2015 to \$2.45B in 2019. While Shopify will need to invest money in building out its fulfillment infrastructure over the next few years, hoarding of billions from equity issuances years before the need to invest in the business is rather unconventional, to put it mildly.

2. New Entrants to the Market

While Shopify admittedly has the most comprehensive solution in the e-commerce platform segment, it does compete with several large, established players when considering parts of its business in isolation. For example, GoDaddy (GDDY) and Wix (WIX) offer website development/hosting services, payment services are also offered by Paypal (PYPL) and Square (SQ) while Adobe (ADBE) and Oracle (ORCL) own ecommerce software providers Magento and ATG respectively. As such, the company will need to continually innovate and upgrade its suite of services to maintain its growth trajectory.

3. SMBs Particularly Vulnerable to Economic Slowdown

The company’s core customers are small and medium sized businesses that are the first ones to see distress in difficult economic times. As a result, the company’s business may see an earlier and more pronounced slowdown than enterprise SaaS companies.

4. Costs Associated with Aggressive Growth Plans

The company's revenue has grown at nearly 60% CAGR between 2017-19. The significant level of growth has been enabled by massive increases in operating expenses and as a result, despite the rise in revenue, Shopify's margins and operating cash flows have remained depressed (-9% 2019 Operating Margin and CFO % Sales at 4.5%). As the company continues to invest in the business both in the US and internationally, lack of operating leverage may disappoint investors.

Conclusion:

We believe one of the classic investor mistakes when analyzing a growth stock is shortsightedness. Specifically, because many investment analysts are extremely averse to near-term volatility, they forgo attractive long-term return opportunities. For perspective, the average price target and long-term growth rate of the 32 Wall Street analysts reporting to Factset is \$556.97 and 50%, respectively.



And while even these analysts believe the shares are undervalued, their models don't generally look further into the future than the next few quarters (or couple years) as you can see in the following estimate table, as per Factset.

	Dec '18	Dec '19	Mar '20E Q1	Jun '20E Q2	Sep '20E Q3	Dec '20E Q4	Dec '20E	Mar '21E Q1	Jun '21E Q2	Sep '21E Q3	Dec '21E Q4	Dec '21E	Dec '22E
Sales	1,073	1,578	446	497	533	682	2,185	599	666	705	906	2,966	5,435
Subscription Solutions	465	642	185	198	211	232	827	238	253	264	289	1,051	1,299
Merchant Solutions	608	936	261	301	323	452	1,340	361	414	435	601	1,852	2,587
Shopify Fulfillment Network (SFN)	-	-	-	-	-	-	80	-	-	-	-	217	420
Gross Income	599	876	243	271	289	354	1,166	324	356	375	459	1,567	3,141
Subscription Solutions	365	514	144	157	166	181	661	184	198	199	212	851	1,061
Merchant Solutions	233	352	98	116	124	175	494	146	169	180	247	691	946

However, given the very long runway for the continuing global secular shift to online retail (as described earlier), combined with the stickiness of the business (the platform is irreplaceable to many SMBs, as described earlier), and the company's track record of innovation (and attractive opportunities ahead), we see Shopify's long-term opportunity to

be dramatically larger than its share price suggests. Certainly, there will be near-term price volatility and noise, but that is the price you pay as a disciplined long-term growth investor. We faced a lot of push back on our previous bullish article on Shopify back early November (when it traded 37% lower than it does now, and 46% lower than it did just a few weeks ago), and we expect we'll continue to face push back and price volatility going forward.

However, despite the risks to the business (and particularly the high valuation as per traditional valuation metrics), in our opinion Shopify remains dramatically undervalued relative to its long-term growth potential, and this last week's share price decline provides an additional small margin of safety (relative to the long-term growth potential) for investors to initiate, or add to, a position in Shopify.

Disclosure: I/we have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it. I have no business relationship with any company whose stock is mentioned in this article.

Additional disclosure: Left Brain Investment Research has no positions in any of the aforementioned securities. However, affiliate companies Left Brain Capital Management and/or Left Brain Wealth Management are long AMZN, PYPL, ADBE, SQ, and ORCL.

See our aggregated analyst ratings on SHOP

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Comments (111)

edwardpnt

Hi guy I am both an investor plus have a couple of e-commerce stores on shopify in the beauty, entertainment and footwear verticals. I think the valuation is really high but as a customer using shopify is a little like Apple. It is so easy to set up a store, you can have numerous apps, selling tools and integrations to social media with no need of any programming. I also sell on amazon, eBay and tried Wix and Weebly but Shopify is so much better if you are not a techie which most SMEs are not. Their customer arrive is incredible and growing their eco system. So it's crazy expensive but I see it like apple where it's so easy to use and they hook you into various partner eco system that over time the network becomes more valuable and they have multiple revenue streams. I missed the chance last week to get it at the 420 levels so hope there is another down day. Good luck to all longs !

04 Mar 2020, 08:35 AM

idahoradm

@edwardpnt Thanks for your two cents. It's good to hear from a SHOP customer.

04 Mar 2020, 10:53 AM

Tall Seller

The algorithms and quant funds are just giving the markets one last shake before the mega-low interests rates turbo charge growth companies, like they always have for Shopify.

Fasten your seatbelts, as they won't be able to stop the rising tide, especially fiscal spending gets layered on too.



03 Mar 2020, 02:46 PM

alemarcapital2

Do you think mega low interest to ultra low interest will boost the economy? specially with supply and demand issues.

03 Mar 2020, 03:59 PM

Tall Seller

The shorts can cast doom and gloom all they want but that's fake news. Shopify's multichannel direct-to-consumer growth story is in its infancy, along with the global e-commerce market being in its infancy. The gargantuan tidal wave of new merchants who flock to Shopify in tough times, along with all the buyers in every corner of the world barely starting to buy direct-to-consumer OBVIOUSLY points to many many years, decades of growth ahead for Shopify, even in years where it seems like macro-headwinds would be a factor. THEY ARE NOT for Shopify, at this juncture. You said many times during tough times that Shopify would be negatively impacted and those were prove wrong speculations.

Shopify is just getting started and expect a tidal wave of growth for them for a very long time.



03 Mar 2020, 04:27 PM

golongandprosper

Shopify is the \$55 billion upstart taking on Amazon and Ebay in the small business etailer platform market.

And earnings estimates just plunged after the company revealed a big investment year ahead in their Q4 report delivered on February 12.

Since that reveal, the Zacks consensus for full-year 2020 EPS dropped over 75% from \$0.89 to \$0.21.

Next year got clobbered 55% from \$1.60 to just \$0.72.

Analysts also found themselves having to adjust their ratings as well since the hyper-growth platform trades at 25 times sales.

Shopify was downgraded to Neutral from Outperform at Credit Suisse.

03 Mar 2020, 01:32 PM


Ramy Taraboulsi, CFA
Contributor
When was it downgraded?

03 Mar 2020, 02:05 PM

Tall Seller

Shopify SKYROCKETED during the financial crisis and SKYROCKETED during the trade war. Merchants flock to Shopify at a torrid pace in tough times, to increase their chances of success. And as the global e-commerce market is in its infancy, it's extremely probable this will likely becomes an very good year for Shopify. The proof is in how the company performed in previous such times of instability.

All other doom and gloom theories are unsubstantiated fake news. I'm not selling one share, as Shopify has MASSIVE growth ahead.



03 Mar 2020, 02:27 PM

golongandprosper

Looks like Feb 13, 2020. I saw that on Zacks and it caught my attention.....SHOP 06:23 02/13/20 Credit Suisse downgrades Shopify to Neutral on 'lofty' valuation

03 Mar 2020, 02:28 PM

Tall Seller

Ya, and Brad Zelnick was the only analyst to give Shopify a hold when ALL others gave it BUY.

03 Mar 2020, 02:36 PM

Ramy Taraboulsi, CFA
Contributor
@golongandprosper , being downgraded on "lofty valuations" means nothing with the drop that has happened/is happening now. I would expect them to upgrade based on "depressed valuations".

03 Mar 2020, 02:57 PM

InvestorMan Sr.

What financial crises? 2008-10? Was SHOP a public company then?

03 Mar 2020, 05:44 PM

Tall Seller

Shopify SKYROCKETED during the financial crisis when they were a private company. They described it in their disclosures when they were doing their IPO.

Shopify SKYROCKETS more in tough markets than in good markets. Fasten you seatbelts over the coming years/decades.



03 Mar 2020, 06:04 PM

alemarcapital2

shopify ipod in 2015 there was no financial crisis

03 Mar 2020, 06:28 PM

Tall Seller

Shopify SKYROCKETED during the Financial Crisis. 🤔❤️

03 Mar 2020, 06:46 PM

tommyfmu

FYI from Visa after hours: "Cross-border eCommerce unrelated to travel has thus far not been significantly impacted, except in some Asian markets."

02 Mar 2020, 05:01 PM

sepsis74

Interesting story about online sellers being hit with back taxes - it's not moving AMZN shares but it should be relevant to SHOP, too.

[news.bloombergtax.com/...](https://www.bloombergtax.com/news)

02 Mar 2020, 03:04 PM

Tall Seller

Shopify has systems in place so their merchants understand the tax implications and helps them with it: ([help.shopify.com/...](https://help.shopify.com/)).

“As a merchant, you might need to charge taxes on your sales, and then report and remit those taxes to your government. Although tax laws and regulations are complex and can

change often, you can set up Shopify to automatically handle most common sales tax calculations. You can also set up tax overrides to address unique tax laws and situations.”

As the vast majority of the \$60BILLION/year GMV producing Shopify merchants care about their long term success, most will of course pay fulfill their tax obligations, in addition to abiding by all laws.

02 Mar 2020, 03:17 PM

alemarcapital2

the majority of Shopify GMV comes from the big boys using Shopify Plus. Guess why they have not broken down GMV by merchant tier?? haha


This should not be an issue as there is a huge revenue concentration in terms of GMV and the large companies normally have the resources to spend in tax planning

02 Mar 2020, 03:36 PM

Tall Seller

Shopify’s GMV is SKYROCKETING. 


Shopify’s merchant count is SKYROCKETING. 




The pace at which Shopify is adding merchant solutions, partner channels, languages, and geographic nuance accommodations to further differentiate them as the ONLY real omnichannel direct-to-consumer (& B2B) e-commerce platform of choice is SKYROCKETING. 

02 Mar 2020, 04:22 PM

Tall Seller

Did anyone else notice in Shopify’s recent earnings call that Jeff Bezos is now a Shopify merchant???



They said that the Washington Post is now a Shopify merchants, and who owns the Washington Post??? JEFF BEZOS does. 

No wonder Bezos is dumping all his Amazon shares, as Shopify’s industry leading omnichannel REVOLUTION, along with all the plethora of merchant solutions that Shopify has (that their competitors don’t have), will help Shopify CRUSH their so called competition for DECADES.



01 Mar 2020, 01:05 AM

Ramy Taraboulsi, CFA
Contributor

Welcome back... I personally missed your comments...

Can you please comments on the cancellation of Unity? You had mentioned earlier its importance and how you were putting huge hopes on it...

01 Mar 2020, 09:27 AM

Michael Orwin

Contributor

@Ramy Taraboulsi, CFA

Do you mean the cancellation of Shopify Unite 2020? I'm asking because you said "Unity" and there's a Shopify SDK for the Unity game engine which so far as I know is not at all cancelled.

01 Mar 2020, 05:31 PM

Ramy Taraboulsi, CFA

Contributor

My sincere apologies @Michael Orwin ; I meant the Unite event: <https://unite.shopify.com/>

01 Mar 2020, 06:03 PM

Michael Orwin

Contributor


@Ramy Taraboulsi, CFA , thanks for the clarification.

01 Mar 2020, 06:13 PM

Tall Seller

Shopify is still hosting UNITE, just in a different format. In fact, the new format will be better, at least for one year, as they will engage more people in innovative ways to show off and shine a spotlight on their new technologies (think augmented reality, etc.).

And they still have new product announcements coming at this newly formatted UNITE, so fasten your seatbelts for more new differentiators from Shopify to further CRUSH all their so called competitors.

For starters, they've already said they have an improved POS system coming and they've already said they are adding more in the fintec arena (in addition to, or an expansion of, their joining Zuckerberg's Libra Association). Plus other very exciting announcements coming. 



And, Shopify is still doing the Investor Day at UNITE, so get ready for further announcements on their strategies that will take them to a \$TRILLION market cap in due course. 😊

And, by the way, it's dead wrong for anyone to predict that e-commerce is being commoditized, in Shopify's niche anyway, when Shopify's 'Experts' partners employ over 1,000,000 people, where their merchant customers spend big bucks with them, to help them

navigate the insanely huge options in e-commerce. It may get commoditized for cruddy e-commerce companies like WiX, Weebly, etc., who cater to the lowest GMV producing merchants in the world but not for Shopify who caters to the merchant of EVERY size who have unique and complicated needs, in an online world that's CONSTANTLY evolving.

Even the richest man in the world, who has the biggest online e-commerce marketplace in the world, uses Shopify; JEFF BEZOS. Now that's a best reference in the whole world, right for the VERY BEST multichannel direct-to-consumer e-commerce platform in the whole world, right?? Jeff Bezos is a Shopify merchant. Every other argument against Shopify is DEAD IN THE WATER, and fake news, now that Jeff Bezos is a Shopify merchant too. LOL!!



Massive new things coming. Shopify is just getting started.



02 Mar 2020, 02:15 AM

Ramy Taraboulsi, CFA

Contributor

o.k. Simple calculation: They spend \$1B on marketing costs (mostly as referral fees for the "Shopify Expert Partners". If they have 1,000,000 of these partners, then each receives an average of \$1,000.

Employed? Hmmmm....

And, we cannot fight it Tall: e-commerce is being commoditized as buyers get more educated and use the ease of search to get the least expensive product.

Question: Do you know the percentage of Shopify clients who are manufacturers (direct to consumer sellers) versus retailers? I searched and was not able to find this information. If the percentage is big, then the commodization would work for Shopify's favour, albeit it might cause price wars among manufacturers.

As for Washington Post, last I checked, you can buy the digital access through Amazon.com: www.amazon.com/... ; Also, the Washington Post site is not hosted by Shopify. Are you sure that Jeff Bezos using Shopify is not fake news?

02 Mar 2020, 07:35 AM

Tall Seller

NOPE. E-commerce is THE OPPOSITE of being commoditized, at least for the merchants who have real e-commerce needs, in an online world that's always evolving and innovating.

The PROOF (versus unsubstantiated assertions) is that:

- Shopify Experts community is growing at a torrid pace with over 1,000,000 employed now, and the bulk of their remuneration gets paid mostly directly from merchants.

• the number of Shopify apps, partner channels, and merchants solutions keeps expanding extremely fast. The more options merchants, with REAL e-commerce needs have, the more they WILL continue to pay an Experts to help them.

A child can read the following and then accurately deduce that a business will need to hire an Expert to help them implement this kind of REVOLUTIONARY e-commerce solutions:
(www.shopify.com/...).

Shopify is just getting started.



02 Mar 2020, 10:21 AM

Ramy Taraboulsi, CFA

Contributor

Hmmm... Are you saying now that to start Shopify the merchant needs to pay more than the \$29 per month the Shopify is promoting?

Interesting, and thanks for the information. Do you know how much more they would need to pay to these "experts/partners"?

02 Mar 2020, 10:27 AM

Tall Seller

If you don't know that some merchants can pay Shopify Experts themselves directly anywhere from under \$100's to \$100,000's than you've never really researched what Shopify is or does.

02 Mar 2020, 10:30 AM

Tall Seller

Harley said in Shopify's recently earnings call for Q4 2019 (seekingalpha.com/...):

Notable brands that launched on Shopify Plus in Q4 include: iconic houseware brand, KitchenAid; footwear brand, Toms; beachwear apparel fashion brand, Panama Jack; Canadian retailers, Umbro and Mark's Work Warehouse; U.S. Newspaper applications, THE WASHINGTON POST and The Los Angeles Times; and global entertainment company, Cirque du Soleil. And of course, more consumer packaged good brands, influencers and celebrities like Sean John and Travis Scott.

Woooohoooo, the richest man in the world, who happened to get rich by owning an e-commerce marketplace, is a Shopify merchant; JEFF BEZOS.



02 Mar 2020, 10:32 AM

hawk007

....I would probably go easy on the Jeff Bezos thing because (I could be wrong) he owns the New York Times which puts out "fake new" along with the Washington Postvery much socialist lies.....

02 Mar 2020, 04:33 PM

Tall Seller

NOPE.... [www.washingtonpost.com/...](http://www.washingtonpost.com/)

02 Mar 2020, 04:49 PM

Tall Seller

And, by the way Ramy, I don't know where you "checked", but this site clearly does say the Washington Post's online store 'IS' a Shopify site: ([builtwith.com/...](http://builtwith.com/)).

Please, PLEASE, you have to concur that JEFF BEZOS' company choosing Shopify is about as GIGANTIC of a tipping of the hat to Shopify as it gets, right? LOL. 😂😂😂. Can you think of a better reference than that? HE'S THE BEST REFERENCE IN THE WORLD.

He didn't choose cruddy WiX, or cruddy Weebly, or antiquated Magento, or one step behind WooCommerce, or inevitably getting crushed BigCommerce, etc.. JEFF BEZOS' company chose Shopify.



02 Mar 2020, 11:48 PM

Ramy Taraboulsi, CFA

Contributor

Thanks Tall for the link. I was not aware of it. Their prices are ridiculous though: A baseball cap for US\$16...

03 Mar 2020, 07:55 AM

Tall Seller

That's part of the beauty of Shopify's multichannel direct-to-consumer model that the shorts and the uneducated critiques don't get about Shopify.

03 Mar 2020, 11:28 AM

Tall Seller

....with this model, merchants get more loyal customers, they make a higher lifetime value per customer, and customers are HAPPY to pay more for the merchants products through this model because they love and trust the merchants brand. No matter how counterintuitive that is for you, IT IS A FACT and their is empirical evidence to back it up (not unsubstantiated

assertions).

Take the time to actually read about it: (www.shopify.com/...).

Shopify is just getting started with their omnichannel direct-to-consumer (& B2B) e-commerce REVOLUTION.



03 Mar 2020, 11:37 AM

23258193

This is satire, RIGHT? Price to sales over 30. Forward p/e over 500. A once in a century black plague threatening humanity. It all adds up to huge upside for stocks like SHOP.

I think I will stick with the guys who make Smith & Wesson. AOBC at around 10 times next year earnings and going for around book value as we go into an election where some socialist may try to take your guns away as we enter our zombie apocalypse is all I got. Earnings will be revised downwards left, right and center. People may not grasp how supply chains are totally screwed now.

29 Feb 2020, 11:11 AM

BorisSFL77

PREMIUM

Bernie won't take your guns, stop with paranoid nonsense....But he won't be good for any stocks and especially speculative investments like SHOP

29 Feb 2020, 06:14 PM

hawk007

oh, yes they will! no system that steals from people to give to everybody that won't work ,will, take everything...it is NOT paranoid.....His system has over the years killed millions....look to history it does not lie.....

01 Mar 2020, 02:27 PM

idahoradm

@BorisSFL77 - Hawk007 and 23258193 are absolutely right. Communism kills. Ask former Cubans who escaped to FL. Ask Venezuelans now.

Socialism promising to steal from the rich and give free stuff to the poor only makes every one more and more poor. Socialism and communism causes government control over everything. Socialism kills freedom. Socialism kills economies and people. Socialism and communism are a greed for power and other peoples money. Absolute power corrupts absolutely.

01 Mar 2020, 07:49 PM

BorisSFL77

PREMIUM

Fine, you are right. You are not the person to have a debate about different political structures. Stick to your simplistic black and white interpretation, I have zero interest in discussing politics with your type

01 Mar 2020, 09:16 PM

Tall Seller

His type is what helps make America great. Your existence and participation on SA revolves around capitalism at its finest.

(EDITED)

01 Mar 2020, 11:20 PM

wilfredian

With a P/S of 31 shares of SHOP are "not on sale". Rather we may, if we are lucky, finally be witnessing one of the worst bubbles on the market popping. The fact that SHOP and TSLA blew up to such insane valuations was a big warning that the entire market had gone mad. Now that these two are popping, maybe the bull market might live for a few more years.

Nothing against these companies. Both are great and I might pick up shares of either SHOP or TSLA at about 1/4 of the current price in a downturn. But not at these multiples.

29 Feb 2020, 10:54 AM

BorisSFL77

PREMIUM

Momentum investing, factor investing. Money is controlled by machines programmed on trends, not active management with brains. Then you get certain TV personalities pumping up this stock repeatedly and fueling further speculation

29 Feb 2020, 06:16 PM

Myrmec

Sold out of my Shop position after earnings but not really soon enough. Would like to go back in but fear virus impact, on such a new business concept with a Pandemic their isn't really a guide book is there! However after reading the Economist's bio of Chairman Bernie and his 20% share grab to give to employees, I wonder, if it was also his success in the primaries this week coupled with the virus that caused the selloff. Given this 20% idea I wonder yet if owning a Canadian tech company may be sending buyers over the boarder despite the valuation multiples.

Plus the amount of fakes on other big online stores being sold (just read the horror fake make up stories) I wonder if big brands and direct to consumer will only rise. As for a consumer how else do you guarantee an authentic purchase - the fakes are near perfect now.

Compounding Cash

Contributor

If the fakes are perfect, are they still fake?

29 Feb 2020, 12:52 PM

hawk007

yes, they are stolen....copies, but still fake....

01 Mar 2020, 02:24 PM

gutcheck

anyone have a guess what % of shopify revenues are from d2c manufacturers vs resellers ?

28 Feb 2020, 11:59 PM

googlefan

if you have one million Merchants and you're doing 80 bln in GMV, that's 80,000 / Merchant ...
how many 80,000 a year Merchants make their own products? 😊

it's all ali-express buyers reselling via Facebook or Instagram.... and the funny thing is, die
Facebook you're paying 18 times earnings while die shopify you pay 25 times revenues. but
indeed shopify is growing at 45% and Facebook at 27% ... and if you discount that difference
for the next 30y, the difference light be justified 😊

29 Feb 2020, 07:33 AM

BorisSFL77

PREMIUM

The upcoming recession will put this dream into its proper place

29 Feb 2020, 06:17 PM

Tall Seller

Shopify SKYROCKETED during the financial crisis and Shopify SKYROCKETING during the
year of the global turmoil from the trade war, so the real story is to expect them to
SKYROCKET this year still (and beyond).

Shopify has a tidal wave of merchants flooding to them now (SEE HERE for their 1.3MILLION
merchant count: [trends.builtwith.com/...](https://trends.builtwith.com/)), and they flood to Shopify even faster in tough times
to use Shopify's massive amount of solution offerings to help them through those tough times.
And as the global e-commerce market (B2B & D2C) is in its infancy (SEE HERE:
[unctad.org/...](https://unctad.org/)), this phenomena will happen for decades to come.

I love how Shopify is so extremely diversified with merchants in 175 counties, merchant sites in 20 languages, and those merchants selling to customers in every corner of the globe.

Shopify has barely gotten started. I’m not selling one share for DECADES, no matter how much short term volatility happens. Shopify’s massive growth ahead is just extremely obvious.



01 Mar 2020, 01:06 AM

Jim_Purzickis

Not cheap enough in a brutal market. I have it on my radar but needs at least another -15% decline.

28 Feb 2020, 11:20 PM

Edward J. Roche

Contributor

p/e of 1499, that is on sale?

28 Feb 2020, 10:45 PM

Vincent1966

What does the author believe the key ratio of P/S gravitate toward by 2023? Higher and higher from today's 31?

28 Feb 2020, 09:11 PM

Nicholas Southwick Levis

On sale, what are from the nineties?

28 Feb 2020, 06:17 PM

wetdoginvest

They count visa commissions as their own revenue.

28 Feb 2020, 04:20 PM

alemarcapital2

yup, it should be net of transaction costs and third party costs.

28 Feb 2020, 04:32 PM

Bull Market 2K20

WHERE IS TALL SELLER???

Still long SHOP. Quit hating guys just because you missed the rally

28 Feb 2020, 04:15 PM

OptimalPrime

I'm not heckling @TallSeller. He makes positive and interesting comments on SHOP, although occasionally some are over zealous. Just wondering why he stopped commenting?

28 Feb 2020, 05:11 PM

hawk007

...I don't know, but I miss his deep insight into the reality of the success of SHOP....It has massive growth ahead.....buy now while you can....

28 Feb 2020, 05:20 PM

powerful-crow-juju
PREMIUM
MASSIVE growth

28 Feb 2020, 05:53 PM

Lares Capital
Contributor

@Bull Market 2K20 Tall Seller is busy on the call with Mr. Margin....

28 Feb 2020, 08:38 PM

hawk007

...can't say for sure, but it sounds like he does not buy on margin....in any event this is a time to scoop up a few more shares!!!

29 Feb 2020, 11:45 AM

FromBrussels

Wawawa whatever.....protect your egg nest bye bye rmmm buy TESLA, Tesla is the future; not one single company builds efficient EVs, they ve no fkc n idea about batteries, only Tesla GO for it, its now A BARGAIN AT 80 pe , put them all in , them chips !

28 Feb 2020, 03:22 PM

sheepdip

Why are all the insiders cashing in all their options on a weekly basis?

28 Feb 2020, 03:19 PM

HintsFromHomie

I enjoyed your perspective, thanks .
I sold SHOP on premarket order last Friday for a 56% profit. Good timing, lucky me.

When and if the dust settles over the next 10 days I will buy back for another bite: I see it quickly regaining the \$100 it lost since then.

28 Feb 2020, 02:55 PM

perilous43

I'm still holding up 970% at the peak still up over 700%. When this "crash" comes I've got a couple hundred percentage points of profit to get my sale done. No worries.

28 Feb 2020, 03:04 PM

brian.d

The force is strong in this one! You made a great pick in SHOP and in holding, rewarded you shall be!

Love these doomsayers' price targets: \$1.60/share is an instant classic.

28 Feb 2020, 03:58 PM

Left Brain Investment Research

Contributor
Author's reply » @HintsFromHomie Sounds like you did well. Best, LBIR

28 Feb 2020, 04:41 PM

Lares Capital

Contributor
@perilous43 I disagree. You should keep until it hits 550 again. And if you were born in this century, you may get a chance to sell it before you hit 90.

On a more serious note, this casino fallacy of playing "house money" will eventually lead to financial ruin.

03 Mar 2020, 04:35 PM

OptimalPrime

@TallSeller hasn't made a comment in weeks!

28 Feb 2020, 02:08 PM

Marc14

He decided to be the smartest.

28 Feb 2020, 05:11 PM

virginiau

SHOP one of the few stocks UP today! Long! :-)

28 Feb 2020, 01:54 PM

Jeoo

lol, once minute its overvalued the next minute its undervalued, good grief Charlie Brown

28 Feb 2020, 01:52 PM

Lares Capital

Contributor

Q: What would make Tesla look like a value investment?

A: Shopify.

The downside for Shopify is immense. It can still continue growing revenue and even become profitable, but will still lose 95% of its value when finally marked to reality. A good way to get taste of Shopify is to see what kind of stuff is sold there. Hint: something Amazon and Ebay would not allow in its shops out of fear of massive returns and lawsuits.

EV/Sales = 30 and the margins are very thin, users are churning, its main chachkies shop aka China has many factories shutdown and new postal rates which will triple small item shipment rates from China is coming in July.

What could possible go wrong?

28 Feb 2020, 01:45 PM

AB2SS

That's why it takes you value dudes 40 years to get rich.

28 Feb 2020, 10:03 PM

Ramy Taraboulsi, CFA

Contributor

The only positive is that with a global recession, the Shopify stock will not drop as much as the rest of the market. Unemployed people will seek new businesses and subscribe to Shopify. I don't expect them to be profitable as impulsive buying (the main theme adopted by Shopify clients) will virtually disappear with a global recession.

Now are we going to have a global recession? I believe we will, but it is not yet fully priced in the market; I am expecting still another big drop in the market.

My price target for Shopify is still \$100, but I do not expect it to drop as fast as the rest of the market.

28 Feb 2020, 01:43 PM

Lares Capital

Contributor

@Ramy Taraboulsi, CFA \$100 is very generous. I rate Shopify at EV/Sales about 3 which

would make it around \$50.

28 Feb 2020, 01:53 PM

Up and Away

@Lares Capital @Ramy Taraboulsi, CFA

Are you both expecting the market to crash? Your prices are ridiculously low.

28 Feb 2020, 02:25 PM

Ramy Taraboulsi, CFA

Contributor

It is already crashing. Just wait until the last half hour of the day, when no one would be reluctant to keep their stocks over the weekend...

28 Feb 2020, 02:31 PM

alemarcapital2

Shopify is worth \$160/share

28 Feb 2020, 03:08 PM

Lares Capital

Contributor

@Up and Away Why do you think it's ridiculously low? I value at 3x sales, given its lack of profitability but give its credit fir good software and growth rate.

How do you come up with price that is fair?

@Ramy Taraboulsi, CFA I think a lot of short positions will be covered in last 30 min, pushing prices up a bit. We have 11 min to find out who is right :)

28 Feb 2020, 03:19 PM

sheepdip

more like 1.60 a share

28 Feb 2020, 03:21 PM

Up and Away

That has nothing to do with the price but fear of what could happen over the weekend.

28 Feb 2020, 03:46 PM

Compounding Cash

Contributor

@Ramy Taraboulsi, CFA a typical recession is a drop of 1 - 2% in economic activity. You

know what "virtually disappear" means right?

28 Feb 2020, 03:58 PM

Up and Away

@Lares Capital

Please forget my reply. I was talking about Amazon not Shopify but still think Shopify will go higher also. It is Canada's version of AMZN.

28 Feb 2020, 04:02 PM

alemarcapital2

wrong, different business models

28 Feb 2020, 04:14 PM

hawk007

.....I think it is worth .25 cents....

28 Feb 2020, 05:17 PM

sepsis74

You seem to have changed your mind about this, but I still think that there is something very fishy about Shopify's merchant growth. There is just not that much need for millions of merchants in the world. One of these days, the growth will probably be revealed to be contrived.

28 Feb 2020, 06:10 PM

jboogs

Umm we rallied at the last hour of the day lol

28 Feb 2020, 06:41 PM

Nicholas Southwick Levis

If you see their traffic stats, they have cratered over the past couple of months... If its such a growth rocket ship, why are there less and less hits to the website?

28 Feb 2020, 08:51 PM

AB2SS

How'd that work out Ramy? Even though your last sentence was the opposite of what you intended to say.

28 Feb 2020, 10:00 PM

pathfinder11

seems like it went up since everybody and their mother were saying the same thing.

28 Feb 2020, 10:33 PM

alemarcapital2

the SPY also, short covering

28 Feb 2020, 10:42 PM

Ramy Taraboulsi, CFA

Contributor

Yes, I made a mistake expecting the market to go down by the last hour. I think its going up is the result of the short covering resulting from the FED statement and the potential 50 basis points drop by next week. I had not expected that...

Good that I did not place any bets on the market going down by the last hour...

28 Feb 2020, 11:53 PM

hawk007

How's that working out for you?

29 Feb 2020, 11:48 AM

Ramy Taraboulsi, CFA

Contributor

Fortunately, some of my short calls expired worthless yesterday; nothing big - just a couple of thousands... If I had not closed my short position before the rout, I would have had a better profit...

Stupid me: I should have stuck to my position and not panicked.

29 Feb 2020, 12:40 PM

Compounding Cash

Contributor

@Ramy Taraboulsi, CFA does that mean you were short and closed it at the highest prices?

29 Feb 2020, 12:53 PM

Ramy Taraboulsi, CFA

Contributor

Not the highest prices; I last closed at CAD - 648

29 Feb 2020, 03:17 PM

McLoving it

Nice call CFA

29 Feb 2020, 08:05 PM

Ramy Taraboulsi, CFA

Contributor

Don't think so. I should have left it and closed below \$500...

anyways, I opened a new short position (through writing out of the money call options)

29 Feb 2020, 09:14 PM

Tall Seller

People can make more money with Shopify by just BUYING and HOLDING, versus gambling for scraps with short positions and options trades. I've made over 1000% by just BUYING and HOLDING...and as Shopify has a tidal wave of growth coming, I look forward to the next 1000% gain (and beyond), regardless of any whoopdidoo short term volatility.

Shopify is added near 300,000 merchants since they announced their recent 1,000,000 merchant milestone, which puts them on track to double their count in ONE YEAR what took them 15 years to reach.



01 Mar 2020, 02:37 AM

hawk007

.....you may be a lot of things, but stupid is NOT one of them.....

01 Mar 2020, 02:19 PM

hawk007

....hey you are back....don't ever leave without saying good bey you were missed!!!!

01 Mar 2020, 02:22 PM

Compounding Cash

Contributor

@Ramy Taraboulsi, CFA lucky you, didn't have to close your short at over \$700 CAD :)

I rarely short anything, and it's only when I see a large cash burn and a total commitment to maintain that strategy. Since Shopify is managed to keep earnings close to 0, they are not in that position.

01 Mar 2020, 09:05 PM

I am short and would posit that the company is in fact greatly overvalued...technicals are horrendous, no earnings, etc. to me "this time is not different," and stock already closed yesterday on higher volume and below the 50D MA...I believe the company is toast....

28 Feb 2020, 01:43 PM

lance2210

how is that short working out?

28 Feb 2020, 05:12 PM

clarencek

I believe many of the products on Shopify platform are mainly manufactured in China, like AAPL, TSLA & etc
Corona effect might not price in yet. :(

28 Feb 2020, 01:36 PM

Up and Away

@clarencek

That would hold true for almost all products imported then.

28 Feb 2020, 02:25 PM

stevemcclearn

According to SA it's ev/sales is 30.

Anytime you can buy an unprofitable company for 30x sales you have to do it

28 Feb 2020, 01:33 PM

Comments (111)