Long Ideas | Services | Canada

Shopify: Blowout Quarter Strengthens The Long Narrative

Jul. 30, 2020 6:32 PM ET | 80 comments | 13 Likes | About: Shopify Inc. (SHOP)

Louis Stevens Marketplace
Beating the Market
Build a market beating portfolio with stocks that stand the test of time
Follow
(8,329 followers)

Summary

- Yesterday, Shopify reported a fantastic quarter, with revenues going up by 97% y/y. Such results have further solidified my belief in the business and its future prospects.
- After discussing the recent quarter and its long-term implications on Shopify's future, I provide an updated valuation and price target.
- For the long term, my stance on Shopify is bullish. However, I still think it could consolidate at ~$1,000 for at least a couple of years.
- In the case of a significant dip, I would be an aggressive buyer in the ~$700 and below (though I doubt we will see sub $700 ever again).
- *Looking for a portfolio of ideas like this one? Members of Beating the Market get exclusive access to our model portfolio. Get started today »*

Watchlist A-M
Add symbol Edit

IDXX	374.10	1.96%
CNSWF	1,169.44	1.28%
ANET	249.39	1.00%
ENSG	46.55	0.28%
HSIC	68.65	-0.09%
HEI	95.77	-0.09%
MA	309.00	-0.10%
DPZ	384.53	-0.16%
CMG	1,148.40	-0.40%
MTCH	102.35	-0.43%
BRK.A	291.3K	-1.06%
BKNG	1,687.74	-1.16%
CTAS	301.81	-1.31%
BCPC	97.24	-2.20%

Expand Portfolio

SHOPIFY
REVIEW
shopify

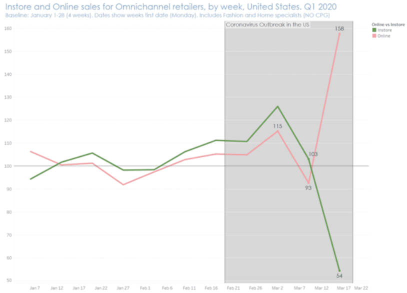
Source: Style Factory

Investment Thesis

Recently, I published a modest buy rating on Shopify (SHOP), and my detailed investment thesis can be found here and from a little earlier in the year here. In today's article, I discuss Shopify's Q2 earnings (reported on 07/29/2020) and their long-term implications for Shopify's future.

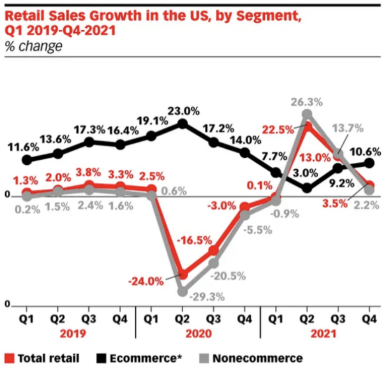
But before I dive into the numbers, allow me to share a little recap behind my thinking regarding Shopify.

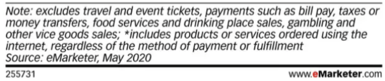
In a nutshell, my bullish investment thesis on Shopify remains based on the inexorable secular growth trends in e-commerce and enterprise digital transformation. As we all know, the coronavirus pandemic has accelerated the generational shift in consumer spending patterns from physical to online stores.



Source: www.criteo.com

In the last few months, e-commerce penetration of the total US retail market has blasted up from ~16% to 25%, and thus Shopify's exceptional Q2 performance should come as no surprise to anyone.





*Note: excludes travel and event tickets, payments such as bill pay, taxes or money transfers, food services and drinking place sales, gambling and other vice goods sales; *includes products or services ordered using the internet, regardless of the method of payment or fulfillment*
Source: eMarketer, May 2020

255731
www.eMarketer.com

eMarketer Retail Sales Growth in US, by Segment eMarketer

Source: www.businessinsider.com

Though I don't believe traditionally brick and mortar pizza sellers will continue slinging pizzas primarily online, COVID-19 certainly did pull forward a great deal of transition to not just an online strategy, but an omnichannel strategy, at which Shopify excels more so than any of its peers.

Additionally, consumer spending patterns have been shifting towards online stores for several years. Thus, I expect the boost in e-commerce to remain rather permanent, as we march inexorably toward a reality where e-commerce accounts for over half of all retail spend.

Shopify is continuously expanding the capabilities of its platform, and, in my opinion, the addition of a fulfillment network and its recent release of its Shop app could result in Shopify, meaningfully, competing with retail giants such as Amazon (AMZN) and Walmart (WMT). Several growth avenues like international expansion, additional lines of business (e.g., fintech, logistics, advertising), and machine learning serve as a solid basis for a long, long growth runway for Shopify.

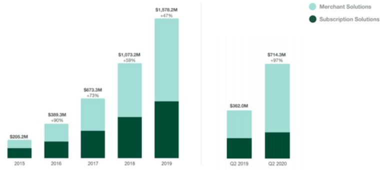
Here's an outline for the rest of this research note:

- Analysis of the latest quarterly financials and their potential long-term impact on Shopify's business.
- Re-evaluation of Shopify's intrinsic value in such a way as to ascertain a buying range.

Let's get into it.

Shopify's Q2 Numbers Show Rapid Growth Acceleration

Surpassing all estimates, Shopify recorded Q2 revenues of $714.3 million (up +97%). After years of growth rate deceleration, Shopify recorded the highest revenue growth rate since its IPO on the back of a significant boost in merchant count over the last few months. The COVID-19 pandemic hurt retail businesses and forced them to go online for survival, and it looks like this transition played directly into the hands of Shopify.

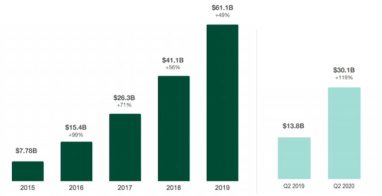


Source: Shopify Q2 Earnings Slides

The reason I like Shopify's business model a lot is its ability to benefit from the success of the sellers/merchants on its platform. As you may know, Shopify charges a fixed subscription fee for its platform. These subscription revenues grew by a healthy ~28% y/y based on new merchant additions to Shopify's platform in Q2.

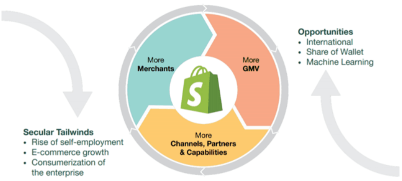
However, the highlight of Shopify's report is the ~148% y/y growth in Merchant Solutions segment revenue. I agree that the Merchant Solutions segment commands a lower gross margin profile of ~40-45% as compared to the Subscription Solutions segment (gross margin profile: ~75-80%), but the growth in Merchant Solutions is evidence of Shopify's ability to provide services that could yield higher revenues from existing merchant base on its platform.

The success of Shopify's sellers (as a collective) can be measured by the gross merchandise value (GMV) processed through Shopify's platform. Furthermore, Shopify's Merchant Solutions segment revenues are positively correlated to GMV. In Q2, the GMV processed through Shopify's platform went up to $30.1 billion from the previous year figure of $13.8 billion, i.e., a rise of +119% y/y.



Source: Shopify Q2 Earnings Slides

Assessing The Long-term Impact



Source: Shopify Q2 Earnings Slides

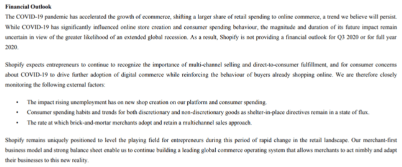
In 2020, Shopify's flywheel is rotating rapidly, which is driving the company's revenues higher and simultaneously strengthening Shopify's ecosystem and by extension moat. The influx of merchants on the Shopify platform due to COVID-

19 in combination with the shift in consumer spending trends to online channels is driving Shopify's GMV higher. On top of that, Shopify continues to add channel partners (e.g., Facebook (FB), Walmart, Shop App, etc.) and capabilities (e.g., Shop Pay, Shop Balance, etc.) in order to enhance merchant (and consumer) experience on its platform.

As Shopify's flywheel motors on with immense power supplied by secular tailwinds like the rise in self-employment, e-commerce penetration, and digitalization of traditional brick and mortar, mono-channel enterprises, I expect Shopify to experience spectacular long-term growth over the next decade.

For the rest of this year, Shopify's management refrained from providing any guidance due to uncertainty related to COVID-19. However, with unemployment numbers on the rise, I expect the merchant numbers to continue to grow as more people (first-time entrepreneurs) open up brand new online businesses. Also, the shift in consumer spending trends will most likely become permanent.

With that being said, I have a feeling that even Shopify acknowledges that some of this online frenzy might abate in the event the virus vanishes faster than expected and/or a vaccine is approved faster than expected.



Financial Outlook

The COVID-19 pandemic has accelerated the growth of ecommerce, shifting a larger share of retail spending to online commerce, a trend we believe will persist. While COVID-19 has significantly influenced online store creation and consumer spending behaviour, the magnitude and duration of its future impact remain uncertain in view of the greater likelihood of an extended global recession. As a result, Shopify is not providing a financial outlook for Q3 2020 or for full year 2020.

Shopify expects entrepreneurs to continue to recognize the importance of multi-channel selling and direct-to-consumer fulfillment, and for consumer concerns about COVID-19 to drive further adoption of digital commerce while reinforcing the behaviour of buyers already shopping online. We are therefore closely monitoring the following external factors:

- The impact rising unemployment has on new shop creation on our platform and consumer spending.
- Consumer spending habits and trends for both discretionary and non-discretionary goods as shelter-in-place directives remain in a state of flux.
- The rate at which brick-and-mortar merchants adopt and retain a multichannel sales approach.

Shopify remains uniquely positioned to level the playing field for entrepreneurs during this period of rapid change in the retail landscape. Our merchant-first business model and strong balance sheet enable us to continue building a leading global commerce operating system that allows merchants to act nimbly and adapt their businesses to this new reality.

Source: Shopify Press Release

At the time of this writing, Shopify's stock is at $1,075 (up ~9% intraday). Clearly, the market has reacted positively to the earnings report. With that being said, the market will often price assets excessively in both directions, positive and negative. So, we must ascertain based on sober assumptions the upper and lower bounds of intrinsic value so as to determine what we should pay for a company.

Updated Shopify Valuation

To determine Shopify's intrinsic value, I will be utilizing the L.A. Stevens Valuation Model. Here's what it entails:

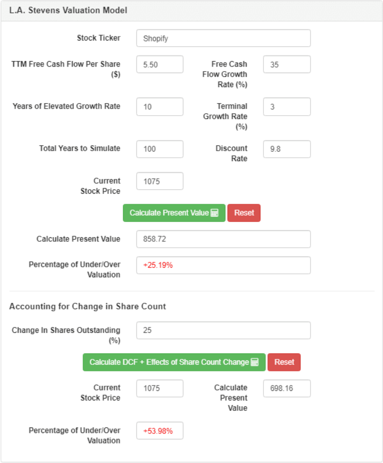
1. Traditional discounted cash flow Model using free cash flow to equity discounted by our (as shareholders) cost of capital
2. Discounted cash flow model including the effects of buybacks
3. Normalizing valuation for future growth prospects at the end of the ten years. (3a.) Then, using today's share price and the projected share price at the end of 10 years, we arrive at a CAGR. If this beats the market by enough of a margin, we invest. If not, we wait for a better entry point.

So, let's check out the results.

Assumptions:

Here's a little graphical depiction of how I determine free cash flow per share, which is the foundation of any valuation I perform on a company.

1. TTM Revenue	$1,930 million
2. Average Diluted Shares Outstanding (June 2020)	122.75 million
3. FCF Margin [nuanced assumption]	35%
TTM FCF per Share = (1)*(3)/(2)	$5.5



L.A. Stevens Valuation Model

Stock Ticker: Shopify

TTM Free Cash Flow Per Share ($): 5.50

Free Cash Flow Growth Rate (%): 35

Years of Elevated Growth Rate: 10

Terminal Growth Rate (%): 3

Total Years to Simulate: 100

Discount Rate: 9.8

Current Stock Price: 1075

Calculate Present Value: 858.72

Percentage of Under/Over Valuation: +25.19%

Accounting for Change in Share Count

Change In Shares Outstanding (%): 25

Current Stock Price: 1075

Calculate Present Value: 698.16

Percentage of Under/Over Valuation: +53.98%

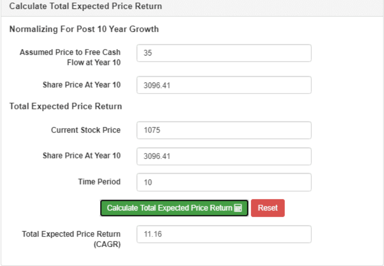
Source: L.A. Stevens Valuation Model

As can be seen above, Shopify's intrinsic value is ~$700, i.e., it is currently overvalued by ~54%.

With this being said, a DCF will often tell us one answer, and a projection of free cash flow per share into the future might also tell us another answer, hence I coded both perspectives into the LASV Model. This multi-perspective approach is what makes the model worthy of being called anything other than a DCF model!

Estimation Of Total Expected Returns

To determine the total expected returns, the model grows our initial TTM free cash flow per share at the assumed FCF growth rate. The resulting figure is then multiplied by a conservative Price to FCF ratio of 35x to obtain the share price at the end of ten years. By doing this, we arrive at the following result:



Calculate Total Expected Price Return

Normalizing For Post 10 Year Growth

Assumed Price to Free Cash Flow at Year 10	35
Share Price At Year 10	3096.41

Total Expected Price Return

Current Stock Price	1075
Share Price At Year 10	3096.41
Time Period	10

Total Expected Price Return (CAGR)	11.16

Source: L.A. Stevens Valuation Model

Therefore, if one were to buy Shopify at today's price of $1,075 and hold for ten years, they could expect a return of approximately ~11%. This implies a 2030 share price target of ~$3100.

The returns are only slightly above my hurdle rate of 9.8%. Thus, Shopify is only a weak buy at this price. However, I would be adding to my long position if the stock dips to ~$700s over the next couple of years.

How The Next 6 Months May Play Out

Now, I know some of the "linear bulls" (those that believe stocks go up linearly) out there might think Shopify will never return to $700.

Well, here's a scenario for you. Let's say the market now believes e-commerce's 25% or so penetration will persist in perpetuity. The market believes that the tens of thousands of new sellers will continue devoting all of their attention to their online sales, as they did during the lockdowns.

In 3 months, Shopify finds that a reversion to the mean has occurred instead (this is what they suspect might happen, hence no guidance).

Unequivocally, the near-term-thinking segment of Wall Street will punish Shopify dramatically. I believe this scenario to be the most likely scenario to play out over the next 6 months, hence I am sitting on my hands, content with the returns Shopify has generated for me and my family heretofore.

Concluding Thoughts

In Q2 2020, Shopify's growth accelerated to pre-IPO levels as a flurry of merchants flocked to its platform, and consumer spending trends leaned towards e-commerce due to the COVID-19 pandemic. I expect this transition to become rather permanent long term (albeit with some level of reversion to the mean in the near term). Shopify is well-positioned to ride the next wave of e-commerce adoption (especially in international markets).

In the long-term, Shopify's fulfillment network (5-year plan in progress) and partnerships with marketplaces like Facebook, Walmart, and Google (GOOG), could propel Shopify closer to rivaling the retail Goliaths (Shopify might be considered a now larger David) of the world. Hence, I retain a long-term bullish view on Shopify.

Key Takeaway: I rate Shopify a modest buy at $1,075.

Please provide your feedback in the comments below.

Thanks for reading; remember to follow to get more stock ideas; and happy investing.

Beating the Market: The Time Is Now

There has never been a more important time in stock market history to buy individual stocks at the heart of secular growth trends. Mature market performers/underperformers and index funds simply will not cut it, as we face a decade during which there is absolutely no guarantee the overall markets will rise.

This is why the time is now to discover high-quality businesses with aggressive, visionary management, operating at the heart of secular growth trends.

And these are the stocks that my team and I hunt, discuss, and share with our subscribers!

BEAT THE MARKET WITH LOUIS!
BEATING THE Market
A MARKETPLACE SERVICE BY L.A. STEVENS INVESTMENTS

JOIN TODAY!

Disclosure: I am/we are long SHOP, AMZN, GOOG, FB. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Like this article 13 Likes

Follow Louis Stevens and get email alerts

Follow

Recommended for you:

Apple: Q3 Blowout And Stock Split (NASDAQ:AAPL)
Bill Maurer

Apple: Blowout Quarter, Still Overvalued (NASDAQ:AAPL)
MangoTree Analysis

Visa: Rough Third Quarter, With Highlights In Shift From Cash And

Visa: Rough Third Quarter, With Highlights In Shift From Cash And Cardless Growth (NYSE:V)

Sunset Analysis

Teladoc Health: Elevated Risk (NYSE:TDOC)

Stone Fox Capital

Comments (80)

+ Track comments Sort by Newest

Tony Montana Munich
Add Your Comment: (NEW! Use @ to tag a user)

Share your comment: ☐ ☐ ☐ Publish

Tall Seller
Comments (8904) | + Follow

All these shorts are probably DESPERATE right now as they are about to lose a whack of cash from their BAD choices of options trades.

BUY AND HOLD Shopify people.

If Shopify only has 50-100% growth each of the next two quarters, their share price will easily DOUBLE this YEAR. And amazon said TODAY they don't think they have the capacity to keep up with the SURGE in end of year e-commerce orders coming.

If amazon is going to SURGE, so will Shopify.

BUY AND HOLD people.

30 Jul 2020, 11:53 PM Like 9 Reply

Ramy Taraboulsi, CFA
Contributor
Comments (2119) | + Follow

"If amazon is going to SURGE, so will Shopify."

@Tall Seller , IMHO, I don't think this statement is correct. Shopify merchants are competing with Amazon. Yes, they can use Amazon to list their products through Shopify, but buyers tend to only buy the Prime products (the ones that are FBA, which I believe Shopify gets no cut of; please correct me if I am wrong).

As a result, while there might be a historical correlation, because causation is not present here, and the driving factors are not necessarily the same, this historical correction may not extend in to the future.

This is just IMHO, and I can very well be wrong on this one. However my analysis indicates that this correlation is not necessarily extending into the future, and time will tell... (edited)

31 Jul 2020, 12:12 AM Like 0 Reply

Tall Seller
Comments (8904) | + Follow

@Ramy Taraboulsi, CFA

Amazon shut down the Webstore a few years ago and named Shopify the 3rd party integrator of choice, seen here:

👉🏻 www.google.com/...

Amazon's fastest growing cohort NOW is their 3rd party integrators (aka Shopify merchants) at 26% growth.

And, the MAJORITY of Amazon's sales come from 3rd party integrators (aka Shopify merchants at almost 60%.

Heck even Jeff Bezos is a Shopify merchant X2:

- Washington Post

👉🏻 store.washingtonpost.com

- Blue Origin

👉🏻 https://shop.blueorigin.com/

😂😂😂👆🏻😂😂😂

NEXT!

31 Jul 2020, 02:49 AM Like 1 Reply

Ramy Taraboulsi, CFA
Contributor
Comments (2119) | + Follow

Changing the subject again @Tall Seller ; we are talking about customers not companies...

But then again, arguing with you is always a losing proposition; You pull me down and beat me with experience...

31 Jul 2020, 08:18 AM Like 0 Reply

vancouvervic
Comments (359) | + Follow

and knowledge

😂

31 Jul 2020, 08:39 AM Like 0 Reply

Rajaramkprabhu
Premium
Comments (8) | + Follow

Nice article 👍. What about the competitors to Shopify from Adobe and Salesforce?

30 Jul 2020, 10:38 PM Like 1 Reply

Tall Seller
Comments (8904) | + Follow

@Rajaramkprabhu

Shopify is a million times better than both.

Adobes Magento's so bad now, their merchant count is CRASHING📉:

👉🏻 trends.builtwith.com/...

Salesforce Commerce cloud only has like 3-4000 merchants. They are a TINY player in e-commerce.

Shopify has TOP marketshare in TOP 100K e-commerce sites only the entire internet by DOUBLE their next biggest competitor, seen here:

👉🏻 trends.builtwith.com/...

Shopify has many solutions that NOBODY else has. That's why they are receiving a TIDAL WAVE of new merchants of all sizes since COVID, including ENTERPRISE merchants, where they confirmed this yesterday.

30 Jul 2020, 11:14 PM Like 2 Reply

salnaz641

Comments (100) | + Follow

On any measure this was a spectacular earnings report from SHOP. Let's not forget Black Friday, Cyber Monday and Holiday season still to come. I think SHOP will have it first billion dollar revenue quarter this year. There is so much optionality here all you have to do buy and hold and enjoy early retirement.

30 Jul 2020, 10:18 PM Like 5 Reply

krokodilica

Comments (134) | + Follow

Just 100% growth in the quarter when governments forced everyone to go shop online. Not so spectacular. Not impressive at all.

300% or more would've been something

Bulls expected ~400% growth in Q2, Tall Seller kept talking about 800% in Q2, until the real figures were revealed.

31 Jul 2020, 03:30 AM Like 1 Reply

Tall Seller

Comments (8904) | + Follow

@krokodilica

I said 100-760% growth, WHICH THEY DID.

You said significantly deceleration, and YOU WERE WRONG...AGAIN.

31 Jul 2020, 04:48 AM Like 1 Reply

buy and hodl 01

Comments (4) | + Follow

100-760.. great range...

same as saying i am from 5'7 to 6'5 feet tall

31 Jul 2020, 07:53 AM Like 1 Reply

buy and hodl 01

Comments (4) | + Follow

you said shopify price would double

31 Jul 2020, 07:55 AM Like 0 Reply

Tall Seller

Comments (8904) | + Follow

Shopify was on the USA's biggest news station today for a great interview:

👉 video.foxbusiness.com/...

Lots of brand building going on for Shopify, and their new TV show that Harley discusses in the interview above called I Quit is going to further build their brand and steer a TIDAL WAVE of more businesses to Shopify.

p.s. Amazon said today they don't think they have the captivity now for the HUGE sure one e-commerce they expect in the 2nd half of the year.

WOW, RIGHT?

If amazon surges in the second half of 2020, so will Shopify.

BUY and HOLD for me, before the rush of new merchants And before the second half the year e-commerce SURGE pushes Shopify's share price UP UP UP.

📈📈📈📈📈📈

30 Jul 2020, 09:23 PM Like 5 Reply

mickeystoysz16

Comments (561) | + Follow

Read several articles and now following.

Essayons

30 Jul 2020, 08:56 PM Like 0 Reply

Tall Seller

Comments (8904) | + Follow

I listened intently today to all 3 of Amazon, Google, and Facebook earnings calls for how all of their 3rd party integrations and partnerships with omnichannel e-commerce providers (Shopify in particular) might continue and what further plans they have for such.

I mean, seeing that:

- Google just allowed Shopify merchants to list products for FREE on google and use Shopify checkout for FREE:

👉 blog.google/...

- Facebook recently launched Facebook Shops in partnership with Shopify, where its FREE for Shopify merchants to integrate, to sell, and to use Shopify checkout for FREE. See 8:00 mark here:

👉 news.shopify.com/...

- Seeing amazon shut down their Webstore and named Shopify as their 3rd party integrator of choice:

👉 www.google.com/...

The more the all of them show signs of 3rd party integrators seeing surging sales during COVID, the more the enable 3rd party integrators, and the more they face antitrust hearings/ramifications with Congress (like yesterday), the more Shopify merchants sales will likely SKYROCKET on their platforms with their innovations for Shopify merchants and on many other such Shopify channel partners.

They ALL SAID today e-commerce is booming still, and they are all committed to helping businesses on their platforms still. Heck, Facebook said there are 180,000,000 businesses on their platform with most not having website yet. With Shopify facebooks ONLY official public company e-commerce PARTNER to innovate e-commerce solutions with, how many of those 180,000,000 business on Facebook will choose Shopify too for their website??? LOTS!!!

Shopify has MASSIVE GROWTH ahead.

30 Jul 2020, 08:04 PM Like 10 Reply

gutcheck

Comments (3070) | + Follow

from ER press release.

"year-on-year GMV growth accelerating in April and May and decelerating in June and thus far in July."

and from cc transcript

"Ken Wong

Great. In your prepared remarks, you guys mentioned seeing GMV decelerate in June and July. And given the magnitude of how you guys outperformed this quarter, can you give us a rough sense of what that step down in June and July look like so we can flow some of that through our models with -- since there's no guidance?

Amy Shapero

Yeah. We're not going to provide guidance on the degree of deceleration. We're not giving guidance for the third quarter or the full year because of the uncertainties related to COVID and the macro environment. One month in our third quarter may not be representative of the full quarter. So for that reason, we're not providing guidance."

30 Jul 2020, 07:57 PM Like 1 Reply

Louis Stevens
Contributor Premium Marketplace Guide
Comments (3247) | + Follow

Author's reply » @gutcheck

And to complement this (from my article):

"How The Next 6 Months May Play Out

Now, I know some of the "linear bulls" (those that believe stocks go up linearly) out there might think Shopify will never return to $700.

Well, here's a scenario for you. Let's say the market now believes e-commerce's 25% or so penetration will persist in perpetuity. The market believes that the tens of thousands of new sellers will continue devoting all of their attention to their online sales, as they did during the lockdowns.

In 3 months, Shopify finds that a reversion to the mean has occurred instead (this is what they suspect might happen, hence no guidance).

Unequivocally, the near-term-thinking segment of Wall Street will punish Shopify dramatically. I believe this scenario to be the most likely scenario to play out over the next 6 months, hence I am sitting on my hands, content with the returns Shopify has generated for me and my family heretofore."

Thanks for sharing, gutcheck.

30 Jul 2020, 08:01 PM Like 0 Reply

Tall Seller
Comments (8904) | + Follow

Amazon said TODAY that ALL e-commerce should see huge ACCELERATIONS into year end.

Facebook said TODAY that e-commerce is staying much STRONGER than pre-COVID right now. That's SHOPIFY.

30 Jul 2020, 08:06 PM Like 5 Reply

Tall Seller
Comments (8904) | + Follow

@Tall Seller

I'd DUMP Square and TTD if I were you, and buy a lot more Shopify.

30 Jul 2020, 08:44 PM Like 1 Reply

Rainer-63
Comments (832) | + Follow

@Louis Stevens what is strange to me is that everybody is talking about if we should already be out of covid. We're in the middle and will suffer at least for 6-9 more months. Every day we hear from record death numbers. So I think Shop just wanted to be extremely conservative as they always were.

31 Jul 2020, 02:17 AM Like 0 Reply

Uhle
Comments (222) | + Follow

@Tall Seller

Why would you dump TTD to buy Shopify? They are not even closely working in the same business. Would you also dump McDonalds and Caterpillar?

31 Jul 2020, 03:07 AM Like 0 Reply

Tall Seller
Comments (8904) | + Follow

@Uhle

The Trade Desk's losing TOP quality customers in a CRASHING fashion, as seen here:

👉 trends.builtwith.com/...

RUN!

31 Jul 2020, 04:48 AM Like 0 Reply

Uhle
Comments (222) | + Follow

@Tall Seller

Do you have information on what happened here? Probably Corona related and temporary!?

31 Jul 2020, 05:08 AM Like 0 Reply

Louis Stevens
Contributor Premium Marketplace Guide
Comments (3247) | + Follow

Author's reply » We've begun our latest Beating The Market series entitled, "The Greatest Secular Growth Trends Of Our Time".

It will span 10-15 weeks and will be similar to a podcast/docuseries, in which my team of analysts and I will highlight the secular growth trends that could potentially make millionaires during the 2020s.

Check it out!

seekingalpha.com/...

30 Jul 2020, 07:52 PM Like 0 Reply

Louis Stevens
Contributor Premium Marketplace Guide
Comments (3247) | + Follow

Author's reply » Our approach entails defining these 10 secular growth trends, in which we concentrate our investments.

This makes investing easy and simplified. We do not haphazardly scatter our money across a handful of technology companies.

We concentrate our money in defined businesses, or thematic investing trends, such that the potential for alpha generation is very high and risk low. (edited)

30 Jul 2020, 07:58 PM Like 0 Reply

buy and hodl 01
Comments (4) | + Follow

if you are so good of an investor, go open a hedge fund

right..why sell those services...

31 Jul 2020, 07:58 AM Like 0 Reply

264
Comments (73) | + Follow

Well we have a 1075.00 Price Target. Two other brokers have a 1300.00 and

1400.00 Price Target. I have a 1260.00 to 1385.00 range on stock. Everyone's opinion is just that, it's just an opinion. I do think nothing is going to change based upon the current pandemic conditions which discourages brick and mortar retail shopping. So Shopify will again beat in this next quarter also. I feel very comfortable with this estimate I provided as I see tech stocks doing very well going forward unless the democrats completely takeover in November and change tax provisions.

30 Jul 2020, 07:45 PM Like 2 Reply

Tall Seller

Comments (8904) | + Follow

Even if the dems win, Shopify enables individual businesses of all sizes and they are the politically correct company for political parties of both sides to enable and empower. Shopify is the best enabler of the American Dream.

Helping Shopify politically helps businesses of all sizes.

30 Jul 2020, 07:51 PM Like 3 Reply

Tall Seller

Comments (8904) | + Follow

Shopify with a BLOWOUT quarter. Do people still think their "multiple" is too high? 😀 $SHOP

- $714M rev (+97% YoY) vs $518M consensus

- $196M subscription rev (+28%)

- $518M merchant solutions rev (+148%)

- $30.1B GMV (+119%)

- New stores created (+71%)

- 53% GM

- 8% FCF Margin

👉 twitter.com/...

30 Jul 2020, 07:28 PM Like 3 Reply

dutchref

Premium

Comments (459) | + Follow

not at all it is too low.

shopify should be at $70,000 a share. I did the DCF analysis out to the next 500 years.

remember, this is a buy at any price stock, and analysts can upgrade it everyday day until it hits $70,000 a share.

until then do not sell a single share.

30 Jul 2020, 07:36 PM Like 5 Reply

Tall Seller

Comments (8904) | + Follow

@dutchref

Don’t worry, after their Q3 results with +80-90% growth, todays share price will be 20-25X multiple, which is a SCREAMING BUY for a company like Shopify with such massive growth ahead, so might was well BUY NOW....and HOLD until then and HOLD for years.

30 Jul 2020, 07:42 PM Like 3 Reply

dutchref

Premium

Comments (459) | + Follow

ok, I'm upping my price target then to $179,000 a share!

all in!

30 Jul 2020, 08:43 PM Like 5 Reply

Tall Seller

Comments (8904) | + Follow

@dutchref

Today’s share price is closer to that being reality than when you said the same exaggeration last quarter and the quarter before...etc.

30 Jul 2020, 08:59 PM Like 2 Reply

ilikebiscuits

Comments (47) | + Follow

I'm curious how you came up with your "nuanced assumption" of a 35% FCF margin.

30 Jul 2020, 07:24 PM Like 1 Reply

Louis Stevens

Contributor Premium Marketplace Guide

Comments (3247) | + Follow

Author’s reply » @ilikebiscuits

It's an assumption that they will be able to achieve a 35% free cash flow margin in the future.

Think Amazon's earnings exploding upward, as we saw today.

If anything, I believe that such a margin is quite generous, and therefore, it should only further highlight that Shopify will have to take a breather at some point. (edited)

30 Jul 2020, 07:27 PM Like 1 Reply

Equanimity Investing

Contributor Premium

Comments (2399) | + Follow

@Louis Stevens Can you name one other software company that has actually achieved a free cash flow margin of 35%? The only one I've ever come across is Adobe. It's an extremely rare specimen. Thanks. (edited)

30 Jul 2020, 09:26 PM Like 1 Reply

Louis Stevens

Contributor Premium Marketplace Guide

Comments (3247) | + Follow

Author’s reply » @Equanimity Investing

FB for one.

Many companies choose never to expand their margins. Some suppress them for decades.

There's a great deal of nuance to it generally involving net and gross retention rates.

I delve into how to ascertain the true free cash flow margin a company is or is cable of generating.

seekingalpha.com/... (edited)

30 Jul 2020, 10:04 PM Like 1 Reply

Libmat

Comments (66) | + Follow

Thank you for a new perspective and methods generating the numbers used for future buys/sells. I am holding for now, looking for another entry or perhaps an exit with a future re-entry, so I appreciate your assessment.

30 Jul 2020, 07:17 PM Like 0 Reply

Tall Seller

Comments (8904) | + Follow

This analysis is such a contradiction. You always say how long you are, how great Shopify is, and then provide a lower than trading share price and say it will stay that way for years. That's NOT long.

30 Jul 2020, 07:16 PM Like 2 Reply

Louis Stevens

Contributor Premium Marketplace Guide

Comments (3247) | + Follow

Author's reply » @Tall Seller

Hi Tall,

I am long TWLO, but that doesn't mean I would love adding new capital to it at $40B market cap as of today.

seekingalpha.com/...

seekingalpha.com/...

I am long CRWD, but that doesn't mean I would love adding new capital to it at a $25B market cap.

seekingalpha.com/...

I am long ZM, but that doesn't mean I would love adding new capital to it at a $70B market cap (did add in March during the pandemic selloff).

seekingalpha.com/...

I am long FSLY, but that doesn't mean I would love adding new capital to it at a $10B market cap.

seekingalpha.com/...

Here's what I am buying however:

seekingalpha.com/... (edited)

30 Jul 2020, 07:24 PM Like 2 Reply

Oracle Of Alpha

Contributor Premium

Comments (317) | + Follow

@Tall Seller Your perception is too narrow, investing isn't like cheering for your home town sports team. It's perfectly rational to be bullish long term while acknowledging that it's overvalued at its current levels. Similarly you can love a companies products but think they're an absolutely terrible investment, it's not a binary decision. It's probably obvious from my own articles that I disagree with the authors analysis, but there's nothing contradictory about what he said. (edited)

30 Jul 2020, 07:42 PM Like 4 Reply

Tall Seller

Comments (8904) | + Follow

I was the one RIGHT (or closer to right) about Shopify. Thanks for the advice but I'm the one that has got Shopify right here since $50/share.

NEXT!

30 Jul 2020, 07:59 PM Like 2 Reply

Louis Stevens

Contributor Premium Marketplace Guide

Comments (3247) | + Follow

Author's reply » @Tall Seller

I have been right about the stock as well, Tall lol

30 Jul 2020, 08:04 PM Like 0 Reply

Tall Seller

Comments (8904) | + Follow

@Louis Stevens

I was talking to Oracle. He is always so unduly arrogant to me, where I'm the one who proves right about Shopify OVER AND OVER AND OVER AND OVER😎!

30 Jul 2020, 08:45 PM Like 4 Reply

Tall Seller

Comments (8904) | + Follow

@Louis Stevens

Not about Shopify for a long time. lol!!

30 Jul 2020, 08:47 PM Like 1 Reply

Tall Seller

Comments (8904) | + Follow

@Louis Stevens

What date was the last time you wrote on SA readers should BUY Shopify?

30 Jul 2020, 08:56 PM Like 3 Reply

Tall Seller

Comments (8904) | + Follow

Pretty awesome that Rosenblatt analyst Mark Zgutowicz raised the price target on Shopify to $1,400.00. USD.

BUY and hold people.

30 Jul 2020, 07:12 PM Like 4 Reply

---

fm.dividend

Comments (245) | + Follow

Waiting to hear from Shop bears and pessimists about how Shop revenue is going down, subscription is down, etc etc.

30 Jul 2020, 07:05 PM Like 4 Reply

---

rivalry

Comments (50) | + Follow

Unless the government is going to keep handing out free money to everyone to buy junk from Shopify sellers where is this consumer demand going to come from with 40M+ unemployed? I'm just not a believer in this fantasy that we're better off today than a year ago and that SHOP is priced for anything but 5 years to a decade from now.

30 Jul 2020, 06:50 PM Like 2 Reply

Tall Seller

Comments (8904) | + Follow

@rivalry

Shopify helps REAL businesses of EVERY size. They have more market share of ENTERPRISE merchants than any other D2C omnichannel e-commerce provider, as seen here:

👉 trends.builtwith.com/...

Shopify is the BEST IN THE world at helping real businesses make real sales.

30 Jul 2020, 07:01 PM Like 2 Reply

userpeter

Comments (271) | + Follow

This shop is way too expensive. China'a bzun has way better valuation and more room to run.

30 Jul 2020, 06:46 PM Like 0 Reply

Tall Seller

Comments (8904) | + Follow

@userpeter

Boazun is dog meat compared to Shopify. They are the worst chicken out there. No real business will choose them to sell around the world because Baozun will never be allowed to integrate than Shopify is allowed to.

Baozun is a custom solutions business which will NEVER be scalable and therefor their growth is extremely limited.

30 Jul 2020, 06:53 PM Like 4 Reply

Uhle

Comments (222) | + Follow

@Tall Seller

You obviously havent understood that Baozun helps US companies sell in the very different chinese market where people generally just dont speak english and in China only. You can be long Shopify - we all know you are - but at least compare it to their competition and not randomly (Baozun, TTD,...)

31 Jul 2020, 04:34 AM Like 0 Reply

Ramy Taraboulsi, CFA

Contributor

Comments (2119) | + Follow

I personally expect a very big jump tomorrow for Shopify; The market will act totally irrationally with Amazon, Facebook, Google and even Ford's earnings.

I think that $1,200 should be the target to sell/short, and I would not be surprised if it hits it tomorrow...

Of course, I have been wrong many many times before, but it seems that recently, I have been more right than wrong...

30 Jul 2020, 06:43 PM Like 1 Reply

Tall Seller

Comments (8904) | + Follow

@Ramy Taraboulsi, CFA

Why would anyone sell Shopify any time soon? Shopify is dead center in the B2B and D2C omnichannel trend with MANY years of growth ahead.

Did you listen to ALL Google, Amazon, and Facebook's earnings calls today? They ALL talked about e-commerce being a long term trend.

Shopify is just getting started.

30 Jul 2020, 06:51 PM Like 5 Reply

Ramy Taraboulsi, CFA

Contributor

Comments (2119) | + Follow

@Tall Seller , $1,200 seems to be very high for my own valuation. I would sell it at this price, and then write put options at a lower price. This would be much much safer than keeping the stock.

But then again, I am a trader in addition to being an investor, and being as ancient as I am, I tend to be more risk averse than Robinhood investors...

30 Jul 2020, 06:56 PM Like 2 Reply

Tall Seller

Comments (8904) | + Follow

@Ramy Taraboulsi, CFA

Easier for most people just to BUY AND HOLD....and close their eyes for years.

Shopify has MASSIVE growth ahead.

30 Jul 2020, 07:01 PM Like 4 Reply

stevem1

Comments (145) | + Follow

@Ramy Taraboulsi, CFA

after hrs trading doesn't seem to share the enthusiasm for SHOP. Only up ~1-2%. I was thinking that SHOP would have been pulled more due to AMZN.. Didn't seem to happen.

It might still happen, time will tell.

30 Jul 2020, 08:51 PM Like 1 Reply

F Maz

Comments (688) | + Follow

Shopify is very good at eating other people share of the pie. The problem is that Shopify is more hungry than there is pie.

30 Jul 2020, 06:42 PM Like 1 Reply

ouyu

Comments (15) | + Follow

Anyone buying Shopify at these, or near, these prices must be smoking some next level weed, mixed with cocaine and also need to be dyslexic, because anyone who can read numbers is not paying 40X next years sales and revenue for a stock, let me repeat FOUTRY TIMES NEXT YEARS SALES AND REVENUES, and again FOURTY TIMES NEXT YEARS SALES!!! I mean, WTF are people doing buying this, are you feeling okay? Do I need to say it again, forget their non existent profitability, or non existent free cash flows, or their 4 digit P/E at 4,000 times earnings, or their constant need to raise capital, 42X book value, or their 40X NEXT YEARS SALES, yes its that crazy. Forget Tesla being a bubble and crazily valued, this is something else, this rivals even the top .com bubble players, this is........... I'm lost for words on how crazy this is valued, did I say FOURTY TIMES NEXT YEARS REVENUES ?!?!?!?!?! Oh God, please help anyone who is buying Shopify stock and please fix their non-existent brains

(Edited) (edited)

30 Jul 2020, 06:40 PM Like 9 Reply

watchoutfolks

Comments (12) | + Follow

3500 P/E......what could go wrong when the bubble bursts? This stock is a poster child for insanity. Buyer beware.

30 Jul 2020, 06:54 PM Like 5 Reply

Tall Seller

Comments (8904) | + Follow

@ouyu

Happy to agree to disagree. Their growth is permanently going to be WELL ABOVE per-COVID levels. Amazon just said they are ramping up for a BOOMING second half of the year e-commerce. I'm listening to Facebook say the same thing right this minute about all players in e-commerce. And google said they are preparing for more e-commerce too.

Shopify is the CENTER of e-commerce for all of them and more.

When Shopify announced +80-90% GMV growth for Q3, that will make today's share price 20-25X multiple, which is CHEAP. Shopify IS DEFINITELY going up in price from here....so BUY BUY BUY while it's CHEAP.

30 Jul 2020, 06:55 PM Like 4 Reply

watchoutfolks

Comments (12) | + Follow

Funny how actual profit and useful multiples based on actual profit (perish the thought!) do not matter for these darlings of momentum. The reality is numbers do not matter to some, it will just go up forever!!!

30 Jul 2020, 09:52 PM Like 2 Reply

Tall Seller

Comments (8904) | + Follow

@watchoutfolks

Shopify investing their profits in MASSIVE GROWTH = SMART!

30 Jul 2020, 11:31 PM Like 1 Reply

Tall Seller

Comments (8904) | + Follow

@watchoutfolks

Shopify has MASSIVE profits but they SMARTLY invest them in their MASSIVE growth. Any CEO would be an idiot to do anything differently with Shopify's MASSIVE growth ahead.

30 Jul 2020, 11:44 PM Like 1 Reply

Rainer-63

Comments (832) | + Follow

@ouyuyou should inform yourself better. They didn't raise cash but renewed the old option and could do that within the next two years.

31 Jul 2020, 02:39 AM Like 0 Reply

Tall Seller

Comments (8904) | + Follow

Did you hear in Googles earnings call Sundar [CEO] talk about enabling Shopify merchants with FREE product listings and for commission FREE sales, partly due Shopify merchants ability to offer great "customer experiences" and near "one click" payments?

Gotta love when Shopify gets a name drop with FAANG in their earnings calls. Last quarter it was Facebook that mentioned Shopify in their earnings call (not cruddy WiX)🤓.

30 Jul 2020, 06:38 PM Like 8 Reply

Up and Away

Comments (3108) | + Follow

@Up and Away Louis Stevens

Memo to self. Yes, Shop had a blow out quarter but, so did Amazon! Shop has a long way to go to catch up. If Covid gone tomorrow, will Shop's numbers still be so good is the question.

30 Jul 2020, 06:34 PM Like 2 Reply

gymhog

Comments (1537) | + Follow

well seeing how the virus is nowhere near cured I don't think that would be a problem, for 5 months now we keep hearing about a vaccine that will have tomorrow just to find out where no further than we were a few months ago, matter fact just seems to be getting worse

30 Jul 2020, 06:37 PM Like 1 Reply

Tall Seller

Comments (8904) | + Follow

@Up and Away

Shopify is a MUCH better business model for e-commerce than Amazon.

Amazon = ONE channel for businesses to use for just sales

Shopify = EVERY worthwhile Big Tech and big box online store for sales, marketing, brand building, cross channel marketing, product launches, offloading of inventory, interacting with customers directly, ETC., all to attain a Higher Lifetime Value and even to attain higher margins.

Shopify will win merchants business almost every time (for smart business) to be the hub for them to start with when their choice is ONE channel Amazon or EVERY channel Shopify.

30 Jul 2020, 06:45 PM Like 4 Reply

Up and Away

Comments (3108) | + Follow

@gymhog

What is more important? Getting a vaccine without doubt!

30 Jul 2020, 06:46 PM Like 0 Reply

Up and Away

Comments (3108) | + Follow

@Tall Seller

hmm That one channel is all they need! If it ain't broke, don't fix it.

30 Jul 2020, 07:01 PM Like 0 Reply

Tall Seller

Comments (8904) | + Follow

@Up and Away

One channel is a LOSER e-commerce strategy for real businesses. That's why amazon even reports that their most sales and fastest growing sales comes from 3rd party integrators (aka many of whom are Shopify merchants).

It's stupid for most business to only sell on Amazon with the immense benefits of Shopify's omnichannel strategies and other such competitor crushing solutions.

30 Jul 2020, 07:14 PM Like 0 Reply

Up and Away

Comments (3108) | + Follow

@Tall Seller

Every company would love to have Amazon's sales and growth.😋

30 Jul 2020, 07:22 PM Like 1 Reply

Tall Seller
Comments (8904) | + Follow

@Up and Away

We are taking about Shopify here and just because amazon has success, it does NOT mean it’s a better choice for businesses to choose who they START with when deciding where to first set up online and then integrate onto whichever platforms.

Shopify is MUCH BETTER than Amazon for businesses to START WITH, and then integrate to amazon and to other such Big Tech channels and big box online stores.

30 Jul 2020, 07:26 PM Like 1 Reply

Up and Away
Comments (3108) | + Follow

@Tall Seller

Instead of me, maybe you should be telling them this?

30 Jul 2020, 07:38 PM Like 0 Reply

Tall Seller
Comments (8904) | + Follow

@Up and Away

I had something nice to say to Jeff Bezos...

👉 twitter.com/...

30 Jul 2020, 07:47 PM Like 0 Reply

avtaprantzis
Premium Marketplace
Comments (197) | + Follow

I think we all agree that Shopify is a great business. With massive growth ahead and great future. And I really regret that I missed it when it was trading at $300 - $700. And to be fair, it sits at the top of my shopping list, in any significant pullback. However, there are other equally enviable businesses that make more sense at their current valuations, such as MELI, SE and ETSY. I am not saying SHOP is a bubble at this price and I would never short it. I am just saying it has baked quite a few years of growth in its current valuation and the risk/reward is less compelling than other alternatives.

30 Jul 2020, 09:15 PM Like 0 Reply

Tall Seller
Comments (8904) | + Follow

@avtaprantzis

Etsy..that’s a big NO THANKS.

MELI...Shopify merchants can intgegrate there just like they can 50 other places so why take the risk on a one pony show when you can essentially diversify by choosing Shopify that lest businesses be EVERYWHERE (aka omnichannel; see here for how powerful Shopify’s omnichannel is: 👇

www.shopify.com/...).

Sea Ltd - not in a million years. That just waiting for an real implosion.

30 Jul 2020, 11:34 PM Like 0 Reply

Tall Seller
Comments (8904) | + Follow

@avtaprantzis

I wouldn’t touch any of those with a ten foot pole compared to Shopify. Their valuations are cruddy because their growth potential is infinitely smallest, they have no moat compared to Shopify, and they have risks all over them. Thanks but no thanks compared to Shopify.

Shopify is a VERY EASY long term buy and hold.

30 Jul 2020, 11:35 PM Like 0 Reply

Add a comment

Disagree with this article? Submit your own.
To report a factual error in this article, click here.
Your feedback matters to us!