



Shopify Inc. (SHOP)

Updated May 26th, 2019 by Ignatius Quek

Key Metrics

Current Price:	\$276	5 Year CAGR Estimate:	12.0%	Volatility Percentile:	95.7%
Fair Value Price:	\$111	5 Year Growth Estimate:	28.7%	Momentum Percentile:	99.8%
% Fair Value:	249%	5 Year Valuation Multiple Estimate:	-16.7%	Growth Percentile:	99.4%
Dividend Yield:	0.0%	5 Year Price Target	\$69	Valuation Percentile:	0.5%
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Total Return Percentile:	64.7%

Overview & Current Events

Shopify Inc. is a cloud-based, multi-channel commerce platform that builds web and mobile software for merchants to subscribe to and set up online stores. The Shopify platform allows merchants to have a single view of business and operations across sales channels, manage inventory, process orders and receive payments, manage shipments, build customer relationships, and analyze performance. Shopify Inc. has a market capitalization of \$29.8 billion and a 3-year revenue CAGR of 69.9%.

On April 30, 2019 Shopify Inc. reported first quarter results for the period ending March 31, 2019. Reported sales for the quarter were \$320.5 million which was 49.5% growth over the first quarter of fiscal year 2018. Net loss was \$24.2 million, 51.9% higher than first quarter of fiscal year 2018. Adjusted Non-GAAP earnings were \$10.3 million after adjusting for stock-based compensation and payroll taxes related to the stock-based compensation. This is 143.6% higher than first quarter of fiscal year 2018.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2024
Sales/Share	---	\$2.70	\$3.33	\$4.64	\$7.03	\$10.16	\$13.86	\$48.88
Shares	---	38.9	61.7	84.0	95.8	105.7	111.5	116.5

Shopify Inc. grew sales over the past 5 years by 59% annually to \$1.1 billion and achieved profitability based on adjusted Non-GAAP EPS of \$0.16 in 2017 and \$0.37 in 2018. The 2019 consensus estimate is \$0.58 on revenue of \$1.5 billion (40% higher than 2018 revenue). Gross margin declined 3.2% from 58.8% in fiscal year 2014 to 55.6% in fiscal year 2018 which was compensated by Selling, General and Administrative expenses declining as a percentage of sales from 54.7% to 42.6%. This measure of improving operating efficiency resulted from strong revenue growth. Fiscal year 2018 operating cash flow was \$9.3 million and free cash flow was -\$52 million. The 2024 \$48.88 sales per share estimate assumes a lowered 28.7% 5 year CAGR due to expectations of market maturation, intensifying competition in ecommerce software providers and also reflects the already intense competition in the new products that Shopify Inc had entered into such as payments and merchant cash advances. The 2024 outstanding shares amount is based on the effect of fully converting 5 million options as reported at the end of the first quarter fiscal year 2019.

Valuation Analysis

Year	2015	2016	2017	2018	Now	2024
Avg. Price/Sales	9.3	7.4	13.0	14.1	19.9	8.0
Avg. Yld.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Shopify Inc has not generated profits and thus does not have a dividend yield or a price-to-earnings multiple. Hence for relative valuation purposes, we prefer the price/sales ratio. The forecasted sales growth for 2019 is 44% and the following 5 year sales CAGR is 28.7% as discussed above. The 2024 price-to-sales multiple is expected to decline by a 5 year -16.7% CAGR to 8x. The decline is in line with lowered sales growth expectations as the company matures and its ecosystem and product extension begins to compete directly with peers like Wix.com, GoDaddy Inc., Square Inc., and Salesforce.com Inc. These listed peers currently trades at price-to-sales multiples ranging between 4.8x, and 10.5x.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Safety, Quality, Competitive Advantage, & Recession Resiliency

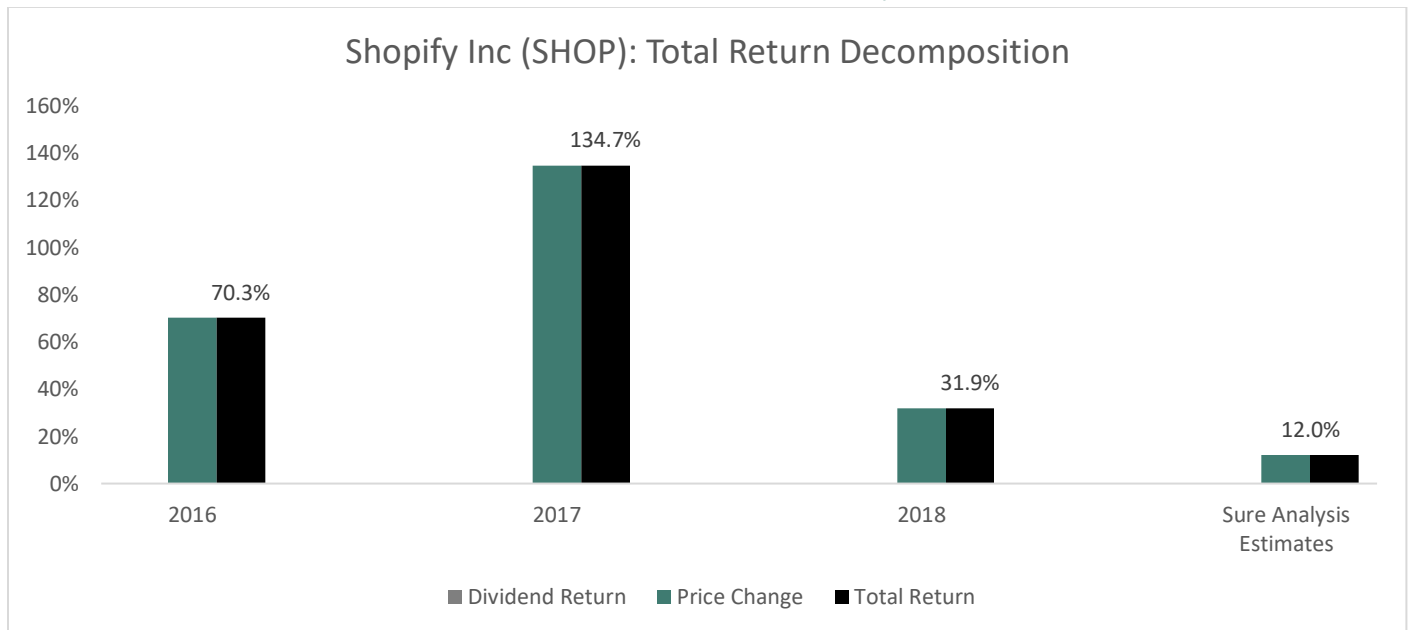
Year	2015	2016	2017	2018	2019	2024
Payout	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Shopify Inc. is susceptible to economic cycles as its services and products are catered towards the consumer sector. The company is in a growth phase and is spending an average of 46% of sales on marketing over the last 5 years. Hence there is no historical trend to rely on in terms of how the company operated through recessionary periods. The cash of \$2 billion and discretionary operating levers such as marketing spend may help buffer the impact of weak sales through a down cycle. However, Shopify Inc. operates a subscription based revenue and hence the contracts are typically under 12 months. It also earns a commission on payments and third party application developers that sell through the Shopify platform. These are all tied to cyclical factors and there had been past analyst concerns over high merchant churn rates on Shopify's platform. The Shopify ecommerce ecosystem has expanded through third party apps, payment solutions and providing cash advances to merchants. These overlap with other growth companies such as Paypal and Square Inc. who are intensifying marketing efforts to onboard merchants with online and offline solutions. With the intensifying competition, there is a high risk that any execution errors or change in economic condition would result in significant impact to Shopify's bottom line.

Final Thoughts & Recommendation

Shopify trades at 249% over its fair value based on our estimates. The total return of 12.0% is entirely based on the sales per share growth estimate of 28.7%. Dividend yield oriented investors should not expect a near term dividend as the company continues to grow its business. The company is clearly not suitable for income investors or fundamental value investors even as it is rated a buy for speculative investors given the risks and exposure to economic cycles.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	N/A	N/A	N/A	N/A	N/A	105	205	389	673	1073
Gross Profit	N/A	N/A	N/A	N/A	N/A	62	113	209	380	596
Gross Margin	N/A	N/A	N/A	N/A	N/A	58.8%	55.2%	53.8%	56.5%	55.6%
SG&A Exp.	N/A	N/A	N/A	N/A	N/A	57	91	172	293	458
D&A Exp.	N/A	N/A	N/A	N/A	N/A	5	7	14	23	27
Operating Profit	N/A	N/A	N/A	N/A	N/A	-22	-18	-37	-49	-92
Op. Margin	N/A	N/A	N/A	N/A	N/A	-20.6%	-8.7%	-9.5%	-7.3%	-8.6%
Net Profit	N/A	N/A	N/A	N/A	N/A	-22	-19	-35	-40	-65
Net Margin	N/A	N/A	N/A	N/A	N/A	-21.2%	-9.2%	-9.1%	-5.9%	-6.0%
Free Cash Flow	N/A	N/A	N/A	N/A	N/A	-24	-5	-12	-16	-32

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	N/A	N/A	N/A	N/A	N/A	95	244	491	1114	2255
Cash & Equivalents	N/A	N/A	N/A	N/A	N/A	42	110	84	142	411
Acc. Receivable	N/A	N/A	N/A	N/A	N/A	1	2	15	54	103
Goodwill & Int.	N/A	N/A	N/A	N/A	N/A	5	8	22	38	64
Total Liabilities	N/A	N/A	N/A	N/A	N/A	27	48	80	112	164
Accounts Payable	N/A	N/A	N/A	N/A	N/A	8	18	34	44	61
Long-Term Debt	N/A	N/A	N/A	N/A	N/A	0	0	0	0	0
Total Equity	N/A	N/A	N/A	N/A	N/A	-19	195	410	1001	2091
D/E Ratio	N/A	N/A	N/A	N/A	N/A	0	0	0	0	0

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	N/A	N/A	N/A	N/A	N/A	-23.4%	-11.1%	-9.6%	-5.0%	-3.8%
Return on Equity	N/A	N/A	N/A	N/A	N/A	213%	-21.4%	-11.7%	-5.7%	-4.2%
ROIC	N/A	N/A	N/A	N/A	N/A	-29.1%	-14.3%	-11.7%	-5.7%	-4.2%
Shares Out.	N/A	N/A	N/A	N/A	N/A	38.9	61.7	84.0	95.8	105.7
Revenue/Share	N/A	N/A	N/A	N/A	N/A	1.58	3.33	4.64	7.03	10.16
FCF/Share	N/A	N/A	N/A	N/A	N/A	-0.35	-0.09	-0.15	-0.17	-0.30

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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