Shopify Inc. (SHOP)

Updated September 25th, 2019 by Felix Martinez

Key Metrics

Current Price:	$315	**5 Year CAGR Estimate:**	5.9%	**Volatility Percentile:**	95.3%
Fair Value Price:	$138	**5 Year Growth Estimate:**	25.0%	**Momentum Percentile:**	99.9%
% Fair Value:	229%	**5 Year Valuation Multiple Estimate:**	-15.3%	**Growth Percentile:**	99.5%
Dividend Yield:	0.0%	**5 Year Price Target**	$420	**Valuation Percentile:**	1.7%
Dividend Risk Score:	N/A	**Retirement Suitability Score:**	N/A	**Total Return Percentile:**	43.1%

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, including: sales channels, inventory management, order processing, shipment management, and customer relationship management. Shopify has a market capitalization of $36 billion and a 3-year revenue CAGR of 73.6%.

On August 1, 2019, Shopify Inc. reported second-quarter results for the period ending June 30, 2019. Reported revenues for the quarter were $361,979 million which was 47.8% growth over the second quarter of fiscal 2018. Net loss for the second quarter of 2019 was -$28.7 million, or -$0.26 per share, compared with -$24.0 million, or -$0.23 per share, for the second quarter of 2018. For the first half of fiscal 2019, company revenue grew 48.6%. Revenues came in at $682,461 million 1H19 vs $459,303 million in 1H18. Even though the company is seeing tremendous revenue growth, the bottom line has been negative.

During the second quarter, Shopify unveiled innovations to transform commerce for merchants and consumers globally, which includes Shopify Fulfillment Network, Shopify Plus Platform, and next-gen Shopify POS Software. The company expects revenues to come in the range of $1.51 billion to $1.53 billion for full year 2019. Also, Shopify expects GAAP operating losses in the range of $145 million to $155 million.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2024
Revenue/Share	---	$1.57	$3.31	$4.63	$7.01	$10.12	**$13.75**	**$41.96**
Shares	---	67	62	84	96	106	**112**	**115**

Shopify Inc. grew revenue over the past 5 years by 84.5% annually to $1.1 billion in 2018. The company achieved profitability based on adjusted Non-GAAP EPS of $0.15 in 2017 and $0.38 in 2018. The 2019 consensus estimate is $0.61 on revenue of $1.5 billion (39% higher than 2018 revenue). Gross margin in 2017 was 56.5% and in 2018 it was 55.6% which was a -1.6% loss. The fiscal year 2018 operating cash flow was -$9.3 million and free cash flow was -$52 million. The 2024 $41.96 revenue per share estimate assumes a lowered 25% 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/Revenue	7.8	9.3	14.4	13.6	**22.9**	**10**
Avg. Yld.	0.0%	0.0%	0.0%	0.0%	**0.0%**	**0.0%**

Shopify Inc has not generated meaningful profits and thus does not have a dividend or a price-to-earnings multiple. Hence for relative valuation purposes, we prefer the price/revenue ratio. The forecasted revenue growth for 2019 is

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39% and the following 5-year sales CAGR is 25% as discussed above. The 2024 price-to-revenue multiple is expected to decline by a 5 year -18.71% CAGR to 10x. 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 trade at price-to-revenue multiples ranging between 4.8x, and 10.5x.

Safety, Quality, Competitive Advantage, & Recession Resiliency

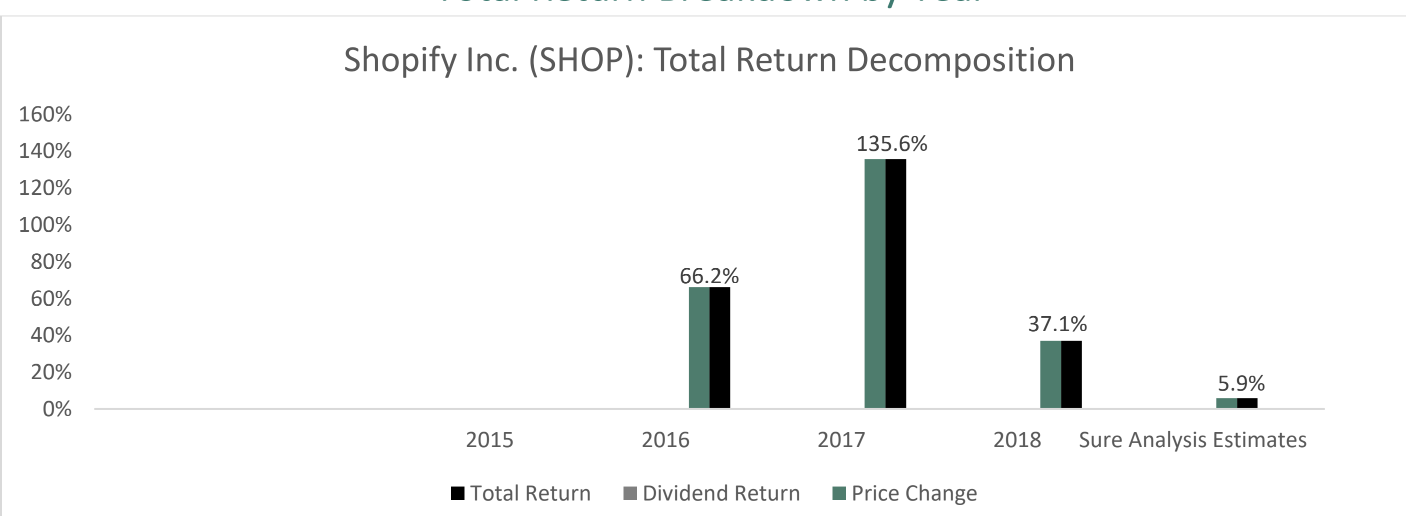
Year	2015	2016	2017	2018	2019	2024
Payout	0.0%	0.0%	0.0%	0.0%	***0.0%***	***0.0%***

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 revenue 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 service 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 a significant impact on Shopify's bottom line.

Final Thoughts & Recommendation

Shopify trades at 229% over its fair value based on our estimates. The total return of 5.9% is entirely based on the revenue per share growth estimate of 25%. Dividend yield-oriented investors should not expect a near term dividend as the company continues to grow its business. The company is not suitable for income investors or fundamental value investors. Thus, we rate the company as a sell because of its high valuation.

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	67	62	84	96	106
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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