



Shopify Inc. (SHOP)

Updated November 2nd, 2019 by Felix Martinez

Key Metrics

| | | | | | |
|-----------------------------|-------|--|--------|---------------------------------|-------|
| Current Price: | \$315 | 5 Year CAGR Estimate: | 9.7% | Volatility Percentile: | 96.0% |
| Fair Value Price: | \$165 | 5 Year Growth Estimate: | 25.0% | Momentum Percentile: | 99.9% |
| % Fair Value: | 192% | 5 Year Valuation Multiple Estimate: | -12.2% | Growth Percentile: | 99.3% |
| Dividend Yield: | 0.0% | 5 Year Price Target | \$504 | Valuation Percentile: | 5.0% |
| Dividend Risk Score: | NA | Retirement Suitability Score: | NA | Total Return Percentile: | 88.8% |

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 \$33 billion and a 3-year revenue CAGR of 73.6%.

On October 29, 2019, Shopify Inc. reported third-quarter results for the period ending September 30, 2019. The company had a great quarter where it generated revenues of \$390.5 million for 45% year over year (YoY) growth. So far for the nine-months ending September 30, 2019, the company has generated \$1,073 million in sales vs \$729 million for the first nine months fiscal 2018. This is an increase of 47% YoY. The Subscription Solutions segment saw revenue growth of 37%. This growth was driven primarily by Monthly Recurring Revenue (MRR), which was mostly due to the increase in the number of merchants that joined the Shopify platform. MRR was up 34%, to \$50.7 million, compared to \$37.9 million in 3Q18.

Amy Shapero, Shopify's CFO, commented that the strong quarterly growth was *"driven in part by the success of our international expansion, which is just one of the many ways we are investing in the platform."*

Looking forward, the company expects revenues in the range of \$1.545 billion to \$1.555 billion and adjusted operating income in the range of \$27 million to \$37 million for the full year 2019. For the fourth quarter of 2019, Shopify currently expects revenues in the range of \$472 million to \$482 million. Using the midpoint of \$477 million, this is growth of 38.7% versus 4Q18.

Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|---------------------------|--------|--------|--------|--------|--------|--------|---------|----------------|----------------|
| Revenue/Share | \$0.36 | \$0.74 | \$1.57 | \$3.31 | \$4.63 | \$7.01 | \$10.12 | \$13.75 | \$41.96 |
| Shares¹ | 66.0 | 67.0 | 67.0 | 62.0 | 84.0 | 96.0 | 106.0 | 111.0 | 120.0 |

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 \$0.65 on revenue of \$1.545 billion (40% higher than 2018 revenue). 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.

¹ Shares in Millions

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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Valuation Analysis

| Year | 2015 | 2016 | 2017 | 2018 | Now | 2024 |
|--------------------|------|------|------|------|-------------|-------------|
| Avg. Price/Revenue | 7.8 | 9.3 | 14.4 | 13.6 | 23.0 | 12 |
| 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 40% and the following 5-year revenue/share CAGR is 25% as discussed above. The 2024 price-to-revenue multiple is expected to decline by a 5 year -12.2% CAGR to 12x.

The decline is in line with lowered sales growth expectations as the company matures and its ecosystem and product extension begin 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% |

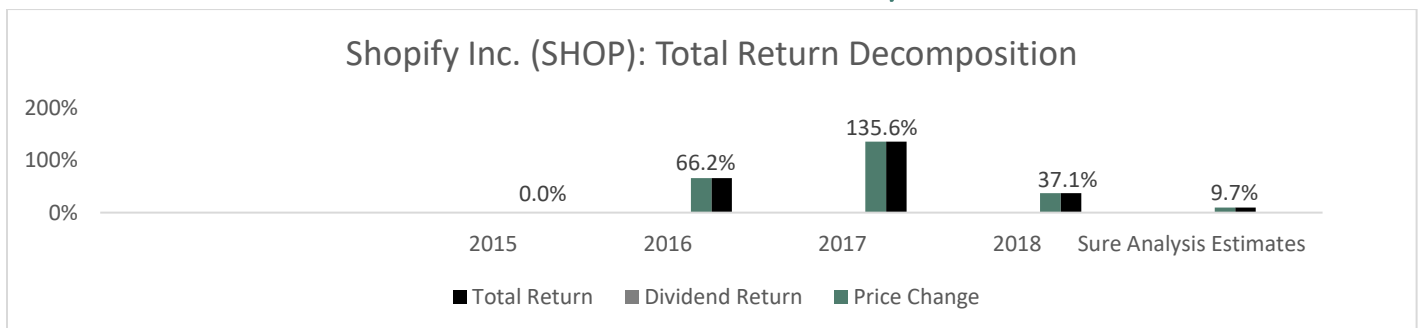
Shopify Inc. is susceptible to economic cycles as its services and products are catered towards the consumer sector. The company is in a growth phase and spent an average of 46% of revenue on marketing over the last 5 years. There is no historical trend to rely on in terms of how the company operated through recessionary periods. Cash of \$2.67 billion and discretionary operating levers such as marketing spend may help buffer the impact of weak sales through a down cycle.

There have also been analyst concerns over high merchant churn rates on Shopify's platform, which could be exacerbated in a recession. 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. With the difficult competition, there is 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 192% over its fair value based on our estimates. The total return of 9.7% 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. We rate Shopify as a risky hold with high upside for investors focused solely on growth and not income.

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.

Disclaimer

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