Shopify Inc. (SHOP)

Updated May 17, 2020 by Felix Martinez

Key Metrics

Current Price:	$767	**5 Year CAGR Estimate:**	11.7%	**Market Cap:**	$86.7 B
Fair Value Price:	$438	**5 Year Growth Estimate:**	25.0%	**Ex-Dividend Date:**	N/A
% Fair Value:	175%	**5 Year Valuation Multiple Estimate:**	-10.6%	**Dividend Payment Date:**	N/A
Dividend Yield:	N/A	**5 Year Price Target**	$869	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	N/A	**Retirement Suitability Score:**	N/A	**Last Dividend Increase:**	N/A

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 view their business, including sales channels, inventory management, order processing, shipment management, and customer relationship management. Shopify has a market capitalization of $86.7 billion and a 5-year revenue CAGR of 41.8%.

On May 6, 2020, Shopify Inc. reported first-quarter for FY2020 results for the period ending March 31, 2020. First-Quarter Revenue Grows 47% Year on Year, from $320 million to $470 million. Subscription Solutions revenue grew 34% to $187.6 million. This was driven primarily by growth in Monthly Recurring Revenue (MRR), largely due to an increase in the number of merchants joining the Shopify platform, strong app growth, and Shopify Plus variable platform fee revenue growth. Gross profit grew 43% to $257.0 million, compared with $180.3 million for the first quarter of 2019. The quarter's net loss was $31.4 million, or $0.27 per share, which is higher than the net loss YoY of $24.2 million, or $0.22 per share.

The COVID-19 pandemic has helped with the stock price. It has increased from $407 a share at the beginning of the year to now $767. Shopify has introduced several initiatives to support businesses. An extended 90-day free trial for all new standard plan signups, Introduction of local in-store/curbside pickup and delivery, etc.

The company suspended its financial expectations that were provided on February 12, 2020, for the full year 2020. As the financial results for the year are contingent on the duration and scope of the COVID-19 pandemic and the economic impact, all of which are unknown. However, we expect revenues for the year to be at least be 23% higher than Fiscal Year 2019. So, we will expect full-year revenue to be $1.98 billion. This will give us a Revenue/Share of $17.52. This is slightly lower than our previous report Revenue/Share of $18.98.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Revenue/Share	$0.36	$0.74	$1.57	$3.31	$4.63	$7.01	$10.12	$13.96	***$17.52***	***$53.47***
Shares[1]	66.0	67.0	67.0	62.0	84.0	96.0	106.0	113.0	***113.0***	***113.0***

Shopify Inc. grew revenue over the past five years by 41.8% annually to $1.6 billion in 2019. The company achieved profitability based on adjusted Non-GAAP EPS of $0.38 in 2018 and $0.46 in 2019. In 2020, consensus estimate $0.49 in earnings, which is 5% higher than 2019 earnings. The fiscal year 2019 operating cash flow was $70.6 million, and the company currently has $969 million in cash and cash equivalents, from $649.9 million last quarter, which is an increase of 49%.

2025 estimated revenue per share 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.

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[1] *Shares in Millions*

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Valuation Analysis

Year	2015	2016	2017	2018	2019	Now	2025
Avg. Price/Sales	7.8	9.3	14.4	13.6	28.5	***43.8***	***20.0***
Avg. Yld.	---	---	---	---	---	**---**	**---**

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/sales ratio. The forecasted revenue growth for 2020 is 23%, and the following 5-year sales/share CAGR is 25%, as discussed above. 2025 price-to-sales multiple is expected to decline by a five year -10.6% CAGR to 25x.

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 of 10.8x, 3.9x, 6.8x, and 8.3x, respectively.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	**---**	**---**

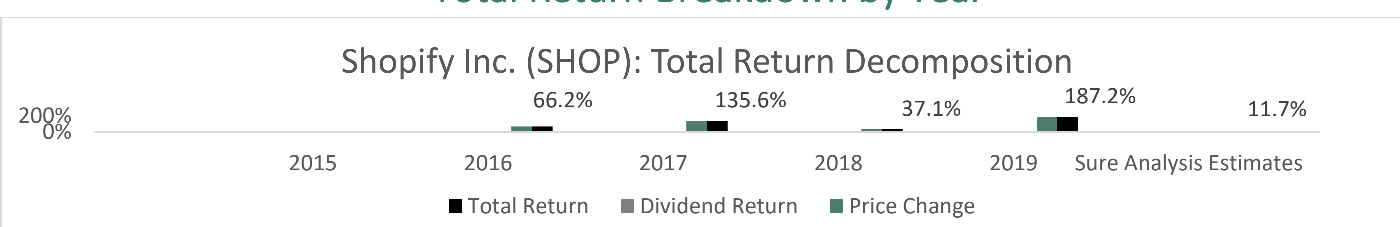
Shopify Inc. is susceptible to economic cycles as its services and products are catered towards the consumer sector. The company is in a growth phase and spent an average of 46% of its revenue on marketing over the last five years. There is no historical trend to rely on in terms of how the company operated through recessionary periods. Cash of $969 million 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 a risk that any execution errors or change in economic condition would have a significant impact on Shopify's bottom line.

Final Thoughts & Recommendation

Shopify trades at 175% over its fair value based on our estimates. The total return of 11.7% 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 Buy. This company is for investors focused solely on growth and not income.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	N/A	N/A	N/A	N/A	105	205	389	673	1073	1578
Gross Profit	N/A	N/A	N/A	N/A	62	113	209	380	596	866
Gross Margin	N/A	N/A	N/A	N/A	58.8%	55.2%	53.8%	56.5%	55.6%	55.6%
SG&A Exp.	N/A	N/A	N/A	N/A	57	91	172	293	458	652
D&A Exp.	N/A	N/A	N/A	N/A	5	7	14	23	27	36
Operating Profit	N/A	N/A	N/A	N/A	-22	-18	-37	-49	-92	-141
Op. Margin	N/A	N/A	N/A	N/A	-20.6%	-8.7%	-9.5%	-7.3%	-8.6%	-8.6%
Net Profit	N/A	N/A	N/A	N/A	-22	-19	-35	-40	-65	-125
Net Margin	N/A	N/A	N/A	N/A	-21.2%	-9.2%	-9.1%	-5.9%	-6.0%	-6.0%
Free Cash Flow	N/A	N/A	N/A	N/A	-24	-5	-12	-16	-32	8.2

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	N/A	N/A	N/A	N/A	95	244	491	1114	2255	3489
Cash & Equivalents	N/A	N/A	N/A	N/A	42	110	84	142	411	650
Acc. Receivable	N/A	N/A	N/A	N/A	1	2	15	54	103	134
Goodwill & Int.	N/A	N/A	N/A	N/A	5	8	22	38	64	
Total Liabilities	N/A	N/A	N/A	N/A	27	48	80	112	164	479
Accounts Payable	N/A	N/A	N/A	N/A	8	18	34	44	61	474
Long-Term Debt	N/A	N/A	N/A	N/A	0	0	0	0	0	91
Total Equity	N/A	N/A	N/A	N/A	-19	195	410	1001	2091	3016
D/E Ratio	N/A	N/A	N/A	N/A	0	0	0	0	0	0

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	N/A	N/A	N/A	N/A	-23.4%	-11.1%	-9.6%	-5.0%	-3.8%	-4.3%
Return on Equity	N/A	N/A	N/A	N/A	213%	-21.4%	-11.7%	-5.7%	-4.2%	-4.9%
ROIC	N/A	N/A	N/A	N/A	-29.1%	-14.3%	-11.7%	-5.7%	-4.2%	-4.9%
Shares Out.	N/A	N/A	N/A	N/A	67	62	84	96	106	113
Revenue/Share	N/A	N/A	N/A	N/A	1.58	3.33	4.64	7.03	10.16	13.96
FCF/Share	N/A	N/A	N/A	N/A	-0.35	-0.09	-0.15	-0.17	-0.30	0.07

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