Shopify (SHOP) Equity Research Report

1. Executive Summary

Shares: 1.28b

Current Price: —$155/Share

Target Price: — $72/Share ($92b/1.28B)

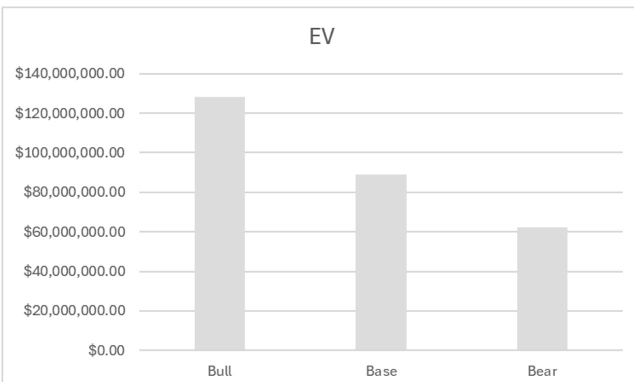
Target EV (Base): — $89b

Bull Case EV Target: —$128b

Bear Case EV Target: —$62b

DCF-weighted EV: — $92b EV

Time Horizon: 12–18 months



Thesis Summary

- Shopify is transitioning into a higher-margin, asset-light software and merchant-services platform.
- Strong revenue growth underpinned by GMV gains, international expansion, and rising contribution from Merchant Solutions.
- Significant operating leverage expected post-2023 restructuring, allowing for durable margin expansion.
- FCF growth accelerates meaningfully due to ultra-low CapEx requirements.

Rating: Market Weight

Our intrinsic value estimate of **$72/share** (base case) sits well below the current market price of **$155/share**, indicating that the stock embeds expectations meaningfully above our base and even our bull-case scenarios.

While Shopify remains a high-quality platform with strong long-term optionality, current valuation limits near-term risk/reward. We prefer to wait for a more attractive entry point before adding exposure.

---

2. Company Overview

Ticker: SHOP

Exchange: NYSE / TSX

Sector: Technology

Industry: E-commerce Infrastructure / SaaS

Market Cap: — 202b

Business Description

Shopify provides a cloud-based commerce platform enabling merchants to build, operate, and scale online and offline stores. Revenue is derived from:

- **Subscription Solutions:** recurring fees from merchant subscriptions.
- **Merchant Solutions:** payments, Shop Pay, capital, POS, transaction fees.
- **Shopify Plus / Enterprise:** advanced features for larger merchants.

The company serves:

- SMEs launching online businesses
- Direct-to-consumer brands
- Enterprise merchants migrating from legacy commerce stacks

Geographic Mix

- North America remains the core region.
- International markets (EMEA, APAC, LATAM) are becoming a larger contributor.

Competitive Landscape

Key competitors include WooCommerce, BigCommerce, Salesforce Commerce Cloud, Adobe Commerce (Magento), and Amazon's ecosystem. Shopify remains the leading third-party commerce platform for independent brands.

---

3. Investment Thesis

3.1 Core Thesis Pillars

Pillar 1: Durable GMV & Merchant Solutions Growth

Shopify continues to expand its merchant base and increase GMV per merchant. Shop Pay penetration and higher take rates support sustained revenue expansion.

Pillar 2: Margin Expansion After Fulfilment Exit

Exiting the logistics business radically improved profitability. Operating margins are expected to expand consistently through 2026.

Pillar 3: Strong Free Cash Flow Generation

With extremely low CapEx (<0.3% of revenue), Shopify converts a high percentage of earnings into cash. FCF is expected to compound strongly.

4. Financial Analysis

All of the below was completed within Excel, including all calculations.

Every value, apart from EPS, Operating Margins and Years, is in 1000s, and in $

4.1: Historical Performance

Report date	Revenue (1000s)	Operating Income(1000s)	Net Income(1000s)	Operating margin	EPS	Free cash flow(1000s)	Total Debt
Dec-24	8880000	1075000	2019000	12.11%	1.55	1597000	1,126,000
Dec-23	7060000	-1418000	132000	-20.08%	0.1	905000	1,150,000
Dec-22	5600000	-822000	-3460000	-14.68%	-2.73	-186000	1,396,000
Dec-21	4611000.856	268000.6431	2914000.659	5.81%	2.29	484923	1,173,487

- CAGR= 0.244 ((Rev(24)/Rev(21))^(1/3))-1)=24% (rounded)
- Analysis:
- FCF has, on average, been increasing within the last 4 years, rising by about $1 billion in that period, highlighting strong cash generation and constant investment.

- CAGR=24%: This is a strong figure, highlighting strong returns to investments in short time frames.
- Operating margins have increased from 5-12%, indicating improved efficiency within the timeframe; however, there is cause for concern due to OM's fluctuating to lows, such as -20% in 2023.
- EPS: Fell by 5 points from 2021 to 2022; however, since then, it has seen a fair increase up to 1.55, indicating hopeful future growth for 2025.

4.2: Forecast

Forecast variables	2021	2022	2023	2024	FY(2025)	FY(2026)
Revenue (1000s)	4611000.856	5600000	7060000	8880000	10478400	12050160
Free cash flow(1000s)	484923	-186000	905000	1597000	3157141.92	4299497
EPS	2.29	-2.73	0.1	1.55	1.67	2.17
Ebitda (1000s)	3208050	-594000	144000	1338000	1990896	2651035.2
Capex (1000s)	-50,788	-50,000	-39,000	-19,000	-33530.88	-38561
Net income(1000s)	2,914,659	-3,460,000	132,000	2,019,000	2200464	2892038
Shares(1000s)	1,151,000	1,275,000	1,287,000	1,295,000	1,314,000	1,334,000

In a more general case, within the above, I attempted to forecast Shopify's future financials. All values within the table above are in 1000s, bar EPS.

- Revenue: I calculated a CAGR of 24%, as stated previously, and following the trend, I decided that in 2025 and 2026, revenue would grow 18% and 15% upon the previous year, respectively.
- My reasoning behind this was that Shopify have increased its enterprise, with Shopify+ allowing for an increased charge upon services, as well as the company internationally expanding into Europe and Pacific regions.
- FCF:=(OCF- CapEx). Using the CapEx figures, alongside operating cashflow, which I forecasted to be 1.45x net income in 2025, and 1.5x in 2026
- Why the increase? Effects such as a low CapEx, increased cash flow per dollar of revenue and margins expanding all combined.
- EPS: (Net Income/Shares)

- EBITDA: To forecast for 2025 and 2026, I calculated the EBITDA margins for 2022 through to 2024, which were -10%, 2% and 15% respectively. Due to this, I expected the margins to be 19% in 2025 and 22% in 2026, thus multiplying these by revenue to get my EBITDA totals.
- CapEx: Due to Shopify's low costs of capital, I estimated this to be only 0.32% of revenue. This was done because, due to Shopify having a largely software-based business, capital costs are extremely low, due to a limited amount of physical infrastructure, and an R&D-heavy model.
- Net income: (Revenue x Operating Margin)
- In 2022, the operating margins dipped; however, since then, we have seen a strong rebound due to lower logistics costs, as well as restructuring of the firm, which led to a decreased headcount. Due to this, I used figures of 21% in 2025 and 24% in 2026 for my OM.
- Shares: Assumed a usual 1-2% increase, so picked a 1.5% increase YoY, no buybacks predicted.

4.3 Valuation

Below, I used Discounted Cash Flow modelling to determine the enterprise value of Shopify in 2030, with bull, bear and the base case, which is what the table below refers to.

I set the growth rate to 3.3% (0.033), as that is typical of a company like Shopify and the WACC to 7% (0.07), due to Shopify having a Large market cap, and being an asset-light tech company.

	FY(2025)	FY(2026)	FY(2027)	FY(2028)	FY(2029)	FY(2030)
Revenue	10478400	12050160	13616680.8	15250682.5	16928257.57	18621083.33
Op Margin	0.210	0.240	0.260	0.280	0.300	0.300
EBIT	2200464.0	2892038.4	3540337.0	4270191.1	5078477.3	5586325.0
NOPAT	1650348	2169028.8	2655252.756	3202643.324	3808857.953	4189743.749
D&A	104784	120501.6	136166.808	152506.825	169282.5757	186210.8333
CapEX	33530.88	38560.512	43573.37856	48802.18399	54170.42423	59587.46665
Change in WC	-41913.6	-48200.64	-54466.7232	-61002.72998	-67713.03028	-74484.33331
UFCF	1763514.72	2299170.528	2802312.909	3367350.695	3991683.135	4390851.449
Year	0	1	2	3	4	5
Discounted FCF (PV of UFCF)	1763514.7	2148757.5	2447648.6	2748761.2	3045236.0	3130616.4

1. I started with the revenue for 2025 and 2026 being 18% and 15% YoY increases, respectively, as before. From then then, 2027 was set at 13%, decreasing 1% each year onwards, up until a 10% growth in 2030.

2. Operating Margins increased from 21% to 28% from 2025 to 2028, and then remained constant from 2029 onwards. Initially, we will see an increase; however, in the long run, ie 2029 onwards, it will stay constant, which is good for businesses, as it shows stability leading to growth. I set it at 30% for 2029 onwards, as analysts have forecasted this value for software platforms.

3. EBIT= Revenue x OM

4. I then worked out Net Operating Profit After Tax (NOPAT):

   NOPAT= EBIT(1-Tax rate), assuming a tax rate of 25%

5. I forecasted D&A by calculating 1% of revenue for each year, as this was similar to what Shopify had in 2023-2024, and used my CapEx figures, using the same multiplier as previously (0.32%). Finally, I used-0.4% of revenue for the figures of changes in working capital, as working capital is extremely small, and changes due to new business models may contribute towards FCF.

6. As a result of all of the above, I was able to work out the unlevered free cash flow for each year.

UFCF=NOPAT+D&A−CapEx−ΔWC

7. I then needed to calculate the present values of each year's FCF, using the equation below.

   PV=FCF/ (1+WACC)^t

   These were then addeu, to get a total of $15284534.4

8. Then, the terminal value was calculated using the following equation.

   (FCF_2030 x (1+g))/(WACC-g) : TV= $113064424.8

9. Then discount it to the present value, by dividing it by (1+WACC)^n, where n is the number of years (6): PV(TV) = $73484118.35
10. Then, to find the total enterprise value, sum up the Present value of the TV and the sum of the present value of each year's FCF, to get

    EV= PV(FCF)+ PV(TV)= $88,768,653

This is the enterprise value of Shopify, which is equal to $89,000,000,000 (89 billion USD), as all of our values were in 1000s

4.3.2: Bull Case

	FY(2025)	FY(2026)	FY(2027)	FY(2028)	FY(2029)	FY(2030)
Revenue	10744800	12678864	14707482.24	16913604.58	19281509.22	21788105.41
Op Margin	0.220	0.250	0.270	0.290	0.310	0.310
EBIT	2363856.0	3169716.0	3971020.2	4904945.3	5977267.9	6754312.7
NOPAT	1772892	2377287	2978265.154	3678708.995	4482950.893	5065734.509
D&A	107448	126788.64	147074.8224	169136.0458	192815.0922	217881.0541
CapEX	26862	31697.16	36768.7056	42284.01144	48203.77304	54470.26354
Change in WC	-21489.6	-25357.728	-29414.9645	-33827.20915	-38563.01843	-43576.21083
UFCF	1874967.6	2497736.208	3117986.235	3839388.239	4666125.23	5272721.51
Year	0	1	2	3	4	5
Discounted FCF (PV of UFCF)	1874967.6	2345292.2	2749001.5	3178434.1	3627086.9	3848458.4

- For the bull case, there were a few changes in assumptions and multipliers:
- All revenues increased 3%, ie 2025 revenue was the 2024 figure multiplied by 1.21, and 2030 was the 2029 figure multiplied by 1.13
- The operating margins were increased by 1 percentage point.
- The change in working capital is -0.2%, not -0.4%
- Capex was calculated as 0.25% of revenue, instead of 0.32%

- WACC was 6.5%
- Growth rate was 0.032 (3.2%)

Sum(PV Free Cash Flows)	17623240.66	
Terminal Value	170210041.3	
Present value(TV)=	110624848.1	
Enterprise Value=	PV(FCF)+ PV(TV)=	128248088.7

Using the same formulas as previous, the bull case EV was $128,000,000,000 (128 Billion USD)

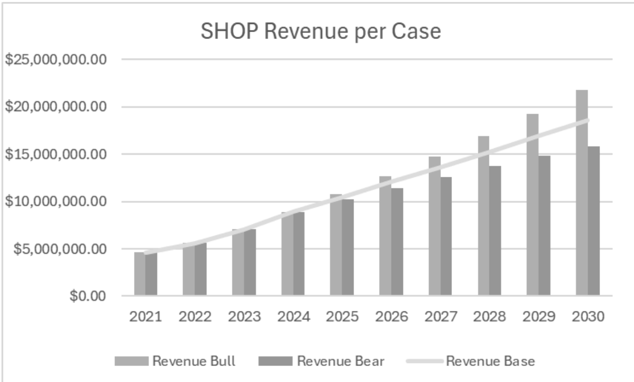
4.3.3: Bear Case

	FY(2025)	FY(2026)	FY(2027)	FY(2028)	FY(2029)	FY(2030)
Revenue	10212000	11437440	12581184	13713490.56	14810569.8	15847309.69
Op Margin	0.200	0.230	0.250	0.270	0.290	0.290
EBIT	2042400.0	2630611.2	3145296.0	3702642.5	4295065.2	4595719.8
NOPAT	1531800	1972958.4	2358972	2776981.838	3221298.933	3446789.858
D&A	102120	114374.4	125811.84	137134.9056	148105.698	158473.0969
CapEX	40848	45749.76	50324.736	54853.96224	59242.27922	63389.23876
Change in WC	-10212	-11437.44	-12581.184	-13713.49056	-14810.5698	-15847.30969
UFCF	1603284	2053020.48	2447040.288	2872976.272	3324972.921	3557721.026
Year	0	1	2	3	4	5
Discounted FCF (PV of UFCF)	1603284.0	1909786.5	2117503.8	2312632.6	2489741.5	2478161.3

- For the bear case:
- All revenues decreased 3%, ie 2025 revenue was the 2024 figure multiplied by 1.15, and 2030 was the 2029 figure multiplied by 1.07
- The operating margins were decreased by 1 percentage point.
- The change in working capital was -0.1% of revenue, not -0.4%
- Capex was calculated as 0.4% of revenue, instead of 0.32%
- WACC was 7.5%
- Growth rate was 0.027 (2.7%)

Sum(PV FCF's)=	12911109.65	
TV=	76120406.11	
PV(TV)=	49473041.07	
EV=	PV(FCF)+ PV(TV)=	62384150.72

Using the same formulas as the previous, the bear case EV was $62,000,000,000 (62 Billion USD)



5. Competitive Landscape

Major Competitors

Shopify competes across multiple layers of the e-commerce value chain. Key competitors include:

Competitor	Category	Strengths	Weaknesses
WooCommerce (WordPress)	SMB e-commerce	Open-source, customizable, low-cost	Technical complexity, hosting burdens, weaker performance at scale
BigCommerce	SaaS e-commerce	Strong B2B features, flexible APIs	Smaller ecosystem, weaker brand pull
Adobe Commerce (Magento)	Enterprise	Deep customisation, enterprise-grade tools	Expensive, heavy implementation, declining adoption
Salesforce Commerce Cloud	Enterprise	Large enterprise relationships, integrated CRM	High cost, slow innovation cycle
Amazon	Marketplace + Buy-with-Prime	Massive traffic, fulfilment network	Owns customer relationships, higher take rates
TikTok Shop / Social Commerce	Social commerce	Rapid GMV growth, traffic built-in	Still immature, low merchant loyalty

Market Share Trends

- Shopify is **#2 globally** in SMB and mid-market e-commerce platforms, second only to WooCommerce.
- In the enterprise, Shopify Plus is rapidly gaining share from legacy platforms like Salesforce and Magento.
- The rise of **payment-embedded commerce** (Shop Pay) is improving take rate and deepening merchant reliance.
- Shopify's share of U.S. e-commerce GMV has grown from ~5% in 2020 to **~10%+ today**, depending on the methodology.

Competitive Advantages (Moat Components)

1. High Switching Costs

Migrating an online store (themes, checkout, URLs, backend apps, inventory flows) is operationally painful. Once a merchant scales on Shopify, churn drops sharply.

2. Massive App & Partner Ecosystem

Over 10,000 apps and 40,000+ agency partners create a **network effect**, reinforcing Shopify as the default commerce platform.

3. Brand and Developer Mindshare

Shopify is widely seen as the fastest time-to-launch platform for modern commerce. Merchant education, community content, and DTC culture drive organic adoption.

4. Scalable Multi-Channel Architecture

Merchants can sell on:

- their website
- POS
- TikTok
- Instagram
- Amazon (Buy-with-Prime)
- social channels

Few competitors offer a unified merchant OS at this scale.

5. Software Economics + High-Margin Payments

Merchant Solutions revenue (Shop Pay, Capital, POS) creates powerful monetisation trends that competitors struggle to replicate.

---

6. Risks

Macro Risks

- **Consumer Spending Slowdown**: GMV is sensitive to macroeconomic cycles, inflation, and discretionary spending.
- **SMB Attrition**: Small businesses are sensitive to interest rates and credit conditions.

Execution Risks

- **Enterprise Penetration**: Failure to grow Shopify Plus may cap long-term TAM.
- **Platform Stability**: Outages or checkout issues could damage merchant trust.
- **AI Integration**: Falling behind in AI-powered commerce tools could weaken competitive positioning.

Regulatory Risks

- **Payments Regulation:** Shopify’s growing payment volume increases exposure to financial regulations.
- **Data & Privacy Laws:** Compliance with GDPR, CCPA, and emerging global regulations imposes ongoing costs.
- **Marketplace & App Store Scrutiny:** Increasing global scrutiny of app store economics could impact partner ecosystem revenue.

Competitive Risks

- **Amazon’s Buy-with-Prime** threatens Shopify’s checkout dominance.
- **TikTok Shop** is rapidly capturing GMV growth in the U.S. and emerging markets.
- **Open-source platforms** could erode SMB share due to lower cost.

Key Downside Scenarios

- Lower merchant retention in a recession → slower GMV growth.
- Competitive pricing pressure reduces the take-rate and the merchant solutions margin.
- Enterprise adoption stalls → limits long-term revenue upside.
- Regulatory tightening increases compliance costs and reduces payment profitability.

---

7. ESG Considerations

Environmental Impact

- Shopify is asset-light (very low CapEx) with limited physical infrastructure.
- Committed to sustainability initiatives such as carbon neutrality and Shopify's **Sustainability Fund**, investing in carbon removal technologies.

Labor & Supply-Chain

- Workforce reductions in 2022–2023 improved efficiency but carry reputational risk.
- Merchant supply-chain exposures vary widely; Shopify does not control fulfilment after divesting Shopify Logistics.

Governance Profile

- **Dual-class share structure** concentrates voting power among founders, which may limit shareholder influence.
- Increasing transparency in financial reporting and guidance after the 2023 restructuring.
- The board has strong technology and payments expertise.

Material ESG Risks/Opportunities

Risks:

- Data security breaches are affecting millions of merchants.
- Evolving payment regulations could require new compliance processes.

Opportunities:

- Leadership in sustainable e-commerce infrastructure.
- Empowerment of global small businesses and DTC brands supports positive social impact.
- Strong ESG profile aligns well with long-term institutional investors.

8. Sensitivity Analysis

WACC(down) / g->	2.40%	2.70%	3%	3.30%	3.60%
6%	$96,870,166	$104,508,998	$113,675,596	$124,879,215	$138,883,740
6.50%	$86,762,530	$92,614,737	$99,470,179	$107,611,017	$117,436,166
7%	$78,811,539	$83,442,755	$88,768,653	$94,958,210	$102,240,042
7.50%	$72,384,122	$76,143,661	$80,404,472	$85,273,969	$90,892,621
8%	$67,073,262	$70,188,544	$73,677,660	$77,612,195	$82,083,257

*All numbers above in 1000s

The table above shows Shopify's **equity value sensitivity** to changes in two key DCF assumptions:

- **WACC (vertical axis)**
- **Perpetual growth rate g (horizontal axis)**

These two inputs drive the discounting of cash flows and the terminal value, so even small changes have a large impact on valuation.

Key Takeaways

1. **Base-case valuation anchors around the centre of the table**

   The highlighted cell (WACC = 7%, g = 3%) produces an equity value of **~$88.8B**, which serves as the **base-case valuation**.

2. **Lower WACC significantly increases valuation.**

   Moving up the table (lower discount rates):

   - At **6% WACC**, valuations rise into the **$95–$140B** range.
   - This reflects lower perceived risk and cheaper cost of capital.

3. **Higher WACC materially compresses valuation.**

   Moving down to **8% WACC**, valuation falls to the **$67–82B** range.

   This demonstrates the company's sensitivity to capital costs and the investor's required return.

4. **Higher terminal growth also boosts valuation.**

   Moving right across the table (higher g):

   - Valuation expands meaningfully from **2.4% → 3.6%** growth assumptions.
   - This is driven by a larger terminal value.

5. **The heatmap shows the valuation spectrum clearly.**

   - **Green cells** → optimistic / bull case conditions.
   - **Red cells** → conservative / bear case conditions.
   - **Yellow cells** → mid-range, realistic base case.

6. **Shopify's valuation is highly sensitive to long-term assumptions.**

   The change between the lowest (8% / 2.4%) and highest (6% / 3.6%) inputs is more than **2×**, which is normal for high-growth companies.

9. Conclusion

Overall, Shopify remains a high-quality, structurally advantaged e-commerce infrastructure provider, with strong long-term optionality driven by its expanding merchant ecosystem, operating-margin recovery, and powerful free-cash-flow generation. However, valuation is the key constraint. Across all three DCF scenarios, the implied enterprise values range from **$62B (bear)** to **$128B (bull)**, with a **base-case estimate of $89B**, translating to approximately **$72 per share**. With the stock currently trading near **$155**, the market is pricing in outcomes meaningfully above even the optimistic bull case, implying limited upside and a skewed risk/reward profile at present. Although the long-run fundamentals remain attractive—supported by rising GMV share, operating leverage post-restructuring, and an asset-light business model—our analysis suggests that much of this strength is already reflected in the current price. Consequently, despite Shopify's compelling competitive position, we believe the stock is fairly to fully valued at current levels, and we maintain a **Market Weight** stance pending a more favourable entry point.