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Buy Shopify

Tom Gardner | May 3, 2018 | [Buy Recommendation](#)

CURRENT PRICE: [SHOP](#) \$ 918.72 ↑ \$ 13.91 (1.5%) Change in price since last update

If you still don't own shares of **Shopify** ([NYSE: SHOP](#)) after my recommendation two weeks ago, consider today's repeat recommendation a not-so-subtle nudge to take another look.

Shopify is the e-commerce platform of choice for businesses of all sizes (though it focuses on smaller ones), and it's been a roaring success, both as a company and as an investment. [Last month, I focused on its business performance.](#) This time, I'd like to talk about its management. CEO Tobi Lutke is one of the main reasons I love Shopify's prospects; his vision and leadership have convinced me that the company has room to grow for years to come.

This is the third time we've recommended Shopify. You don't have to buy a triple-sized position yourself. But if you're interested in great young leaders or fast-growing businesses that dominate their markets, this company should be on your short list.

From Snowboards to Digital Storefronts

Lutke is about as far from the traditional image of a corporate leader as snowboarding is from coding. But both of those are integral pieces of Shopify's story, and Lutke likewise came from a unique background.

Lutke dropped out of school in Germany when he was 16. That wasn't for lack of interest in education; he just wanted to pursue it his own way, feeling frustrated and out of place in the classroom. So he started as an apprentice programmer at a division of Siemens. He had other interests, too, and not long after, they came together to carry him into the next phase of his career: He met a Canadian girl on a snowboarding trip to Whistler, moved to Ottawa to start a family with her, and in 2004 started an online snowboard store called Snowdevil.

WHAT IT DOES

Shopify's e-commerce platform allows merchants of all sizes to build a digital presence on the Internet, including storefronts and fulfillment, payment, and shipping services.

WHY YOU SHOULD BUY

- Founder Tobias Lutke continues to lead Shopify as chairman and CEO, and he has retained a sizable 8% stake in the company.
- Shopify's addressable market continues to grow as e-commerce captures a larger share of overall shopping.
- Volatility has brought the stock's price a little lower lately, but its fundamental long-term prospects remain promising.

BUYER'S GUIDE

- **Industry:** Internet Software and Services
- **Size:** Mid Cap
- **Region:** North America
- **Risk:** [8 out of 25](#)

KEY DATA

- **Headquarters:** Ottawa, Ontario
- **Website:** [Shopify investor relations](#)
- **Market Cap:** \$13.5 billion
- **Cash/Debt:** \$1.6 billion / \$0
- **Revenue (TTM):** \$760 million

Since launching in 2006, Shopify has attracted more than 600,000 merchants to its e-commerce platform — and it's far from done.

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That short version of Lutke's story might make it seem like Shopify was destined for success, but it took a lot of effort.

I love Lutke's do-it-yourself experience because it's made him a natural role model for the novice entrepreneurs he's aiming to help. "The world needs millions of small businesses to ensure a sustainable future for economies and jobs," Lutke recently told investors, "instead of a handful of major companies." Just as Lutke built up a business from the humblest roots, many of Shopify's clients are doing the same in their own niches. If you're wondering how many small businesses it takes to add up to a big investing opportunity, I'll repeat myself from last month: Shopify thinks it's only reaching a little over 1% of the 46 million small and mid-sized businesses in the world. That's a vast addressable market.

GET MORE INFO

- [Shopify: What could go right \(and wrong\)](#)

- Shopify: What could go right (and wrong).

We also admire Lutke's combination of confidence and humility ([get a taste in my interview with him last year](#)). Lutke's 8% stake in Shopify briefly made him a billionaire earlier this year. Yet he's still known to ride his bike to work, and his salary of less than \$450,000 is much smaller than what many fast-growing tech company CEOs take. We're confident that our interests as shareholders are well-aligned with Lutke's.

In the two weeks since my last recommendation, Shopify has delivered another strong earnings report. In the first quarter, Shopify's revenue jumped 68% year over year, with 75% gains in revenue from merchant solutions (services like payment processing). The company saw more than a 60% increase in subscription

revenue, driven by its rising merchant-client count. Gross merchandise volume soared from less than \$5 billion a year ago to \$8 billion today.

Despite those strong results, the market's initial reaction was disappointment that the numbers weren't even better. Maybe the slower growth in gross merchandise volume reminded investors of a noted short-seller's attack on Shopify last year (more on that in a bit). Whatever the story behind the dip, we see nothing but strength in Shopify's results so far.

Risks and When We'd Sell

- Obviously, given how much we value Lutke as our partner, his departure from his role as CEO would be a major blow to our investing thesis. It doesn't seem likely that Lutke will leave anytime soon, but it would be hard to find a replacement who matches his passion and vision for the company.
- Last month, I talked about the short-seller attack that knocked Shopify's stock for a loop last year. Andrew Left of Citron Research has alleged that a big chunk of Shopify's sellers have, shall we say, far lower ambitions than long-term success, and that the Federal Trade Commission would soon be investigating Shopify for "dodgy" recruiting practices feeding "a completely illegal get-rich-quick scheme." So far, that hasn't happened. We're inclined to agree with Lutke, who referred to Left as "a short-selling troll who made all sorts of preposterous claims." Nevertheless, if an investigation were to materialize, we'd follow it closely.
- Collaborations with partners in the e-commerce and social media world, including **Amazon.com** ([NASDAQ: AMZN](#)) and **Facebook** ([NASDAQ: FB](#)), have successfully deterred those companies from stepping up to compete directly with Shopify. If that were to change, we'd need to assess the competitive threat and judge whether Shopify would successfully defend itself as first-mover.

The Foolish Bottom Line

We don't make re-recommendations lightly. But Lutke is a great partner for an investor to have, and Shopify's huge addressable market and capacity for quick growth give us confidence about its chances of big gains over the next 10 years. We can never rule out more ups and downs in the short term. But if you're ready to commit for the long haul, Shopify's potential is tantalizing, and we think you should take a bite.

Dan Caplinger and Rick Munarriz contributed to this report.

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