

Buy Shopify

Tom Gardner | April 2, 2020 | [Buy Recommendation](#)

CURRENT PRICE: [SHOP](#) \$ 918.72 \$ 13.91 (1.5%) Change in last 24 hours

Well-established companies and ambitious entrepreneurs alike have long recognized the power of the internet to help them attract customers and supplement the growth of their businesses.

In the midst of what many fear could become the worst global pandemic in a century, though, doing business online is no longer something companies can adopt down the road or treat as just another part of an omnichannel strategy.

Right now, e-commerce *is* the strategy -- and businesses that were late to the game are racing to adapt before it's too late.

Since its beginning, **Shopify** ([NYSE: SHOP](#)) has helped businesses of all sizes make their way onto the internet. With a free trial and options that run from an entry-level subscription package for \$9 a month to its premium Shopify Plus for high-volume merchants with the need for customized premium features, Shopify has built up a loyal customer base taking advantage of the key tech, logistics, marketing, and payments tools it provides. Once the worst of the coronavirus pandemic runs its course, the global economy's going to need a **lot** of new businesses to get started -- and Shopify will be there to help them, too.

The Big-Picture Opportunity

It didn't take long after the rise of the internet in the 1990s for businesses to realize its immense commercial potential. Unfortunately for budding e-commerce entrepreneurs, it took a lot longer for tools to emerge that would make their internet dreams a reality. Founder and CEO Tobi Lutke's frustration with the lack of help for would-be e-commerce business owners motivated him to start Shopify in 2004, and in just 15 years, the platform has attracted more than 1 million merchant customers from 175 countries across the globe.

SHOPIFY IN 1 MINUTE

WHAT IT DOES

Shopify works with business customers who want to set up an e-commerce presence on the internet. With a platform that includes website design, marketing, shipping, payment processing, and other essential solutions, Shopify has helped more than 1 million merchants start their online businesses.

WHY YOU SHOULD BUY

- Shopify has continued to see impressive growth in the number of customers it serves and the amount of revenue it gets from those customers.
- CEO Tobi Lutke remains committed to the business he founded, with a considerable ownership stake in Shopify and even greater voting power over the company. Shareholders can expect the 39-year-old to remain engaged and motivated to keep Shopify growing throughout Lutke's career.
- With the coronavirus pandemic making the need for a meaningful e-commerce presence even clearer to businesses, Shopify is likely to see even more clients coming on board, especially once the worst of the outbreak has started to pass.

BUYER'S GUIDE

- **Industry:** Internet services

The beauty of Shopify's business model is that it effectively lets the platform provider participate in the success of its merchant clients. As merchants using the Shopify platform see their businesses grow, they need more services to keep up with rising demand. That leads them to upgrade to higher subscription levels, generating more revenue for Shopify.

Why We're Excited About Shopify

GET MORE INFO

Talk About SHOP

Talk about how SHOP fits
into SA here

See how you can tell if this investment is going right — or wrong.

Shopify has done a lot of things right to get to this moment, and it's better prepared than ever to make it through the challenges of the coronavirus crisis. The company has plenty of cash to finance operations and make growth-boosting acquisitions, and it now has significant positive operating cash flow coming in to further support the business. Revenue has kept growing at a strong pace, rising 47% in 2019 following a 59% jump in 2018.

Luckily, Shopify hasn't let its success go to its head. The company has insisted on maintaining the highest-quality standards for its digital merchant platform, and the way Shopify treats its merchants like royalty stands in stark contrast to the reports of poor treatment of sellers by large online marketplace operators like **Amazon.com** ([NASDAQ: AMZN](#)). It's also led to extremely high retention rates of the most successful large merchants that use the premium Shopify Plus platform, and with more than a quarter of its monthly recurring revenue coming from those top clients, Shopify benefits greatly from their continued loyalty.

Moreover, Shopify keeps building on its competitive advantage by adding new features to its tech-focused e-commerce platform. It recently launched its Shopify Email marketing tool for managing email sales campaigns, and its Shopify Fulfillment Network has continued to expand its scope, successfully helping thousands of merchants better manage the 2019 holiday season. The company has even recognized the value of helping businesses handle their in-person brick-and-mortar sales with the release of its Shopify Retail Kit.

Why We Trust Leadership

Shopify is incredibly fortunate to have Tobi Lutke at the helm right now. I've had many interviews with him in the four years since I first recommended Shopify to *Stock Advisor* members, and every time I speak to him, I come away more impressed. With a deep passion to create more entrepreneurs, Lutke wants to run Shopify for the rest of his life.

Lutke's wealth is tied to Shopify's success, with a roughly 7% economic stake worth around \$3.4 billion at recent prices and giving the founder about a third of the voting power over the company. Yet each year, Lutke asks the board of directors whether they want him to keep leading Shopify forward. Moreover, the

- **Size:** Large cap
 - **Region:** North America

KEY DATA

- **Headquarters:** Ottawa, Ontario (Canada)
 - **Website:** [Shopify investor relations](#)
 - **Market Cap:** \$45.5 billion
 - **Cash/Debt:** \$2.47 billion / \$152 million
 - **Revenue (2017/'18/'19):** \$673 million / \$1.07 billion / \$1.58 billion
 - **Earnings (2017/'18/'19):** (\$40 million) / (\$64.5 million) / (\$125 million)
 - **Recent Price:** \$384.67

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CEO has built a supportive work culture, and the company's gift of \$1,000 to each employee to help create and optimize home offices is just the latest example of how Shopify has earned the loyalty of its workforce. Lutke's unique mix of insight and humility makes the Shopify founder stand out as a thought leader in the business world.

Why Now

Our long-term perspective makes us look at companies a lot differently than most investors, and that's particularly evident with Shopify right now. The stock price has fallen by more than 25% just since mid-February, reflecting the fear surrounding stocks in general and the retail industry in particular. In the short run, a recession could put pressure on consumer spending broadly, hurting many of the businesses that rely on Shopify's platform.

However, the closure of so many retail store locations around the world has highlighted the critical importance of having a presence online. While having an e-commerce channel was once more a matter of convenience for shoppers, it's now become a necessity, and many retail businesses are surviving the coronavirus pandemic solely because they've continued to engage with customers via the internet. As that realization sinks in, Shopify will see many new customers come through the door -- and even after the worst of the crisis has ended, those merchants will remember how vital it was to have their e-commerce business to help sustain them.

Moreover, Shopify is looking to support its merchants directly. In an April 1 update, the company said it would offer an extended 90-day free trial to all standard plan signups, and make gift cards available on all plans for all merchants. Point-of-sale merchants will be able to get local in-store or curbside pickup and delivery, and Shopify will commit \$200 million to its Shopify Capital program to help ailing businesses make it through the crisis.

Potential Business Risks

What remains to be seen, though, is how hard a hit Shopify's merchant client base will take due to the coronavirus pandemic. Even while the outbreak was largely confined to China, Shopify was keeping an eye on the potential impact that supply chain disruptions from Chinese manufacturers could have on its merchants. In its update, Shopify said its positive momentum overall continued into January and February, and it expects that will be enough to overcome March headwinds to meet its first-quarter guidance for revenue and adjusted operating income. Beyond that, though, Shopify suspended its guidance for the remainder of 2020 as it looks to see what new challenges Shopify's merchant clients will face.

Shareholders also need to be prepared to keep seeing huge moves in Shopify's stock price. Even with immense revenue growth, the company's valuation of more than 30 times sales looks expensive in many investors' eyes. As much as we're inclined to look past Shopify's growing net losses -- the company did post an adjusted net profit in 2019 and is investing heavily in future growth -- many investors aren't as inclined to be patient about profitability, especially under the currently stressful conditions in the financial markets.

Why Shopify Is Worth an Investment Today

Shopify is one of a select list of elite companies that have developed a technological advantage that's just getting stronger and stronger. Even though there are other companies looking to offer the same e-commerce services, Shopify's lead is so vast that it could take rivals years to catch up. For more than 1 million current Shopify customers -- and for the millions more that could soon join their ranks -- there's little reason to consider alternatives. That puts Shopify in a strong position even under crisis conditions and should bode well for the future.

TOM MADE HIS CALL: Do you agree that Shopify will beat the market over the next 3-5 years?
(After voting, buy shares to invest right away or add SHOP to your Favorites for alerts later.)

NOT SURE NO YES

John Mackey, CEO of Whole Foods Market, an Amazon subsidiary, is a member of The Motley Fool's board of directors. [David Gardner](#) owns shares of Amazon. [Tom Gardner](#) owns shares of Shopify. The Motley Fool owns shares of Amazon and Shopify. The Motley Fool has a [disclosure policy](#).

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