

Bull Case for SHOP

Shopify builds e-commerce websites, processes payments, advertises its own merchants, and offers back-office services. At the moment, Shopify is the only company providing almost anything an e-commerce merchant would want under one roof. This gives them a huge advantage over its competitors and it's one of the reasons why their stock is overperforming.

The pandemic has caused shops to go online, making Shopify the number one choice, especially for small merchants. Since the start of the pandemic, Shopify's stock price has gone up more than 41%. SHOP is a growth stock as its high P/E (price-earnings ratio) of 763 and lack of dividend yield indicate; thus, it is a relatively risky long term bet that might not be a good fit for conservative investors. Moreover, the high P/E can explain the investor sentiment that Shopify is one of the leading e-commerce companies in the industry that holds a huge advantage over its competitors.

Shopify management “thrives on change”: by increasing its trial from 14 days to 90 days during COVID-19, Shopify enabled its customers to test the features of Shopify before committing to the subscription fees, which lead to their record paid merchant subscription at \$74.4M monthly revenue. Another way to look at this is their year-over-year 88% growth in adjusted gross profit. Putting merchants first through lowering barriers, simplifying operations, and catalyzing their sales, word of mouth [1] became the most significant merchant acquisition aspect.

Shopify's growth led them to the second place in market share of US retail e-commerce sales with 5.89%, second to Amazon. Although Amazon is working on a similar online store format, what differs these two companies is their approach to merchants. Shopify's primary focus is merchants' success, whereas Amazon, a marketplace, creates its own products that compete with the merchants. Because a merchant can grow and preserve their identity on Shopify, even though Amazon is preparing to become Shopify's rival, Shopify is still holding the advantage; therefore, the company's growth won't stop unless Amazon changes how they operate.

SHOP will preserve its upwards momentum as long as it is the best place for merchants to run their e-commerce business.

Source:

1. Shopify Q3 2020 Results October 2020 -

https://s23.q4cdn.com/550512644/files/doc_presentations/2020/10/Shopify-Investor-Dec-2020.pdf