

Shopify

Ticker: (NYSE: SHOP)

BUY

Business Description

Shopify is a leading e-commerce solutions provider and is turning into a backbone of global commerce. Shopify is a subscription-based software that allows anyone to set up an online store and sell their products. Shopify owners can sell online or in-person using Shopify (POS) Point of Sale. If you are a merchant of an online and in-person Shopify store, your inventory and stock get synced so you can manage your store(s) from one account, from any device. Shopify has software that helps enable merchants to easily display, sell, and manage their product over a dozen different channels. Shopify has two revenue streams, a recurring subscription component we call subscription solutions, and a merchant success-based component we call merchant solutions. Shopify has expanded its sales distribution into Facebook, Instagram, and Walmart. Shopify also introduced Shop pay (which offers the ability for consumers to pay in installments) and Shopify Balance (a suite of financial products for startup retailers).

Thesis

Retail sales are pivoting into the online channel, thanks to internet access increasing and improvements in the online shopping experience. This trend seems to only be accelerating since COVID-19 has shown the world that people prefer to order and do business online. Shopify has created one of the best and end-to-end technology platforms that gives merchants and retailers of all sizes and shapes, simple and easy-to-use tools. Shopify's long-term opportunity is not small at all. Shopify has a huge global Shopify was at all-time highs recently at a price of \$1,499.75, and now currently trades at \$1,048.68, that is a 30.07% discount. We have the potential to gain a 30.07% upside if we buy at around current price. In addition, we currently only allocate 16.84% of our portfolio into Information Technology and we have an upper bound of 41.10%, adding Shopify will help increase our exposure into this sector. We would like to purchase 10 Shares of Shopify at current market price around \$1,048.68 totaling to \$10,486.80. This will increase our

exposure to 22.93%, as well as reducing our cash position to 7.25%. These are both in compliance with TUIG Policies.

Valuations

- P/E – 437.40 – much higher than the industry average of 20 (Was overvalued, but I believe now it presents a buying opportunity)
- P/S – 44.196 – higher than the industry average of 3.34
- P/B – 20.13 – higher than the industry average of 3.73
- PEG – 8.10 – Has lots of potential to improve this number
- P/Cash Flow – 334.58 – Industry average of 24.55

Source: YCharts

Income Statement

- Revenue – Has grown at an average rate of 66.34% over the past 3 years
- Net Income – Has been increasing over the past 3 years

Balance Sheet

- Cash – \$2.70 Billion – Has more than quadrupled since 2019
- Long-Term Debt – Has increased over the past 3 years to 21 million
- Goodwill/Intangibles – \$311 Million – stayed constant over last 3 years (no accounting manipulation)

Source: SEC Edgar Form 4-F

Cash Flow Summary

Cash Flow has been growing modestly the past 3 years for Shopify. They are not paying any dividends currently. They continually increase their investment in sales and marketing and continue to spend on marketing activities to expand their partner referral programs. Also plan to increase their investment in research and development to continue introducing new products and services to extend the functionality of their platform. Also intend to invest in maintaining their high level of merchant service and support, which they consider critical for their continued success. They do have \$2.70B in cash which makes their future seem possible even with lots of re-investments.

Ratios

- Operating Margin – 3.08% and increasing YOY
- Dividend Payout Ratio – 0%
- Return on Assets – 4.99% increasing YOY
- Return on Equity – 4.12% Increasing YOY
- CAGR – 49%

Source: SEC Edgar Form 40-F

Recent Events

- Partnered with the government of Canada as well as the governments of New York and Victoria state in Australia to support efforts to bring thousands of small businesses online and help them rapidly adapt to a digital economy.
- 8.6% of U.S. Retail e-commerce sales in 2020, Number 2 behind Amazon
- Shopify Completes Offering of Class A Subordinate Voting Shares
- Shopify Merchants Break Records with \$5.1+ Billion in Worldwide Sales over Black Friday/Cyber Monday Weekend

Source: Shopify Investor Relations

Risks

- Sales reducing because of people not being at home anymore
- May not be able to compete successfully against current and future competitors
- Security breaches, denial of service attacks, or other hacking and phishing attacks on their systems or other security breaches could delay or interrupt service to merchants

Source: SEC Edgar Form 40-F

Models & Analyst Price Targets

- Yahoo Finance Analyst Price Target 1y - \$1,453.49

Closing Summary

I believe that we should buy Shopify during this week. We can see that it is a fundamentally strong company and that our portfolio needs more technology.

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