

Shopify Inc. (SHOP)

\$440.25 (As of 01/13/20)

Price Target (6-12 Months): **\$466.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/16/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

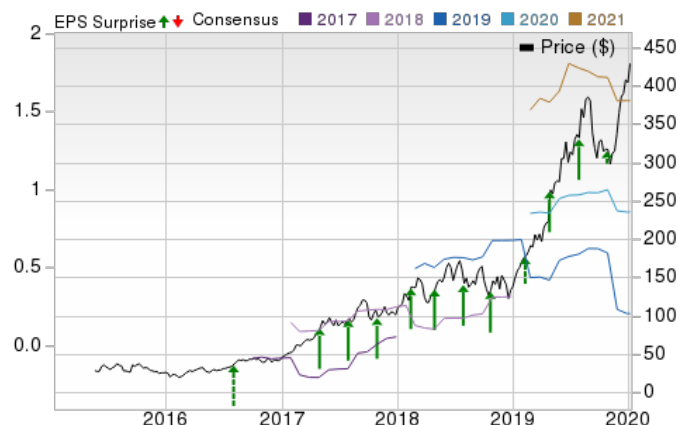
Growth: D

Momentum: D

Summary

Shopify is benefiting from robust performance of platforms such as Shopify Shipping, Shopify Payments and Shopify Capital. The company is benefiting from a diversified expanding merchant base. Notably, shares of Shopify have outperformed the industry in the past year. The company continues to launch merchant-friendly applications to meet requirements of a dynamic retail environment, which in turn will bolster merchant base. Further, international expansion efforts and innovative expansion of services augurs well. 6 River Systems buyout is expected to boost growth of Shopify's fulfillment network. However, increasing investments on product development and platform are likely to limit margin expansion.

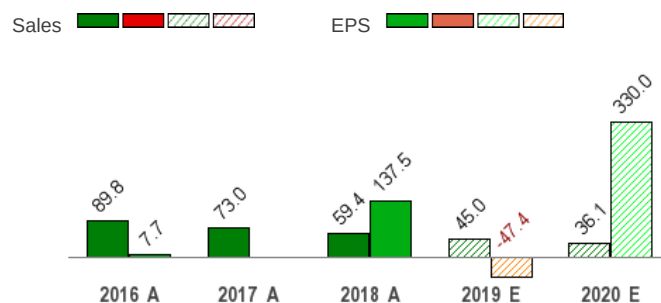
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$446.75 - \$149.59
20 Day Average Volume (sh)	1,608,716
Market Cap	\$50.8 B
YTD Price Change	10.7%
Beta	1.21
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Services
Zacks Industry Rank	Bottom 28% (182 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.2%
Last Sales Surprise	1.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/11/2020
Earnings ESP	0.0%
P/E TTM	710.1
P/E F1	511.9
PEG F1	14.0
P/S TTM	35.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	445 E	494 E	526 E	654 E	2,118 E
2019	320 A	362 A	391 A	484 E	1,556 E
2018	214 A	245 A	270 A	344 A	1,073 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.12 E	\$0.17 E	\$0.23 E	\$0.42 E	\$0.86 E
2019	\$0.09 A	\$0.14 A	\$0.13 A	\$0.25 E	\$0.20 E
2018	\$0.04 A	\$0.02 A	\$0.04 A	\$0.26 A	\$0.38 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/13/2020. The reports text is as of 01/14/2020.

Overview

Ottawa, Canada-based Shopify Inc. (SHOP) provides a multi-tenant, cloud-based, multi-channel commerce platform for small and medium-sized businesses (SMBs). The company completed Initial Public Offering (IPO) in May 2015.

Merchants use the company's software to run business across various sales channels, including web and mobile storefronts, physical retail locations, social media storefronts, and marketplaces.

Shopify's platform enables merchants to manage products and inventory, process orders and payments, ship orders, build customer relationships and leverage analytics along with reporting from one integrated back office.

Moreover, Shopify hosts a huge database of merchant and customer interactions. Merchants leverage this transactional dataset to get meaningful insight into the sales channel growth prospects and consumer behavioral aspects. This improves their ability to target prospective customers more easily, which drives sales growth.

Apart from the company's own payment solution, payment wallets like Apple Pay, Google Pay is also available to the merchants, which they offer to customers for completing transaction done on the Shopify platform.

In 2018, revenues increased 59.7% over 2017 to \$1.073 billion. The company generates revenues from two sources: Subscriptions Solutions (43.3% of 2018 revenues) and Merchant Solutions (56.7%).

Subscription revenue is recognized on a ratable basis over the contractual term. The terms range from monthly, annual or multi-year subscription terms. The company earns revenue based on the services it delivers either directly to merchants or indirectly through resellers.

Shopify generates the majority of merchant solutions revenue from fees that it charges merchants on their customer orders processed through Shopify Payments.

The company also derives merchant solutions revenue relating to Shopify Shipping, Shopify Capital, other transaction services and referral fees, as well as from the sale of Point-of-Sale (POS) hardware.

At the end of 2018, the company had more than 820,000 merchants.



Reasons To Buy:

- ▲ According to National Retail Federation (NRF) online retail sales will grow 10–12%, three times faster as compared with brick-and-mortar retail sales growth projection of 3.8-4.4% in 2019. Per preliminary data, NRF estimates that retail sales in 2018 improved 4.6% over 2017 to \$3.68 trillion, which includes revenues from online plus other non-store sales, of \$682.8 billion, up 10.4%. Market research firm eMarketer estimates global retail eCommerce sales (excluding travel, restaurant and event ticket sales) to grow 15.1% year over year to reach \$605.3 billion in 2019, accounting for 10.9% of total retail spending worldwide. This will further increase to \$893.4 trillion by 2022, which will make up 14.8% of total retail spending. We believe that the massive growth in eCommerce spending bodes well for Shopify. The company's cloud-based platform is well-positioned to address the growing needs of merchants at a time when social media, mobile devices and data analytics are transforming the eCommerce market place.
- ▲ Shopify's biggest USP lies in the fact that it is a brand oriented platform as compared with an online marketplace. Here, the brand hogs the limelight, which helps the merchant win customer much faster through focused interaction. The platform helps in improving customer's brand loyalty, which drives merchant revenues. Further, we note that Shopify hosts a huge database of merchant and customer interactions. Merchants leverage this transactional dataset to get meaningful insight into the sales channel growth prospects and consumer behavioral aspects. This improves their ability to target prospective customers more easily, which drives sales growth. Management noted that merchants on average became more successful on Shopify, as number of merchants with GMV exceeding \$1 million grew 58% in 2018. Notably, in 2018, GMV of \$41.1 billion surged 56% over 2017. The company's plan to invest on leveraging this transactional data will further enhance merchant's ability to attract customers going ahead. We believe that the company's merchant focus strategy will aid it to dominate the SMB eCommerce market in the long run.
- ▲ Moreover, the company continues to add functionality to its platform, which is responsible for driving merchant base. The launch of Shopify Payments, Shipping and Capital have made it easier for merchants to process payments, ship products and secure financing for their working capital needs, respectively. Notably, the percentage of merchants using Shopify Payments grew every quarter throughout 2018. The company has introduced Shopify Payments across 14 countries to date. Moreover, merchant adoption of Shopify Shipping continues to expand in both the U.S. and Canada. Management anticipates this trend to continue as the company expands shipping partners and add new features. Notably, revenues of both Shopify Shipping and Shopify Capital have "together doubled" year over year in 2018. Shopify is also working on extending language capabilities beyond English. In fact, Shopify reported merchant base of 24% from outside of core geography (with significant non-English-speaking population) in 2018, comparing favorably with 21% in 2017. Further, the company recently rolled out Shopify Fulfillment Network in the United States, for the first time, to facilitate commerce. We believe that its merchant focus business model will help it to achieve its growth target in the long haul.
- ▲ Notably, more than 211K net new merchants began selling on Shopify during 2018. At the end of 2018, the company had more than 820,000 merchants on Shopify platform compared with 609,000 merchants reported in 2017. We expect this number to improve as newly added sales channels like Google Pay, Facebook Messenger, Instagram, Pinterest, eBay and Amazon continues to attract new merchants. Shopify noted that the addition of Houzz, Wanelo, eBates and others has driven the number of channels over which a merchant can sell to more than a dozen. The company also noted that merchants are buying more apps through app store, which is positive. Shopify app store currently offers around 3,200 apps. Moreover, availability of Apple Pay and addition of Canada Post are some other notable developments that will boost merchant base. We also believe that the company's strong partner referral system will boost merchant base that will eventually drive top-line growth in 2019. More than 23,000 partners referred merchants to Shopify in the past 12 months.
- ▲ Shopify has a rich partner ecosystem, which is a growth driver. We note that number of total partners increased almost 3K on a year-over-year basis to 18K at the end of 2018. The agency partner program established in 2016 drove Shopify Plus subscription base. Shopify noted that the Monthly Recurring Revenue (MRR) per merchant surged 34% year over year to \$50.7 million as of Sep 30, 2019, primarily due to strong growth in Shopify Plus subscription base. The company's plan to offer variable pricing structure under Shopify Plus is also prudent move, in our view.
- ▲ Mobile focus provides significant leverage to Shopify. The company launched its iPhone-based Shopify Mobile application way back in 2010. Also, the company released Shopify Ping for Apple's iOS devices, which is compatible with Facebook and Instagram ads and is enabled for Apple Business Chat. Mobile traffic to merchants' stores continued to grow, reaching 81% of traffic and garnered 71% of orders for the quarter ended Sep 30, 2019, up from 77% and 67%, respectively, reported in the year-ago quarter. We note that Shopify is benefiting from retail's rapid transition to mobile and social sales channels. Per Shopify, merchants shops averaged 261 million unique monthly visitors, most of which were from mobile devices in 2018. Per market research firm comScore, during 2017 holiday season (Nov-Dec), mobile commerce grew 44% from the year-ago period, with \$17.1 billion spent through smartphones and tablets. Notably, eMarketer estimates ecommerce surged 16.7% in the holiday season of 2018 to reach \$123.9 billion. Per eMarketer, M-commerce sales are projected to grow 29.9% to reach \$270.4 billion in 2019 from \$208.1 billion in 2018. We believe that this rapid growth presents significant opportunities for Shopify in the long term. In fact, Shopify platform garnered GMV of approximately \$1.5 billion in the Black Friday-Cyber Monday period of four days in 2018. Notably, year-ago GMV figure in the same period stood at \$1 billion. Management noted that around two thirds of online orders from the U.S.-based Shopify merchants were registered via mobile devices.

Shopify's focus on developing merchant base, international expansion, addition of new functionalities, rich partner ecosystem and mobile focus are key catalysts.

Reasons To Sell:

- ▼ Shopify is relatively a new player in the eCommerce marketplace. Although it is not a direct competitor to behemoths like Alibaba and Amazon, many of its customers are. This presents significant risk for its growth prospects.
- ▼ Moreover, the company focuses on the SMB segment which is more susceptible to macro-economic headwinds and makes the business challenging.
- ▼ Furthermore, lack of big-shot international customers is a headwind for Shopify. The company doesn't have significant presence in the Asia-Pacific market, which is fastest growing retail eCommerce market according to eMarketer. This is a major headwind in our view.
- ▼ We believe that increasing investments on product development, Shopify Plus and cloud infrastructure will make it difficult for the company to sustain profitability. Moreover, it expects to further increase research & development (R&D) expense. Markedly, management intends to invest \$1 billion over the subsequent five years to develop the new fulfillment network, which is likely to impact margin expansion. We also note that Shopify has been incurring losses in the last three years and has an accumulated deficit of almost \$305 million as of Sep 30, 2019. Despite the improving top line, mounting losses doesn't bode well for investor confidence.
- ▼ The company is trading at premium in terms of Price/Book (P/B). Shopify currently has a trailing 12-month P/B ratio of 18.01, which compares unfavorably with what the industry witnessed over the last year. Additionally, the ratio is higher than the average level of 13.93 and is below the high end of the valuation range in this period. Hence, valuation looks slightly stretched from P/B perspective.

Shopify's focus on SMB segment, lack of international exposure, increasing operation expenses and stretched valuation are primary negatives.

Last Earnings Report

Shopify Q3 Earnings & Revenues Top Estimates, Ups '19 View

Shopify Inc. reported third-quarter 2019 adjusted earnings of 13 cents per share, surpassing the Zacks Consensus Estimate of 11 cents. Moreover, the figure improved from 4 cents reported in the year-ago quarter.

Total revenues surged 45% from the year-ago quarter to \$390.6 million, outpacing the Zacks Consensus Estimate of \$384 million. The figure also fared better than management's guided range of \$377-\$382 million.

The top line benefited from an improving merchant base and rapid expansion in international markets. The company continues to launch a number of merchant-friendly applications to meet the requirements of a dynamic retail environment, in turn bolstering merchant base.

Quarter in Detail

Subscription Solutions revenues (42.4% of total revenues) surged 37% to \$165.6 million driven by persistent growth in Monthly Recurring Revenue (MRR) due to the addition of several new merchants.

As of Sep 30, 2019, MRR was \$50.7 million, up 34% from the year-ago quarter figure of \$37.9 million. Shopify Plus accounted for \$13.5 million, representing 27% of MRR compared with 24% in the quarter ended Sep 30, 2018.

Merchant Solutions revenues (57.6%) advanced 50% to \$225 million, primarily on account of growth in GMV, which improved 48% from the year-ago quarter to \$14.8 billion.

Shopify Capital advanced \$141 million cash to merchants in the reported quarter, soaring 85% compared with \$76.4 million in the year-ago quarter. Notably, since the launch of Shopify Capital, cumulative merchant cash advances have improved to almost \$768.9million, out of which \$166 million was outstanding as of Sep 30, 2019.

Shopify Shipping witnessed robust adoption in the third quarter. The offering is being leveraged by approximately 44% of total eligible merchants across the United States and Canada.

Gross Payments Volume (GPV) came in at \$6.2 billion, accounting for 42% of GMV processed in the third quarter, up from \$4.1 billion (41%) in the prior-year quarter.

Purchases from merchants' stores especially from mobile devices witnessed 81% of traffic and garnered 71% of orders for the quarter ended Sep 30, 2019, up from 77% and 67% reported in the year-ago quarter, respectively.

Operating Details

Non-GAAP gross profit surged 44.7% year over year to \$219.4 million. This can be attributed to "new payment partner pricing terms" and robust performance of Shopify Shipping and Shopify Capital.

Non-GAAP gross margin remained flat from the year-ago quarter to 56%.

Non-GAAP operating expenses surged 35.6% year over year to \$200.9 million. Non-GAAP operating expenses as a percentage of revenues contracted 400 bps to 53%.

Shopify reported adjusted operating income of \$10.5 million against the year-ago quarter's loss of \$2.4 million.

Balance Sheet & Cash Flow

Shopify ended the reported quarter with cash, cash equivalents and marketable securities balance of \$2.667 billion compared with \$2.013 billion at the end of previous quarter. The company generated cash from operations of \$17.7 million during the nine months ended Sep 30, 2019.

Guidance

For fourth-quarter 2019, Shopify projects revenues in the range of \$472-\$482 million. The company expects adjusted operating income to be in the range of \$10 to \$20 million.

For full-year 2019, Shopify raised outlook. Management now projects revenues in the range of \$1.545-\$1.555 billion better than the previously guided range of \$1.51-\$1.53 billion. Management now expects adjusted operating income for fiscal 2019 to be in the range of \$27-\$37 million (previously \$20-\$30 million).

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	1.69%
EPS Surprise	18.18%
Quarterly EPS	0.13
Annual EPS (TTM)	0.62

Recent News

On **Dec 4, 2019**, Shopify's merchants reportedly set a high-record by achieving \$2.9 billion in sales on Black Friday/Cyber Monday weekend. This indicates year-on-year growth of 60%.

On **Nov 5, 2019**, Shopify announced launch of Shopify Email, a new email marketing tool to aid merchants in enhancing email marketing campaigns with templates, campaign analytics and brand asset importing functionalities.

On **Oct 17, 2019**, Shopify announced the closure of the acquisition of 6 River Systems, Inc. The deal is anticipated to boost growth of the company's fulfillment network.

On **Sep 30, 2019**, Shopify announced integration of its commerce platform with Microsoft Advertising to empower merchants with more digital ad campaigns to boost sales.

On **Sep 17, 2019**, Shopify rolled out new features on its platform with an aim to aid vendors sell hemp-derived and hemp Cannabidiol (CBD) products brick-and-mortar or online retail locations.

On **Sep 9, 2019**, Shopify announced the acquisition of 6 River Systems, provider of warehouse technology, for roughly \$450 million. The deal is anticipated to boost growth of the company's fulfillment network.

On **Aug 14, 2019**, Shopify announced launch of Shopify Chat, the company's first chat function to enable merchants to have conversation with customers in real-time and expand business with engaging experience. Notably, Shopify Chat can be enabled quickly with Shopify Ping.

Valuation

Shopify shares are up 35.9% in the past six-month period and 195.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 17.1% and 15.1% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 16.6% and 37.8%, respectively.

The S&P 500 index is up 10.8% in the past six-month period and 29.3% in the past year.

The stock is currently trading at 23.69X forward 12-month sales, which compares to 6.17X for the Zacks sub-industry, 3.7X for the Zacks sector and 3.52X for the S&P 500 index.

Over the past three years, the stock has traded as high as 30.22X and as low as 6.55X, with a 3-year median of 12.16X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$466 price target reflects 25.08X forward 12-month sales.

The table below shows summary valuation data for SHOP

Valuation Multiples - SHOP					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	23.69	6.17	3.7	3.52
	3-Year High	30.22	11.42	3.7	3.52
	3-Year Low	6.55	5.34	2.62	2.76
	3-Year Median	12.16	7.52	3.16	3.15
P/B TTM	Current	18.01	5.64	5.54	4.49
	3-Year High	21.19	7.06	5.54	4.49
	3-Year Low	6.85	4.16	3.56	3.36
	3-Year Median	10.62	5.79	4.51	3.89
EV/Sales TTM	Current	33.96	6.34	4.35	3.29
	3-Year High	33.96	10.61	4.35	3.3
	3-Year Low	8.51	4.72	3.05	2.46
	3-Year Median	16.2	6.97	3.73	2.95

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (182 out of 254)



Top Peers

ANGI Homeservices Inc. (ANGI)	Neutral
Autohome Inc. (ATHM)	Neutral
eBay Inc. (EBAY)	Neutral
Etsy, Inc. (ETSY)	Neutral
Groupon, Inc. (GRPN)	Neutral
Square, Inc. (SQ)	Neutral
Wix.com Ltd. (WIX)	Neutral
Zillow Group, Inc. (ZG)	Neutral

Industry Comparison Industry: Internet - Services				Industry Peers		
	SHOP Neutral	X Industry	S&P 500	EBAY Neutral	GRPN Neutral	WIX Neutral
VGM Score	F	-	-	A	D	D
Market Cap	50.78 B	861.59 M	24.31 B	28.25 B	1.49 B	7.10 B
# of Analysts	15	2.5	13	14	3	6
Dividend Yield	0.00%	0.00%	1.76%	1.61%	0.00%	0.00%
Value Score	F	-	-	B	C	F
Cash/Price	0.05	0.15	0.04	0.11	0.40	0.11
EV/EBITDA	-1,285.82	5.85	14.12	9.64	8.81	-695.39
PEG Ratio	13.89	2.54	2.05	1.17	NA	4.44
Price/Book (P/B)	18.01	2.78	3.34	8.64	4.98	35.73
Price/Cash Flow (P/CF)	NA	19.08	13.66	12.98	7.96	15,177.96
P/E (F1)	507.13	28.12	18.82	12.02	9.10	116.46
Price/Sales (P/S)	35.84	2.53	2.64	2.60	0.62	9.85
Earnings Yield	0.20%	1.32%	5.29%	8.32%	10.98%	0.86%
Debt/Equity	0.04	0.09	0.72	2.36	0.70	1.78
Cash Flow (\$/share)	-0.34	0.14	6.94	2.67	0.33	0.01
Growth Score	D	-	-	B	D	A
Hist. EPS Growth (3-5 yrs)	NA%	23.67%	10.56%	-5.49%	NA	NA
Proj. EPS Growth (F1/F0)	318.09%	21.95%	7.49%	4.33%	22.53%	15.92%
Curr. Cash Flow Growth	125.72%	0.09%	14.83%	0.23%	45.79%	-101.19%
Hist. Cash Flow Growth (3-5 yrs)	NA%	16.56%	9.00%	-8.09%	102.19%	15.05%
Current Ratio	11.21	1.74	1.23	1.41	1.02	1.95
Debt/Capital	3.61%	9.97%	42.99%	70.28%	41.25%	64.08%
Net Margin	-8.97%	-5.73%	11.08%	18.33%	-2.21%	-9.80%
Return on Equity	-3.36%	-4.29%	17.16%	41.12%	9.21%	-24.02%
Sales/Assets	0.55	0.62	0.55	0.51	1.62	0.75
Proj. Sales Growth (F1/F0)	36.24%	14.73%	4.23%	2.15%	-1.04%	25.75%
Momentum Score	D	-	-	A	D	F
Daily Price Chg	2.58%	0.00%	0.73%	-0.46%	5.60%	1.55%
1 Week Price Chg	6.15%	1.94%	0.39%	-2.98%	9.17%	8.80%
4 Week Price Chg	11.84%	4.59%	1.84%	-1.89%	0.38%	19.51%
12 Week Price Chg	37.69%	7.02%	6.48%	-11.54%	-10.20%	19.29%
52 Week Price Chg	195.27%	-12.66%	23.15%	14.96%	-29.41%	43.45%
20 Day Average Volume	1,608,716	61,859	1,578,594	6,731,924	7,594,035	536,342
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.18%
(F1) EPS Est 12 week change	-44.86%	-4.28%	-0.48%	-4.90%	8.70%	-3.18%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	-1.50%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	D
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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