



2 Reasons Why Shopify Inc. Is Worth Considering

Description

One of the things that I love about tech stocks is that they are able to achieve so much without investing a lot. Consider that a couple of people can create an app and a few years later it could be worth \$1 billion. Tech companies are hot right now, and any of those that have actually taken the next step and gone public are worth considering.

Shopify Inc. (TSX:SH)([NYSE:SHOP](#)) is one company that I have been keeping a very close eye on and there are two reasons that I believe now is the time when investors should consider adding shares of what could be one of the top Canadian tech stocks.

Business model

The first reason has to do with the business model. One of the things that I look for in a business is how much recurring income it will make from a customer. I would rather invest in a business that makes less per transaction, but makes more over time than a business that makes more in one transaction, but never sells to that person again.

The reason for this is twofold. On the one hand, you generate consistent revenue, which allows the business to better predict how it can invest in further growth. The second reason is because you are not spending money marketing to the customer who is in the habit of buying from you.

Shopify runs a subscription business where it signs up merchants to create online shops. I've worked with developers in the past, and building an eCommerce platform costs tens of thousands of dollars because of all the updates to products. Shopify provides a platform that allows a merchant to launch in days and update products as often as needed for only \$79 a month.

What's nice is that once the merchant has the store, they are more inclined to keep it. The hassle of leaving the Shopify ecosystem becomes greater as the merchant stays, increasing the likelihood that the relationship will last for years. And that's good because the initial cost of getting that merchant in sales/marketing is approximately \$1,000. But once the merchant signs up that initial capital decreases each month until the company achieves profitability on that customer.

Right now, Shopify has 200,000 merchants that are signed up for the platform. As Shopify grows it will be able to cut its costs and increase its margins, making this a very attractive company for the long term.

Lockup is over

The second reason why I believe now is the time to buy this stock is because the IPO lockup period is over. Back in July, I recommended that investors avoid this stock until November 17 because that was when the lockup period would end. Early stage tech companies trade equity for work when they don't have the money to pay employees. When those companies go public, employees look to sell their shares, so they can finally reap the benefits of their hard work.

To ensure that the market is flooded with shares of a new IPO, the banks put the lockup period in place. It prevents the sale of shares. Now that the lockup period is over, these early employees have sold their shares, sending the price down. This means that investors can get shares for much cheaper than before the lockup period ended.

All told, Shopify looks like a great tech stock to add to your portfolio. I expect it to grow quite aggressively over the next few years and make the current share price seem very low.

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1. Investing
2. Tech Stocks

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1. Editor's Choice

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Date

2025/08/25

Date Created

2015/12/24

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