



Alphabet Inc. Is Shopping and May Turn to Shopify Inc.

Description

When **Alphabet Inc.** ([NASDAQ:GOOGL](#))([NASDAQ:GOOG](#)) is interested in acquiring a company, that company has proudly hit a level of distinction in the tech industry.

This may be the case for **Shopify Inc.** (TSX:SH)([NYSE:SHOP](#)). The cloud-based, multi-channel platform has been making waves recently, both in terms its recent quarterly results and news about interest from Alphabet.

Here's a look at the company, why it is becoming an M&A target, and what this means for investors.

How is Shopify doing?

Shopify currently trades at just over \$36. Looking back over the past month, the stock is up by a very impressive 28%, largely erasing a dip in price from the start of the year and giving the stock a year-to-date improvement of just 2%.

In the most recent quarter, Shopify smashed year-over-year totals for revenue, but still posted a small earnings-per-share loss (\$0.08). Revenues came in at over \$70 million for the quarter, largely fueled by subscription revenues that gained 70% year over year, coming in at \$34.6 million.

Growth in actual merchants using the platform was equally as exciting for investors. As of the most recent quarter, there are 243,000 merchants using the platform, an increase of 43,000 since the last quarter, and 68,000 more than there were two quarters back.

Recurring revenue from those merchants in the form of the average subscription fee was up by 72% for the quarter over the previous year, coming in at \$11.3 million. Finally, the volume of orders being processed on Shopify's platform continues to increase, hitting \$2.8 billion last quarter and representing 109% improvement over the same quarter last year.

Why is Alphabet shopping?

Alphabet is apparently looking to strengthen its grasp in the cloud and apps market as an alternative to **Amazon Inc**

. and **Microsoft Co.'s** competing platforms in AWS and Azure.

Shopify isn't the only company that's apparently on the shopping list; Metavine, Xactly and Namely were also mentioned. Metavine is a cloud app server, whereas Namely handles payroll and health benefits as an all-in-one HR platform. Xactly is a sales performance management solution.

Alphabet is right to want to shore up on the enterprise front, and an acquisition (or several) would give the company a near-complete suite to offer prospective business clients. Alphabet's focus has been on small- to medium-sized businesses and offers very attractive pricing—in some cases, as low as \$25 per user.

That's not to say that the company doesn't already have large clients; it does, after all, serve Spotify, Sony and **Apple Inc.**, to name just a few. And it was recently revealed that a huge chunk of Apple's iCloud photos and documents may already be on servers owned by Alphabet.

Irrespective of whether or not Alphabet actually purchases Shopify, the company remains, in my opinion, a great addition to any portfolio. Shopify is in a period of sustained growth that includes both new business and renewal subscription fees.

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1. Investing
2. Tech Stocks

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1. Editor's Choice

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