



Could Shopify Inc. Be 1 of Canada's Top Tech Stock?

Description

Normally, it can take a company years before it is in the running to be a country's top tech stock. It took **Google** a decade before it was really a dominant force. **Amazon** has hit its stride over the past five years. And even **Apple** didn't sell 10 million iPhones in a quarter until 2010.

In Canada, I believe that **Shopify Inc.** (TSX:SH)([NYSE:SHOP](#)) could become one of the country's top tech stocks. Unlike many other businesses, which have had a hard time generating a profit, Shopify has built a software-as-a-service business that is consistent, powers thousands of online stores, and continues to grow aggressively.

For those who don't know, Shopify offers an e-commerce platform that allows anyone to launch an online store in far less time than it used to take. For example, in the past a shop owner would need to hire a designer and developer to make a website, used expensive software to power the shopping cart, and then needed to use expensive credit card processing. When new items needed to be added, it cost even more money.

With Shopify, users can add new items themselves with an intuitive backend. And unlike the thousands or tens of thousands it used to cost to set up an e-commerce website, now it only costs the shop owner approximately \$50 a month.

Shopify is incredibly sticky. Think about it ... you're a business owner who has set up your shop, you've added 50 items that you'll sell, and you're doing business. Are you really going to switch to a competitor of Shopify, add each item again, and waste that time? It's not likely.

Businesses get used to using Shopify's Merchant Solutions product, which handles all shipping and payment processing needs. The margins are much smaller on this, but as more clients use it, it becomes harder for them to leave. And with the launch of Shopify Capital, merchants are able to get cash advances to help grow their business.

That stickiness means that Shopify is able to gauge just how much money is going to be coming in each quarter, making it significantly easier to budget and invest appropriately. Further, as more customers sign up, the R&D costs per customer drop because the cost is spread out among a larger

clientele.

And the numbers show that.

The number of merchants grew from 200,000 in the third quarter of 2015 to 275,000 in the first quarter of 2016, which I believe to be significant growth. Because of this, its operating costs as a percentage of revenue have dropped. In 2012, 84% of revenue went to operations. By 2014 that had dropped to 73%. While the company does continue to lose money, that number will shrink as more customers sign up.

The reality is that Shopify is a fast-growing business that continues to sign up thousands of new clients every month. My prediction is that the company will reach profitability some time in 2017, sending this stock flying as investors realize that this is not just another one of those cash-burn startups.

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1. Editor's Choice

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