



## Shopify Inc.: Canada's Top Tech Stock?

### Description

A company that could very well be Canada's top technology pick is **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)). The e-commerce platform that enables businesses large and small to create an online store has built up a large subscription base; however, with so much in untapped potential, I believe Shopify could become a far larger company in the coming years.

The business model is actually very sticky. Once you choose to use Shopify and build a store, whether it has 10 or 1,000 items, the time it takes to switch to a different e-commerce platform isn't worth it considering how inexpensive a subscription is. This stickiness gives Shopify a moat; so long as the company continues to develop new technologies, competitors can't easily steal clients without major subsidies (which get expensive).

Revenue is very predictable. Because the business is sticky and the payments are monthly, Shopify can predict with ease how much in revenue it'll bring in each month, making investments in new technology and marketing much easier.

Shopify offers other services to its subscribers, allowing it to generate incremental revenue from them. Customers can now handle payments and print shipping labels right from the Shopify platform. Although the margins on this model are not as high as on the subscription side, it scales directly with its customers. If they start to do more business, Shopify generates more in fees. And a new feature is Shopify Capital: an innovative way for customers to get funding for inventory. Shopify then gets paid back based on a percentage of sales.

So, what you've got is a business that allows for easy-to-launch online stores from both a display and management perspective, but also for payments, shipping, and funding. And its customers are really pleased with what Shopify offers.

Comparing 2015 to 2014, the business saw a 95% improvement in full-year revenue to \$205.2 million. And analyzing Q3 2016 to Q3 2015, there was an 89% improvement to \$99.6 million. And remember what I said about monthly revenue? In Q1 2015, Shopify brought in \$1.1 million in monthly recurring revenue; by Q3 2016, that was up to \$16.3 million — a compound annual growth rate of 81%.

Shopify's customers are also selling more. In Q3 2015, its customers had \$1.9 billion in sales; a year later, that increased to \$3.8 billion.

On the other side, Shopify's costs are coming down. In 2012, it had an operating leverage of 84% — much of it in sales/marketing. Fast forward to 2015, that dropped to 58%. And in 2016, it looks like it'll be lower with Q3 2016 down to 55%. This has enabled the company to increase its gross profit to \$52.5 million in Q3.

What makes me so excited about Shopify is that it's just getting started. Presently, it is only targeting 10 million small- to medium-sized businesses with a \$10 billion total addressable market. However, the total global market is 46 million SMBs with a \$46 billion market. When Shopify starts experiencing even more global growth, it could make the Shopify of today look puny.

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