Why I Think Shopify Inc. Looks a Lot Like Microsoft Corporation Back in the 1980s

Description

On March 13, 1986, **Microsoft Corporation** (NASDAQ:MSFT) shares were officially offered to the public, raising $61 million by issuing a little over three million shares at $21 each. Remember, underwriters took their take.

Shares skyrocketed nearly 50% that day, closing at $31.25. Microsoft may be considered one of the more boring technology names today, but back then it was incredibly hot.

The interesting thing about Microsoft was, it really didn't need to go public. It had high profit margins and was gushing cash. Bill Gates — Microsoft's founder and then-CEO — wasn't very excited about the process but finally relented, so both he and long-time staff would have a way to cash out some of their stock. Besides, Microsoft was soon to hit the 500-shareholder plateau, which would have forced it to register with the SEC and become essentially public anyway.

The rest, as they say, is history. Microsoft shares have split nine times since going public and have paid a consistent dividend since 2003. And we all know how well they performed during the Dot Com era of the late 1990s.

If you'd invested $10,000 in Microsoft in 1986, it would be worth $9.9 million today — an annual return of 24.9%. And keep in mind that the company hasn't really done much in the last decade; shares have underperformed to the tune of a 12% annualized return since 2007.

Ever since that fateful day in 1986, investors have been looking for the kind of stock that can offer the same sort of potential return. The holy grail, of course, is to identify a stock with that kind of return potential while it's still in its infancy.

I believe **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) could be such a stock. Here's why.

A massive potential market

In 2016, customers in Canada and the United States spent an estimated $5 trillion buying stuff.

That is a lot of do-dads.

We are collectively embracing shopping online, but most of our purchases still come the old-fashioned way. When was the last time you bought groceries, prescriptions, or a new car online?

As more purchases are made online, Shopify is poised to be a big winner. The company assists online entrepreneurs with everything from processing payments to digital advertising to managing inventory. It allows a savvy business owner to market to audiences on several different platforms all at once.

Shopify isn’t just about selling stuff. It also helps some of the world’s largest brands market themselves.

Growth has been simply amazing. The company did US$23.7 million in revenue in 2012. It grew 112% in 2013 to US$50.3 million and then grew another 109% in 2014 to US$105 million. And 2015 saw another 95% gain to US$205.2 million. Growth slowed a to 90% in 2016 with the top line hitting US$389.3 million.

Analysts predict revenue growth will continue to decline to 53.9% in 2017 and 36.6% in 2018. Those are still explosive numbers.

Profitability is coming

At some point, Shopify will have to turn the corner and become profitable. That day looks to be coming very soon.

Analysts project the company will lose US$0.17 per share in 2017 — a significant improvement over 2016’s loss of US$0.42 per share. And 2018 will be better with analysts projecting a profit of US$0.12 per share.

The big question is, “How fast can Shopify grow its earnings?” If it can grow earnings by 25% a year starting from 2018’s analyst estimates, it will earn US$1.75 per share by 2030. If growth averages 33% a year, 2030’s earnings would be US$3.68 per share.

If any company has the ability to scale up that quickly, it’s Shopify.

The bottom line

Look, Shopify shares aren’t cheap today. They trade at 520 times 2018’s estimated earnings. Most investors will balk at paying that much, and perhaps rightfully so.

But at the same time, the company is perhaps the best chance for Canadian investors to get in on the ground floor of the next Microsoft. The last thing you want is to look back on it in 30 years and know how badly you missed out.

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