



## A Long-Term Perspective of Shopify Inc.

### Description

It appears that **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) has joined other similar companies in the e-commerce space (such as **Amazon.com, Inc.**) with respect to valuation multiples and sky-high equity valuations.

Long-term investors can take one of two views with a company like Shopify, in my opinion. One perspective is that Shopify is [uniquely positioned](#) in a market segment that will eventually grow to massive size and scale and, as such, has an opportunity to post incredible free cash flow numbers with a higher-than-normal growth rate over a long period of time. Thus, the current valuations make sense, and if earnings continue to grow at a considerable pace, significant upside remains with Shopify.

The contrarian view to this is that the e-commerce industry is still growing and is not fully mature with a competitive landscape that may change over time. While Shopify's deal to partner with Amazon in providing its services to small- and medium-sized businesses certainly puts Shopify in an enviable position, an argument could be made that it is very possible that this situation may change or at least not last forever. Thus, the current valuation for Shopify does not accurately price in the risk involved in such a volatile industry over a long period of time.

### My take

The discussion around Shopify seems to me to be one of revolutionary innovation — the kind that industry-leading companies such as **Apple Inc.** and Amazon have blessed financial markets and consumers with for years. The potential for Shopify to join a select few in growth industries and follow up the hype with actual earnings that justify the high valuations over time make getting in early seem like a very lucrative idea.

That said, whether Shopify indeed becomes one of the “select few” companies able to profit from a long growth cycle remains to be seen. The company is currently breaking even, and investors will be itching to assess and analyze the strength of future quarterly earnings releases in the coming year, considering Shopify is still a relatively new name to the TSX.

Another consideration many investors may be factoring in is the fact that at its current valuation of less

than \$9 billion, an acquisition by a company such as Amazon would make sense given the recently announced partnership between the two companies. Such a buyout would likely result in a premium being paid for Shopify shares to an investor base that would very likely welcome the deal with open arms.

I am still of the opinion that the upside for Shopify for an investor with a window of five years or fewer exceeds that of its risk; however, such an investor would need to be able to handle the potential for volatility with this stock, as Shopify investors may be more prone to start taking money off the table soon should an earnings miss or significant piece of bad news hit the market.

Stay Foolish, my friends.

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