# Is Shopify Inc. a Buy After Giving Up 16%?

## Description

**Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) is priced for perfection. Unfortunately, nothing in this world can be perfect forever, which makes a stock like Shopify quite volatile. Since the beginning of June, Shopify has given up 16% of its value, which has investors curious about whether or not they should start buying.



I believe Shopify is one of Canada's top technology stocks. At its very core, it is a software-as-a-service (SaaS) business which is focused on membership fees versus one-time sales. This model makes it easy for customers to come and go, but, as we'll find, far more come than ever leave.

Customers pay anywhere from US$29 to US$299 per month to launch an online store. But unlike hiring a developer and designer, the functionality of Shopify makes it incredibly easy to both launch and manage the online store; Shopify takes inventory and sales into consideration, so the customer doesn't have to do a lot of manual work.

Shopify's network of products makes running the business even easier. It offers payment processing, shipping label purchasing, and Shopify Capital, which uses a store's sales to dictate how much short-term funds a merchant can borrow to acquire more inventory. Rather than needing a payment processor, a separate location to purchase shipping, and a bank to borrow funds, Shopify does it all.

Then there are the partnerships. **Amazon.com, Inc.** (NASDAQ:AMZN) and Shopify have an agreement where Shopify's merchants can sell through Amazon. And just a couple weeks ago, **eBay Inc.** (NASDAQ:EBAY) and Shopify announced a similar agreement. Both of these deals create distribution channels, so they can generate more business.

And this is what creates the stickiness that allows more customers to come than leave. Unless the merchant is doing a horrible job selling, they're not likely going to leave because another provider may not have all of these services wrapped up in one. That's why Shopify has been on the rise for so long. Its moat is far wider than investors give it credit for.

The numbers show it too. In Q1 2017, it had $127.4 million in revenue, up 75% from Q1 2016. Its subscription solutions (monthly fee) revenue was $62.1 million, up 60%. And its merchant solutions (shipping, payment processing, etc.) was up to $65.3 million, an increase of 92%. This demonstrates that its merchants are generating more money, and Shopify gets to benefit from that.

There's no denying that this company is expensive. For value investors, it's impossible to justify these premiums. However, Shopify is currently only targeting its core geographies which represent 10 million customers with the potential to generate $10 billion in yearly revenue. Once the company expands to the global market, its target will be 46 million customers that could generate $57 billion in yearly revenue.

Any time a high-growth company experiences a significant pullback, it's worth considering adding shares. Is it possible that the company will continue to pull back? Absolutely. But it helps to remember that Amazon is conventionally overpriced and yet shares continue to increase year after year.

Shopify makes it possible for small business owners to sell goods online and distribute them on major marketplaces. The business is sticky, and that's why I like it.

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