



The Decline of Toys “R” Us Should Make You Believe in the Rise of Shopify Inc.

Description

On September 19, it was reported that big-box toy retailer Toys “R” Us filed for bankruptcy protection in Canada and the United States. The news serves as yet another example of the incredible challenges faced by traditional retailers in the current economic environment. The company seeks to restructure \$5 billion in long-term debt.

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) CEO Tobi Lütke criticized the Toys “R” Us retail experience in a recent interview. “We are going to look back in 20 years at big-box retailers and what they got away with ... it’s going to look insane now, watching movies 20, 30 years ago and watching parents smoke in the front of the car.”

Lütke compared the e-commerce powerhouses like Shopify and **Amazon.com, Inc.** to early music sharing and brick-and-mortar retail to the physical CD model. The 2001 launch of the **Apple, Inc.** iPod kicked off a decline that continues to this day, as the U.S. record industry continues to see lower physical album sales.

Where Amazon took on the larger big-box retailers, Shopify has the opportunity to do serious damage to smaller brick-and-mortar models. Shopify offers smaller retail operators its retail point-of-sale systems. Its clean and easy-to-use presentation has seen the company become a darling of the tech world. As of close on September 27, the stock has increased 153% in 2017 and 319% since its initial public offering in May 2015.

Shopify lets users try its online retail platform for \$29 a month with a discount in the first month. Shopify extracts more through transactions fees and subscriptions the more successful the businesses are. It makes for a brilliant business model. Some critics have pointed to the turnover of failed businesses month over month, but Shopify embraces this as a natural cycle for smaller retailers.

Shopify released impressive second-quarter results on August 1. Revenue grew to \$151.7 million, which represented a 75% increase from Q2 2016. The company posted massive growth in monthly recurring revenue, and subscription solutions increased 64% to \$71.6 million. The biggest news of all was the decline in operating loss, which beat analyst expectations. It posted an operating loss of \$15.9

million — 10% of revenue but lower than the \$18 million expected.

Lütke was optimistic that Shopify had passed through a period of internal tweaks and was now ready to truly hit the ground running. Some internal projections expect the company to become profitable by early 2018.

Shopify has increased 27% since releasing its better-than-expected second-quarter results. Its electrifying growth makes it a tempting play for investors. Still, those looking to buy should exercise caution at this stage. There are still questions about its growth cap, and it has yet to demonstrate profitability, though it appears to be well on track for this in 2018.

Current holders can justify stacking more Shopify in between dips. This is an exciting company that should continue to have success as e-commerce erupts, but after a red-hot year, investors should be careful not to burn themselves on this one.

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Date

2025/08/24

Date Created

2017/10/01

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