Another Setback for Shopify Inc. Stock?

Description

It seems that Shopify Inc. (TSX:SHOP)(NYSE:SHOP) has much to endure before potentially hitting the $200 mark again this year.

In the latest setback for this e-commerce platform provider, **Adobe Systems Inc.** (NASDAQ:ADBE) snapped up the company's rival, Magento Open Source, in a deal worth US$1.68 billion. The move is considered a negative one for Shopify, as the backing of a much bigger company with deep pockets will intensify competition.

Shares of Shopify were trading ~6% down today in a generally upbeat market as investors tried to evaluate the implications of this deal for the company's future business. Magento is a cloud-based e-commerce service used by companies such as **The Coca-Cola Company,** Warner Bros., **Canon Inc.,** and **Nestlé S.A.**

Magento technology supports more than $155 billion in gross merchandise volume. In 2015, **eBay Inc** sold Magento and it has been backed by private equity firm Permira Holdings LLP ever since.

"This is Adobe's third-biggest acquisition aimed at creating an end-to-end system for designing digital ads, building e-commerce websites, and other online customer experiences," the company said in a statement.

"Adobe is the only company with leadership in content creation, marketing, advertising, analytics and now commerce — enabling real-time experiences across the entire customer journey," said Brad Rencher, Digital Experience Executive at Adobe.

Implications for Shopify

It's too early to fully understand the implications of this deal for Shopify. However, one positive aspect of the Adobe-Magento deal is that it vindicates Shopify's business model, which has been under investor scrutiny since short-seller Andrew Left of *Citron Research* began criticizing Shopify's valuation and business model.

His bearish case against Shopify has highlighted the company’s methodology of counting its customers, its marketing practices, and the usability of its platform for the genuine businesses.

There is no doubt that Shopify will face more competition after this deal, but I don’t see that the company’s dominant position is being challenged anytime soon. Shopify reported 68% growth in sales in its latest quarterly report, offering guidance that continues to forecast explosive growth.

The company aims to expand into new non-English-speaking markets, targeting some of the world’s largest economies, such as Japan, Singapore, France, and Germany.

The bottom line

Any dip in Shopify’s stock in the past has been a great buying opportunity for investors who believe in the long-term growth story of this technology company. Despite all the negative sentiment, Shopify remains the top performer when compared to other technology names in 2018. Trading at $177 a share at the time of writing, its stock is up 39% this year and remains my top pick from the technology space.

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