



## Could Shopify Inc (TSX:SHOP) Be the Next Big Pot Stock?

### Description

**Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) is up nearly 60% year to date. In October, the company may get a sales injection that could send it even higher. The catalyst?

Cannabis legalization.

Now, I know what you're probably thinking: "Shopify stores selling cannabis? Get out of here!"

But it's more likely than you may think. And some respected analysts are already saying that cannabis could be coming to a Shopify store near you.

### KeyBanc's Monika Garg weighs in

One analyst who is positive that Shopify will power a sizable number of cannabis stores is Monika Garg of KeyBanc. Recently, she noted that Shopify has already been chosen by several cannabis stores to power their e-commerce platforms. And, she said, many more are considering signing up.

In a recent note to clients, Garg wrote: "Shopify has been selected by several Canadian provinces, including Ontario and British Columbia, to run their e-commerce websites and in-store point of sale solutions." She added, "Shopify has also signed deals with the largest private cannabis producers and distributors, including Canopy Growth and Aurora."

What this means is that Shopify is positioning itself to be the "e-commerce platform of choice" for Canada's burgeoning recreational cannabis industry. And that's significant because, at least initially, *most* cannabis sales will be online rather than in store.

### Online sales will dominate early on

While many cannabis aficionados await the day when they can stroll over to the pot store and buy legal weed, that day may be further off than they imagine. In Ontario, for example, in-store pot sales have been delayed until April, while the province works out the details of the plan. Many other provinces are pursuing similar strategies.

In the meantime, pot will be available for online sales nationwide on October 17. This means that, at least early on, a large percentage of pot sales will be online. And Shopify, as the e-commerce provider of choice, will make significant sums of money from subscriptions and payment fees.

### **Shopify may profit even more than vendors**

It's entirely possible that Shopify could profit *more* from cannabis legalization than the cannabis vendors themselves. The reason is that Shopify's business model — which is largely based on [subscription fees](#) — is not vulnerable to price competition in the cannabis market.

While cannabis manufacturers are [struggling to become profitable](#) in a market where prices are trending down, Shopify charges the same fees regardless of what happens to its vendors' prices. These fees range from \$29 a month for its basic plan to \$2,000 a month for the plus plan — plus 2.6% and \$0.30 per sale off each sale. Although Shopify could lose some money on the 2.6% take if the price of pot goes down, the base monthly fee and the \$0.30 transaction fee are set in stone. This means that a lot of the of income Shopify earns from cannabis will not be affected by price fluctuations.

Additionally, Shopify does not have any product storage or manufacturing costs, so it can profit from the sales of cannabis without the expenses of being a manufacturer. In the end, this may make Shopify a better “cannabis” play than any of Canada's big pot makers.

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