



## 3 Things Shopify Inc. (TSX:SHOP) Must Do in 2019

### Description

If you bought **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock at the beginning of 2018, I don't imagine you've got many complaints about how it's performed, up 65% year to date through December 6.

There's a six-letter word to describe investors who expected more. It begins with G and ends with a Y. Want a hint? It rhymes with "needy."

All joking aside, it's been a fantastic year for the folks at Shopify. Kudos to all those who rode the e-commerce wave to significant gains in 2018. To keep the momentum going, here are three things I believe it needs to do in 2019.

### Make money

I know — it's building scale. Profits aren't the goal of CEO Tobias Lutke and the rest of the Shopify management team at the moment.

"The fourth quarter represents a seasonally strong period for the company, and CEO Tobias Lutke and his team are predicting sales to range between US\$315 million and US\$325 million compared to the prior quarter's US\$270 million," [wrote](#) Motley Fool's Demitrios Kalogeropoulos December 6.

"Given its focus on growth today, that result would still translate into an operating loss for the year, but Shopify is happy to book red ink today in exchange for firming up its market position in this massive industry."

However, to get to [\\$500](#) and beyond, profitability is a must in my opinion, especially given growth stocks are going to continue to get pounded in 2019.

It's not that far away from a GAAP profit.

For the first nine months of the year, it lost US\$63 million or 9% of its US\$729 million in revenue. On a non-GAAP basis, it made US\$11 million, up from US\$497,000 a year earlier.

For the entire fiscal 2018, Shopify expects an adjusted operating profit of US\$8-10 million, 50% higher year over year at the midpoint. The net loss is expected to be \$95-97 million, 140% higher than a year

earlier.

Is it likely to produce a GAAP profit in 2019? I doubt it, but if it did, the ceiling on Shopify's stock price would be blown to smithereens.

### **Gain global reach**

If you look back at some of the media in 2018 regarding Shopify's growth, you'll notice a common theme seems to revolve around slowing sales.

A great way to push back against this criticism is to grow the business outside North America. Yes, that costs money, pushing GAAP profitability farther down the road, but if done strategically, I believe Lutke and company can have their cake and eat it too.

On November 26, Shopify announced that it had acquired Tictail, a Swedish e-commerce company that got its start in 2012 and helps businesses sell their products online.

While terms weren't released, and Tictail appears to have a significant presence in North America, the acquisition provides the company with an additional entry point into the European market.

Acquisitions like these are an excellent way to buy talent and boots on the ground outside North America.

It's got to continue making strategic acquisitions like Tictail if it wants to keep its share price moving higher.

### **Bigger customers**

One way to get global in a hurry is to help larger businesses who do business around the world be successful online.

"Growing from starter brands to bigger brands has raised our value and we will continue to broaden our reach for those businesses to become a bigger part of our commerce platform," said Shopify COO Harvey Finklestein recently.

Shopify Plus, which is the company's platform for larger businesses, generated approximately 24% of its subscription revenue in September, an indication that larger brands are buying into its platform.

Get that number to 50% in 2019, and you can be sure that it will start breaking out its revenues outside North America.

### **The bottom line of Shopify stock**

I don't expect a good year in the markets in 2019, so Shopify's not likely to deliver a 65% gain in the year ahead.

That said, if it makes progress on all three of these fronts in 2019, I'd be hard pressed to think of a reason why its stock won't go higher in the next 12 months.

### **CATEGORY**

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