



Can Shopify Inc (TSX:SHOP) Defeat Amazon?

Description

Shopify Inc ([TSX:SHOP](#))([NYSE:SHOP](#)) has been one of the most talked about technology stocks in recent years, largely fueled by its 700% rise since 2016. Even over recent months, it seems like nothing can stop Shopify's stock from surging higher.

In December, an analyst at **Wells Fargo & Co** tagged shares with an outperform rating, reporting that Shopify is an "attractive way to invest in...the strong secular growth of digital commerce." The analyst anticipates sales growing at 30% per year with a "clear path to profitability."

Within weeks, shares rose by 50%, thereby surpassing the analyst's year-long price target of \$175. Now with a \$26 billion market cap, have shares run too far?

Platforming an economic shift

There's no doubt that Shopify has an incredible business model. In a changing world, it's found a way to capitalize in an asset-light way.

For decades, or even centuries, large companies have dominated the retail space. It's understandable why this was the case. To succeed, companies needed large amounts of capital to create brick-and-mortar locations, access to a nation-wide or global distribution network, and millions of dollars for marketing. The internet changed everything.

Today, you can start a business with ease, using your website as a storefront, **United Parcel Service, Inc.** as your distribution partner, and **Facebook, Inc.** for small-budget advertising. Shopify allows entrepreneurs to do all of this in just a few clicks. It provides small and large businesses alike to create a single, integrated back office for payments, analytics, shipping, inventory, and order management.

Shopify is a clear disrupter, but that doesn't mean it's impossible to overpay for shares.

How large can Shopify get?

In its latest investor presentation, Shopify estimates that its total addressable market is around \$64 billion, which it calculates by multiplying the total amount of retail businesses globally (47 million) by its average annual revenue per user (\$1,361).

Last quarter, Shopify generated roughly \$270 million in sales. In 2019, analysts anticipate the company garnering \$1.5 billion in sales. According to the company, that would represent only 2.4% of its potential market size. But getting to 100% penetration is a pipe dream given the glut of competition that will follow.

Shopify's biggest near-term competitor is one of the largest companies in the world: **Amazon.com, Inc.**

Amazon recently launched its Storefronts platform, which specifically targets small businesses, Shopify's core market. Today, it has fewer than 40,000 users in the U.S., much less than Shopify's 500,000 global network. As Vishesh Raisinghani recently [wrote](#), "There's no reason why the biggest tech company in the world can't capture some of Shopify's potential market in the near future."

Wait for a better price

Even Shopify's management team acknowledges the growing competition, which could put a big dent in the company's pricing potential. On a recent conference call, Shopify's founder and CEO Tobias Lütke said, "In terms of success rates, customer acquisition costs outside of some areas just get more and more competitive with more and more players."

There's no doubt that Shopify will continue to grow, but with a valuation of nearly 20 times sales, lofty expectations are clearly priced in. As competition ramps, expect these estimates to come down, potentially providing a better buying opportunity.

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