



## Shopify (TSX:SHOP)(USA) Stock Just Hit \$300: Here's Why

### Description

**Shopify Inc** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock can seemingly do no wrong.

Over the past 12 months, its shares have risen in value by more than 100% — that's after the stock doubled the year before.

If you invested in Shopify during their IPO, you would have experienced an 800% return. The TSX returned just 8% over the same time period.

In April, Shopify stock surpassed the \$300 mark. If you haven't been paying attention, now's your chance to catch up.

### DTC is the road to riches

A giant shift is occurring for retailers around the world.

Previously big brands like **Nike Inc** and **Procter & Gamble Co** dominated retail, given their control over marketing and distribution channels. That paradigm is now being completely destroyed.

Here's how things used to work.

Procter & Gamble would design a new product. Then, it would pressure brick-and-mortar retailers to stock it prominently. If you refused, you might lose access to the company's branded products, which could put you at a competitive disadvantage versus your peers. Finally, Procter & Gamble would spend millions on television and radio ads to promote the new product.

Here's how it works today.

A regular person anywhere in the world comes up with a new product idea. They outsource design and manufacturing to a company abroad. They set up a Shopify website in seconds, giving visitors direct purchasing capabilities. They then spend a few hundred dollars doing hyper-targeted advertising on **Facebook, Inc.**

(NASDAQ:FB).

This entire process only involves a few thousand dollars, whereas before it required million dollar budgets from brand behemoths.

Shopify has allowed millions of people around the world to become entrepreneurs overnight. After a Shopify site hits a certain size, the company makes money from subscriptions and by taking a cut of every purchase.

After years of experimentation, Shopify made Direct-to-Consumer (DTC) a worldwide reality.

## How high can the stock go?

So far, Shopify has operated with few meaningful competitors. Nearly every quarter, the company takes a bigger cut of this rapidly growing market.

In 2014, revenues were just \$104 million. After doubling several times, sales surpassed \$1 billion in 2018. While profitability has yet to arrive, the stock price has risen in-step with growing revenues.

Eventually, the company must prove that it can generate meaningful profits. Looking at the competitive landscape, sharks seem to be circling around Shopify's success.

This year, **Microsoft** decided to ramp its focus on e-commerce, potentially competing directly with Shopify. A company executive said it is approaching the possibility "very seriously because our customers are asking us for it."

**Square** (NYSE:SQ), which has a market cap of more than \$30 billion, making it both larger and better financed than Shopify, also recently entered the market.

The biggest fears, however, revolve around Facebook. Shopify lost nearly \$1 billion in value in a single trading day after Facebook announced that it would ramp up its e-commerce offerings, especially within its Instagram platform.

Shopify should continue to grow revenues for years to come, but if the market decides that profits won't materialize due to fierce competition, the stock would have plenty of downside.

At this stage of the game, the question isn't really whether Shopify will grow in size, but rather if it can grow in value, at least as far as shareholders are concerned.

### CATEGORY

1. Investing
2. Tech Stocks

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