Where Will Shopify (TSX:SHOP) Stock Be in 5 Years?

Description

Shopify Inc (TSX:SHOP)(NYSE:SHOP) stock has been a market darling since its IPO.

Since debuting at $35 per share in 2015, Shopify stock has risen by more than 1,000%, topping $350 per share.

Competition is rising, however, and some investors are worried where the stock might be a few years down the road. There are several factors that are easy to predict, but many others come with a wide range of potential outcomes.

Using everything we know today, here's where Shopify stock could be headed in 2024, five years from today.

Shopify should be much bigger

Last year, Shopify's revenues hit $1 billion, leaving most of the market yet to be captured.

Royal Bank of Canada believes Shopify's total addressable market is between US$15 billion and US$20 billion. Shopify believes it's much bigger. Multiplying the total number of retail businesses (47 million) and the company's annual revenues per user (around $1,300) results in a market potential of more than $60 billion.

Either way, Shopify likely has room to double or triple in size again before hitting structural growth limitations.

Being bigger won't necessarily translate into higher profits, however.

Over the last three years, Shopify has grown revenues by an average of 70% per year. Annual net income over that time span has yet to tick into positive territory.

In 2019, analysts expect the company to grow sales by around 40%. In 2020, this growth is forecasted to fall to just 30% year-over-year. If Shopify maintains a 20% annual growth rate over the following three years, sales would reach $3.7 billion in 2024.

If slowing top-line growth occurs, however, bet on the market shifting its focus from sales to profitability. That could be an ugly transition.

Profits are the terrifying story

Eschewing profitability for revenue growth can be a great strategy to grow quickly, especially if shareholders are willing to finance the expansion.

Eventually, investors demand real profits and distributable cash flow. Sometimes, investors demand this from day one. Other times, they're more patient, as they were with **Amazon.com, Inc**.

When the call for profitability at Shopify will come is anybody's guess, but the longer the company waits, the harder it may become.

Thus far, Shopify has had the market to itself, allowing it to accrue more than 800,000 users in a handful of years. Its platform is largely considered the best e-commerce option on the market. Yet competition looks to be heating up.

This year, tech giants such as **Microsoft**, **Facebook, Inc.**, and **Square** have all ramped their focus on e-commerce. In many cases, they will be competing directly with Shopify.

What could competition do to profitability?

In 2015, average revenue per user (ARPU) was $1,077. In 2016, ARPU spiked to $1,243.

Growth slowed in 2017, as ARPU reached $1,361 per user. In the third quarter of 2018, management was still citing this $1,361 figure, suggesting there may not be much growth ahead. Competition will only add pressure.

Today, Shopify's market cap is close to $40 billion, making it a tech giant in its own right. But competitors like Microsoft ($1 trillion market cap) and Facebook ($600 billion) can easily afford to slash industry pricing in half. Over the next five years, it's hard to imagine a world where pricing *doesn't* collapse.

Revenues may hit $3.7 billion in 2024, but don't expect profits to follow suit — that could have dire consequences for the stock price.

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