



## What Can the Rise and Fall of Tilray (NASDAQ:TLRY) Teach Us About Shopify (TSX:SHOP)?

### Description

**Tilray** ([NASDAQ:TLRY](#)) has had perhaps the most mixed run thus far among cannabis companies. After a successful IPO in mid-2018, its share price skyrocketed to insane levels by the fall, hitting highs above the US\$200-per-share mark. However, many analysts warned that the firm's stock price was significantly overvalued and was bound to fall sharply at some point.

Sure enough, Tilray's share price started tumbling in late October, and it hasn't recovered since. Those who chose to sell Tilray's stock when it was still at or near its highs likely made a fortune, and those who chose to ignore the warnings signs lost a huge opportunity.

For quite some time, many analysts have been ringing similar bells to warn investors against the [dangers](#) of **Shopify** ([TSX:SHOP](#)) ([NYSE:SHOP](#)). The tech company's share price has been defying gravity for the better part of three years, and despite calls that things could unravel quickly, there seems to be no stopping the Ottawa-based firm.

Will Shopify eventually suffer the same fate as Tilray? I don't think so, and here is why.

### Two very different industries

The first major difference between Shopify and Tilray is their respective industries. The marijuana sector is, at this point, the market equivalent of a toddler still learning to walk. This presents numerous challenges for pot firms. There is, or course, the legal challenge. Recreational uses of marijuana are still illegal everywhere in the developed world save for Canada.

Even in Canada, legal recreational uses are restricted, and many high-margin opportunities are still banned. Sure, the medical market is a bit more advanced, and medical users are often more likely to open their wallets. But there is no denying that marijuana companies have dealt with strong headwinds. One such obstacle was the need to rely on dilutive forms of financing to fund their growth. Many pot firms will feel the effects of that necessary evil for years to come.

By contrast, Shopify runs an e-commerce marketplace. While that sector has its own set of challenges, most of them are common to all industries (fierce competition is one of them). We have a much better grasp of the e-commerce and can make better predictions about it. The marijuana sector is much trickier to predict. We know sales will continue climbing at a fast pace, but the landscape of the sector could change drastically as it evolves.

If recreational uses of pot are legalized in much of the western world, what effect will that have on supply? How will the major companies respond to that? How will they keep their margins high? How will auxiliary markets develop? Which current sector giants will be acquired by even larger companies in other industries looking to benefit from the marijuana market? No one has a definitive answer to all of these important questions.

## **Tilray never had a competitive advantage; Shopify does**

Tilray is based in Canada but does business in about a dozen countries on five continents. The firm's focus has always been the international market, since Tilray saw it as a much bigger opportunity than the Canadian market. There is definitely some truth to it; California alone is a bigger market than Canada.

However, Tilray does not benefit from a strong competitive advantage. An easily replicable business model, non-existing switching costs, tons of competitors with similar product offerings; all of these factors (and more) mean Tilray does not benefit from a competitive moat. No wonder its high valuation metrics eventually caught to it in a major way.

Shopify, however, has managed to build a solid moat. The firm stands out among e-commerce companies thanks to its unique service offerings. Shopify now benefits from a solid name recognition and high-switching costs, which means the tech company will keep on increasing its client base, along with its revenues.

## **The bottom line**

While Shopify will not continue defying gravity forever, it is doubtful whether the firm will suffer the same fate as Tilray. There are, after all, more potential growth opportunities for the Ottawa-based company, including international operations. The e-commerce sector has yet to penetrate other parts of the globe the way it has North America. If Shopify can establish a strong international presence, the firm will continue racking up strong revenues.

### **CATEGORY**

1. Cannabis Stocks

2. Investing
3. Tech Stocks

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

1. NASDAQ:TLRY (Tilray)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:SHOP (Shopify Inc.)

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

## Category

1. Cannabis Stocks
2. Investing
3. Tech Stocks

## Tags

1. Editor's Choice

## Date

2025/09/10

## Date Created

2019/06/03

## Author

pbakiny

default watermark

default watermark