



Shopify (TSX:SHOP) Now Has 1 Million Users — Time to Buy the Stock?

Description

It's official:

Shopify now has [over one million users](#).

This comes from a report the company released last week, which also revealed that Shopify vendors powered \$183 billion worth of transactions from 2016 to 2018.

The number is a huge milestone for the company. In addition to the headline-grabbing significance of seven digits, it also shows that Shopify continues adding new vendors at a time when revenue deceleration is a major concern.

Shopify's user milestone is a huge win for Shopify shareholders who seen their holdings battered in the second half of 2019. But is it a reason for those who aren't already on the train to buy in? First, let's take a look at that one million user metric and what it really means.

Why one million is a big deal

At first glance, one million users might not look like a huge milestone for a tech company. After all, each of the FAANG companies has user counts in the hundreds of millions to billions.

However, one million is quite significant when we look at Shopify's business model.

Shopify provides basic infrastructure to web vendors, including web design tools and payment processing. It makes money by charging them subscription fees and a cut of sales.

These users constitute Shopify's entire user base; customers at Shopify stores don't count. When Shopify says it has one million users, it means that it has one million vendors, selling to a far larger customer base.

That's good news because top vendors on Shopify can power a *lot* of sales. Shopify is well known for

its popularity among brands and celebs, with superstars like Jeffree Star, Drake and Adele selling on the platform. Names like that pack a lot of punch, and big Shopify stores can bring in massive revenue.

Earlier this year, Sumo reported that BeardBrand reached \$120,000 in monthly sales after a year in business—and that's not even one of Shopify's big corporate/celebrity brands.

Exact figures on how many unique buyers Shopify vendors have is hard to come by, but it's fair to assume that one million vendors have much more than one million customers.

Why it may not save the company

While a million users is a huge psychological milestone for Shopify, it may not be enough to keep its stock from tanking.

Although Shopify is a huge growth story, with revenue growing at 48% year over year in the most recent quarter, it has become extremely expensive. As of this writing, the stock traded at 34 times sales and 17 times book value—insane valuation metrics by any standard.

Although it's theoretically possible to have growth rates that could support such a price, Shopify's [revenue growth has actually been decelerating](#) in recent quarters.

On the other hand, fashionable tech stocks don't always move based on fundamentals. Many tech investors are eager to catch the "next big thing" no matter what the cost, and this can drive tech stocks much higher than their intrinsic value.

Amazon.com famously traded at high P/E ratios for more than a decade, and kept rising even when profits were negative. It's possible that Shopify could do the same in the long run.

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