



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

### Description

A great deal can change in five years. [Five years ago](#), **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) wasn't even a public company. Today, it's widely considered to be one of the most successful tech stocks on the **Toronto Stock Exchange**.

Investors who patiently held on to the stock over that period have enjoyed a jaw-dropping 1,813% return. In other words, their investment appreciated nearly 20-fold in less than half a decade.

However, can investors expect similar returns in the future? Here's a closer look at Shopify's immense opportunity and what the company is doing to deliver shareholder value over the long run.

### Living up to its potential

Shopify's potential market is immense. It's easy to forget that most people do not shop online yet and in many parts of the world, retail isn't fully formalized either. Shopify can expect to keep adding small merchants selling an endless range of products online for decades, not only for the next five years.

Traditionally, the company has been valued as a software provider on par with companies such as Magento or a middleman like **eBay**. However, the company's valuation (\$70 billion) has now surpassed those two.

Management is spending billions of dollars on creating a fulfillment network to rival larger rivals like **Alibaba** and **Amazon**, who are worth US\$565 billion and US\$1 trillion, respectively.

So, it may be fair to say Shopify's potential market could be worth trillions.

### The next five years

Shopify generated \$2 billion in sales over the course of 2019. Investors have assigned the company a price-to-sales ratio of 35 because they expect tremendous growth. However, investors have also noticed that the rate of growth has been steadily declining.

Sales grew 73% from 2016 to 2017. Assuming the company's top line growth slows gradually over the next five years, from 40% in 2020 to 30% and finally to 25% in 2024, I estimate that revenue could more than triple to \$7 billion.

If the market is willing to assign the same P/S ratio in 2024, Shopify could be worth \$245 billion by then — *more than triple its current market value.*

## Risks

However, the path to wealth creation is unlikely to be smooth. Shopify may have to face several hurdles and challenges on its expansion path over the next five years.

The most immediate threat, of course, is the ongoing coronavirus epidemic that has stunted China-based supply chains, which could be devastating for small drop-shippers on the platform.

A [slowdown in global economic growth](#) over the next few years could also have a knock-on effect on online shopping and consumption.

Finally, investors may grow impatient with Shopify and demand a profit within the next few years. Being valued as a mature, profitable eCommerce company rather than a young and growing one could drastically change the stock's trajectory over the next few years.

## Bottom line

Shopify has been an incredible growth story over the past five years. However, returns in the next five years could be much lower — and the company still faces monumental challenges it must overcome to justify its pricey valuation.

Long-term investors should probably bear these risks in mind.

### CATEGORY

1. Investing
2. Tech Stocks

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