



## Why Shopify (TSX:SHOP) Is a Millionaire-Maker Stock

### Description

Few stocks have managed to outperform equity markets like Canada's e-commerce giant **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)). The company went public back in May 2015 and has since gained a monstrous 3,680% in less than five years.

This means a \$10,000 investment in Shopify stock during its IPO would have ballooned to a massive \$3,68,000. But, as we know, past returns matter little to current and future investors. They need to know if it is a good pick for the upcoming decade.

### Shopify is expected to grow sales at a stellar rate

Despite the uncertainty surrounding equity markets due to the COVID-19 pandemic, Shopify has stated that it would meet or surpass guidance for the March quarter. The company has withdrawn all other guidance for 2020. According to consensus estimates, it is expected to grow sales by 25.2% to US\$1.98 billion in 2020. Sales growth is expected to accelerate to 38% to US\$2.73 billion in 2021.

A key driver of Shopify's revenue is the company's ability to expand the merchant base. In May 2015, 165,000 merchants ran their businesses on the Shopify platform and sold \$8 billion worth of goods. Currently, over a million merchants run their business on the platform with a gross merchandise volume of \$61 billion for 2019. The company has managed to increase sales from \$205.2 million in 2015 to \$1.58 billion in 2019.

The shift to e-commerce should drive Shopify's sales higher in the upcoming years. According to an [e-Marketer report](#), retail e-commerce sales might grow from US\$3.5 trillion in 2019 to US\$6.5 trillion in 2023.

The ongoing impact of COVID-19 might accelerate this shift, as people are largely staying at home instead of shopping at traditional brick-and-mortar stores.

## Shopify has a subscription-based business model

Shopify has two business segments: subscription solutions and merchant solutions. Its subscription solutions business generates revenue by leveraging the company's platform. Shopify provides clients with a range of tools and services, including web design, establishing a digital storefront, payment processing, and marketing.

It has a three-tier subscription plan, and most customers subscribe to lower monthly plans. However, enterprise customers that generate billions of dollars in sales and a significant portion of Shopify's gross merchandise volume subscribe to advanced plans.

Comparatively, its merchant solutions business generates sales from processing fees (from Shopify payments), transaction fees (from online orders), shipping, and delivery. While Shopify's core business is its subscription segment, merchant solutions accounts for close to 60% of sales.

The company is also investing US\$1 billion to build a network of fulfillment centres. This should enhance the merchant experience, and we know that the e-commerce company depends on an increasing merchant base to push sales higher.

## Shopify stock is trading at an expensive valuation

Shopify's impressive rally has sent its valuation metrics sky high. It has a forward price-to-sales multiple of 37.5. Analysts expect Shopify to post earnings per share of US\$0.53 in 2021. It means Shopify's forward P/E multiple stands at an astonishing 1,200. Growth stocks generally trade at a premium, and Shopify has time and again survived valuation concerns to keep touching record highs.

Shopify is now the second-largest e-commerce platform [in the United States](#). The company's expanding addressable and focus on growth make it a winning pick for long-term investors.

### CATEGORY

1. Investing
2. Tech Stocks

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