



Shopify (TSX:SHOP) Could Be Worth \$1 Trillion Before 2030

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) has had an incredible run this year. As online shopping surged during the lockdown, Shopify stock jumped 160%. Now the company is worth an astounding \$150 billion, making it the most valuable listed company in Canada.

This parabolic move has some investors concerned. Shopify's trailing sales and lack of cash flow certainly don't justify its [current valuation](#). However, I believe Shopify stock isn't trading based on past performance but on future potential. In fact, investors could be bracing for Shopify to turn into Canada's first trillion-dollar company.

The T algorithm

Scott Galloway, a professor of marketing at the New York University Stern School of Business, proposed the "T algorithm" for identifying companies that could be worth over US\$1 trillion. The algorithm includes eight variables that all trillion-dollar companies seem to have in common.

These variables include product differentiation, visionary capital, global reach, likability, vertical integration, career accelerant, artificial intelligence, and geography. In my view, Shopify meets nearly every variable.

Shopify has a visionary leader who's inspired the market to offer him cheap capital. Meanwhile, the company is driven by digital technologies that give it a global reach and is located in Canada, an emerging magnet for top tech talent. The company's upcoming rollout of its fulfillment centres will help it also become vertically integrated.

In short, Shopify has a real shot at becoming a \$1 trillion company. In fact, its closest rival **Amazon** is already a US\$1.6 trillion company. Global retail is a massive industry with enough space for both.

However, Shopify stock's ascension to the billionaire club won't be easy. Investors need to consider the challenges this company faces ahead.

Challenges for Shopify stock

Amazon's journey to a trillion dollars was anything but smooth. The stock faced a double-digit drawdown every single year since it went public. In fact, Amazon stock lost over 20% of its value in 16 of the first 20 years it was a public company.

Such volatility meant Jeff Bezos couldn't rely on issuing new shares to raise capital and keep the company afloat. Fortunately, Amazon was free cash flow positive and didn't need to raise equity funding to keep going. That's not true for Shopify.

Shopify isn't free cash flow positive. To keep fueling its rapid expansion, the company needs to issue new shares. The team issued 1.85 million subordinate voting shares just a few months ago. If Shopify stock loses its value in a market crash, this funding stream could dry out.

Besides funding issues, Shopify also faces intense competition from rival e-commerce companies and tech giants. To become a trillion-dollar company, Shopify needs to overcome both of these major challenges.

Bottom line

Shopify stock has the potential to deliver a 10-fold return in fewer than 10 years. However, it faces intense competition and lacks the free cash flow needed to get there. Long-term investors need to watch these two factors closely.

CATEGORY

1. Investing

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Date

2025/07/26

Date Created

2020/07/26

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