



3 Reasons I'll Never Sell Shopify

Description

When investors see green in their portfolio, many decide to sell and lock in profits. Doing so often enough would classify you more as a trader than an investor. At The Motley Fool, we believe in holding companies for periods of at least three to five years. This allows companies to really give you an idea of how it is being run and how the market perceives it.

One company that has been getting a lot of attention in recent months is **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)). During its rapid run-up out of the market crash, many investors were rushing out to lock in their gains. I was not one of those investors and decided to hold my shares. In this article, I will discuss why I will not be selling my Shopify position any time soon.

I have lots of faith in company management

The reason I'm not selling my shares is that I strongly believe in the company's management. I favour founder-led companies, and Shopify is a great example of that. Its Chief Executive Officer Tobi Lütke wrote the very first line of code that would eventually become the Shopify platform. He is also very active on **Twitter**. Unlike other controversial CEOs that take to Twitter, Lütke uses the platform to see how Shopify can help merchants even more.

One way to quantify the involvement of a founder would be to look at how many shares that individual owns. As of this writing, Lütke is the second largest shareholder (leader among individuals) in Shopify. He holds a 6.44% ownership stake in the company. That is a significant amount of "skin in the game," and one factor that makes me very comfortable with the company's management.

The e-commerce industry is still ramping up

The second reason not to sell any Shopify shares is because we are still very much at the beginning of the global e-commerce story. This industry has been steadily growing over the past few years. In 2009, e-commerce made up only 5.6% of all retail sales in the United States. In 2019, it accounted for 16.0%.

In addition, total retail sales growth in the US has hovered between 3-4% since 2010. However, e-commerce sales growth has been growing 13-17% annually over the same period.

The recent pandemic has also accelerated the adoption of e-commerce worldwide. In the United Kingdom, the industry saw about six years of growth in just a few months. In May 2007, e-commerce made up 3.1% of [all retail sales](#).

In May 2020, the industry was responsible for 32.8% of all retail sales in the U.K. This comes off the back of a weak February where it only accounted for 19%. That's a 13.8% increase in three months!

Shopify checks a lot of my investment boxes

Finally, the third reason for me not selling my Shopify shares is because it checks off a lot of items on my investment requirement list. First, the company has very strong recurring revenue growth. In Q2 2014, Shopify reported \$5.10 million of recurring revenue. In Q2 2020, Shopify reported \$57 million of recurring revenue — that's more than a 10 times over six years. Further, the company has shown strong revenue growth in general. Over the past four years, its total annual revenue has grown 534%!

There are many other aspects of the company that I really like, but I will focus on only two more. The first is a rule breaker indicator, as mentioned by Motley Fool co-founder David Gardner. Shopify is a leader in an important, emerging industry. It is grabbing market share quicker than any of its peers within the e-commerce website builder space.

Finally, the company is always innovating — whether by partnering with large companies such as **Facebook** or **Amazon**, or by introducing new services. Shopify always seems to have its finger on the retail pulse. So if the company continues to check all these boxes, why would I sell it?

Foolish takeaway

Shopify has seen incredible growth [since its IPO](#). However, I strongly believe that the company will keep growing from here. For the reasons listed above, I will not be selling any of my Shopify holding.

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