



Shopify (TSX:SHOP) Has a Clear Path to \$1 Trillion

Description

Despite its recent correction, **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) is still the most [valuable tech firm in Canada](#). It's currently worth \$207 billion, which puts it in the big leagues of global tech giants. However, unlike its counterparts, Shopify has plenty of room to grow.

In fact, the company's path to \$1 trillion is clearly visible right now. Here are two reasons Shopify will eventually breach the 10-figure valuation benchmark.

Shopify's addressable market

It's easy to forget that much of the world's shopping still happens offline. Global retail is dominated by malls, high-street stores, and mom-and-pop outlets. That's despite the pandemic and lockdowns of the previous year.

A report from the United Nations Conference on Trade and Development (UNCTD) found that e-commerce penetration had jumped from 16% to 19% in 2020. In other words, four out of every five goods are bought offline. While e-commerce is a small portion of the pie, the pie continues to expand. By 2022, global retail could be worth US\$27 trillion.

Shopify simply needs to capture a fraction of this market and sustain its lead as e-commerce penetration expands over time. If it can hold onto its position as the second-largest e-commerce platform in the world, it could easily cross the \$1 trillion valuation milestone.

However, Shopify has been making strategic investments in recent years that expand its market beyond online shopping.

Moonshot investments

Shopify has been investing in financial technology, or FinTech, companies that online shops rely on. This week, the company announced a US\$350 million (CA\$430 million) investment in Stripe — a payment-processing software firm. That gives it a 0.4% stake in a company with high-profile clients such as

Twitter, Substack, Instacart and Google.

Shopify also owns 8.5% of **Affirm** — a financial lender of installment loans for consumers. Affirms allows online shoppers to pay for high-ticket items in monthly installments. It recently went public and is now worth US\$17.9 billion (CA\$22 billion); this means Shopify's stake is worth \$1.8 billion.

These strategic investments expand Shopify's potential market to enterprise software, digital goods, lending, and subscription services. In other words, Shopify is trying to own a piece of the entire internet ecosystem. That's a multi-trillion-dollar opportunity.

Investors should expect the Shopify team to execute similar strategic investments in the future. They should also expect these investments to be value accretive when these companies grow or go public.

Bottom line

There are only a handful of tech companies worth more than \$1 trillion right now. Most of these companies have achieved their growth through internal innovation and external acquisitions or investments. Shopify seems to be doing both. It is now the second-largest player in a market that's worth US\$27 trillion. It's also a shareholder in emerging FinTech startups that could be immensely valuable in the future.

Shopify's path to \$1 trillion has never been clearer. The company's valuation could easily quintuple in the coming years.

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Date

2025/09/04

Date Created

2021/06/17
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