



Value Investors: This High-Growth E-Commerce Company Could Still Be Dirt Cheap

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) is a [global e-commerce company](#) whose business model is driven by the company's ability to attract new merchants, retain revenue from existing merchants, and increase sales to both new and existing merchants. The company's merchants represent a wide array of retail verticals, business sizes, and geographies and no single merchant has ever represented more than five percent of Shopify's total revenues in a single reporting period.

Well-positioned for success

Shopify's future success is dependent on many factors, including the company's ability to expand the merchant base, retain merchants on Shopify's platform, offer more sales channels that connect merchants with the specific target audience, develop new solutions to extend Shopify's platform's functionality and catalyze merchants' sales growth.

Other important factors that would determine Shopify's success include enhancing Shopify's ecosystem and partner programs, providing a high level of merchant support, retaining motivated and qualified personnel, and building the company with a focus on maximizing long-term value.

Rational capital allocation

Further, Shopify has focused on rapidly growing the company's business and plans to continue making investments to drive future growth. Shopify's investments should increase the company's revenue base, improve the retention of this base and strengthen Shopify's ability to increase sales to the company's merchants.

Consistent with [investing for the long-term](#), Shopify announced in June 2019 that it expects to build and operate Shopify Fulfillment Network, a network of fulfillment centers across the United States, to help merchants deliver orders to buyers quickly and cost-effectively.

The fulfillment network aims to leverage Shopify's scale with machine learning, including demand forecasting, smart inventory allocation across warehouses, and intelligent order routing to ultimately improve supply chain economics and delivery for merchants. Shopify expects to continue to invest in and optimize this offering to further support the company's merchants.

Growth by the expansion of traditional retail businesses

Over the past year, Shopify observed sustained strong momentum in gross merchandise volume (GMV), buoyed by restrictions related to COVID-19, as consumers looked for ways to purchase at a safe distance, utilizing e-commerce and benefiting from features such as curbside pickup and local delivery.

Going forward, Shopify could experience a decrease in GMV as a result of lower consumer spending on goods but also expects that any decrease would be at least partially offset by more traditional retail businesses expanding or migrating operations online with Shopify's platform and services.

The effect of COVID-19 on other aspects of Shopify's results of operations and financial performance in the long-term, such as revenues, remains uncertain and may only be reflected in future periods.

Embraces the work-from-home culture

The effects of COVID-19 have led Shopify to reimagine the way the company's employees work resulting in the decision to work remotely in 2021 and beyond 2021. The company has embraced this digital-first way of thinking, working, and operating with the intention that the majority of employees will work remotely, permanently.

Shopify feels that the near-term costs of reducing the company's leased footprint will be more than offset over the long term. This could benefit top talent and increase the company's intrinsic value.

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