



## Shopify (TSX:SHOP): The Next Trillion-Dollar Tech Stock?

### Description

**Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has been on a tear lately. Last week, it surpassed \$2,000 for the first time, making Tobias Lütke Canada's richest founder. Tomorrow, the company is set to release earnings for the second quarter. If it beats what Wall Street is expecting, then the stock is likely to soar again.

This naturally leads to the question, how high can this stock go?

Several U.S. tech giants have market capitalizations above \$1 trillion. Shopify is seen as being in the same league as these companies, yet its market cap is "only" \$250 billion. If Shopify truly is "the next **Amazon**," as it is often claimed to be, then it should join the \$1 trillion club eventually. The question is, when?

### What it would take for Shopify to reach a \$1 trillion market cap

It would take an approximately 300% price increase from today's level for Shopify to reach a \$1 trillion market cap (in Canadian dollar terms). That's based on the following simple calculations:

- Shopify's market cap today: approximately \$250 billion.
- \$1 trillion minus \$250 billion: \$750 billion.
- \$750 billion divided by \$250 billion: three.
- Three times 100: 300.

What this says pretty much is that Shopify needs to gain its current market cap three times over to hit a trillion-dollar valuation. That might sound like a lot, but recall the effects of compounding. If your stock price goes up by 100% a year, then you'll hit a 300% return in *fewer than* three years. And 100% is about the level of return SHOP has achieved annually since its IPO. In fact, it has [returned 115% annualized](#) over a five-year period.

## Earnings coming out tomorrow

If you're interested in whether Shopify can keep up its hot gains and reach a \$1 trillion market cap, you're going to want to pay attention to the news tomorrow.

Shopify is set to release its earnings for the second quarter, and it's going to reveal a lot of valuable information:

- **Revenue:** A lot of analysts think Shopify's revenue growth is going to decelerate with COVID-19 fading into the rearview mirror. Tomorrow's release will shed light on that.
- **EPS:** Analysts are expecting \$0.97 in EPS for the quarter, tomorrow we'll get to find out whether SHOP hits or misses that metric. It will be interesting to see how Shopify's investment in **Affirm** impacts earnings, because the shares were down in Q2.
- **Misc. operational data:** Shopify's release will include a smattering of operational data including gross transaction volume, number of vendors, and more. These aren't GAAP metrics, but they're seen as being relevant to [e-commerce companies](#), so they'll be worth looking at.

## Foolish takeaway

You can't deny that Shopify has been a killer stock since it went public in 2015. Since that date, it has risen more than 5,000%, and it's still going strong. If the stock keeps up its last few years' rates of return for another few years, it will hit a trillion-dollar market cap. That sounds incredible, but it's true. Tomorrow's earnings will shed light on whether that can actually happen or not, so stay tuned.

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