

Shopify Inc.

NYSE:SHOP

Analyst: Alexandre Thiam

Sector: Information
Technology

BUY

Price Target: \$45.06

Key Statistics as of October 7, 2016

Market Price:	\$44.31
Industry:	Application Software Services
Market Cap:	\$3,9B
52-Week Range:	\$38.48-\$45.20
Beta:	1.57

Catalysts:

- Partnerships
- Acquisitions effective or potential
- Product Launch and Innovation.

Company Description:

Shopify is a growing computer software for online stores and websites developer founded in 2004 by Tobias Lutke, Daniel Wienand and Scott Lake in Ontario Canada. The company completed its IPO on May 22 2015 with an issuing price at \$17 and increased by roughly 50% at \$25.65. on the first day of trading. The average Volume is at 1.1 million and the current level at 733,420. Shopify is a service provider and offers platform to online retailers that creates easy, cheap, and fast online stores and boutiques. Shopify Inc provides cloud-based, multi-channel commerce platform designed for small and medium-sized businesses. The Company's platform provides merchants with a single view of their business and customers across all of their sales channels. In addition, the company launched series of innovations in the sector to differentiate itself from competitors such as their "Shopify Payment" which allow clients and merchants to accept credit cards, overstepping the intervention of third parties, accelerating and enhancing the process. Shopify reacts well to the trends and innovation, as the company will focus more and more on mobile app in the future.



Thesis

Shopify Inc. (NYSE:SHOP) was not long ago a startup company which manage to become a small cap in the NYSE with its \$3.9b Market Capitalization. Shopify manages to increase its product range and customer base on a constant basis. Among all the major small web designing and software developers out there other than Google, Yahoo and Microsoft, the company is seen as the best in class at the moment. This reveal strong management and efficiency in the business model.

This same management and company's vision is leading to an effective and calculated expansion. Shopify is currently growing by pursuing an aggressive acquisition strategy in growth potential investments. Shopify also stars to attract bigger company, and already signed lucrative partnerships in the past.

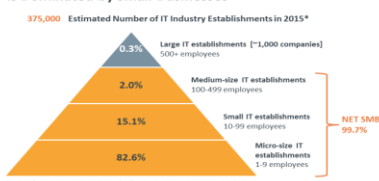
Shopify currently offer its services to more than 300,000 merchants and is planning to do more. This represent a potential threat to any of the major player in the internet industry. If the company continue to expand it could become a very attractive purchase of any the major brand. If Shopify gets acquired the value of the company will be considerably bigger.

Industry Outlook

(IT) industry market, that comprehend hardware, software, internet services, is expected to reach \$3.8 trillion in 2016, up from \$3.7 trillion the previous year. The U.S. market accounts for approximately 28% of the total, or slightly more than \$1 trillion.

The IT channel plays an integral role to facilitating the flow of information technology goods and services from producer to customer, which is exactly what Shopify tries to do. The industry is expanding, the Labor grew at an annual rate of 3.1% in 2015, and the job posts by 40%. In the aggregate, the U.S. IT sector employs an estimated 5.9 million workers in technical and non--technical positions. The second element of the IT workforce, IT occupations, consists of an estimated 5.04 million workers as of 2015 found in IT departments across businesses in every industry sector of the economy. Based on how 2015 data is tracking, the year could record the highest IT job growth rate in over a decade.

Like Most Industries in the U.S. Economy, the IT Sector is Dominated by Small Businesses



Shopify competes with same size companies but also eight-hundred pounds' gorillas such as oracle, SAP, and Adobe. Amon its small peers, the company ranks first in terms market share and revenues and market valuation.

Business Model

Shopify is a leading cloud-based e-commerce platform designed for small and mid-size businesses and some renown companies such as Budweiser, and Tesla. Service includes payment, shipping, web design, and back office functionality across the web, mobile devices, social media, brick-and-mortar locations, and pop-up shops. The company offers three separate plans for subscription options. The first is its Basic plan, which costs \$29 per month, and which comes with the ability to sell unlimited products, a card reader, a discount code engine, fraud analysis tools and 24/7 support.

The other two plans are the Professional plan, which costs \$79 a month, and its Unlimited plan, which costs \$179 a month. These plans come with the ability to sell gift cards, professional reports, an abandoned cart recovery, an advanced report builder and real-time carrier shipping. It also offers « merchant solutions » through merchant solutions, which includes revenues from payment processing fees from Shopify Payments, transaction fees, referral fees from partners and sales of POS hardware. In 2014, merchant solutions revenues accounted for 36.5% of total revenues. In the second quarter of 2015, Shopify made \$19.5 million from this segment.

To attract new customer, the company uses initiative such as offering a 20% commission to those who refer clients. Before going public, Shopify raised \$122 million in venture funding, most recently a \$100 million funding round from OMERS Ventures, Insight Venture Partners, Bessemer Venture Partners, FirstMark Capital, Georgian Partners and Felicis Ventures in December 2013. Once the company could find more investors and reached its maximum debt capacity it decided to go public to follow their growth and expansion strategy.

Financials

Financials

Fiscal	2008	2009	2010	2011	2012	2013	2014	2015	YTD	Q2	TTM
Revenue (Mil)	D	D	D	—	23.71	50.25	105.02	205.23	159.37	86.65	282.33
Operating Income (Mil)	D	D	D	—	-1.51	-4.27	-21.62	-17.76	-18.37	-8.66	-29.19
Operating Margin %	D	D	D	—	-6.38	-8.50	-20.58	-8.65	-11.53	-9.99	-10.34
Net Income (Mil)	D	D	D	—	-1.23	-4.84	-22.31	-18.79	-17.37	-8.44	-28.33

From 2012, revenues of the company increased by \$181.52 millions this represent a growth rate of 686%. This translate the continuous expansion of the firm, that is contracting more and more merchants. Although revenue kept on increasing, on the other hand operating income continued to decrease. As shown above the companies had had consecutive operating losses over the last 4 years. It means than operating expense are greater than sales, which is rather normal for a recent firm operating in the Internet Services and Software industry. This is again related to the company's will of expansion as Shopify must spend on Goodwill, Advertising and Selling General and Administration (SG&A) as well as Research and Development (R&D). The primary drivers of the net losses that Shopify has experienced since its inception are SG&A expenses and R&D expenses. Sales and marketing expenses account for 80% of SG&A and 34% of revenue. R&D is also quite high, accounting for 19% of revenue. A combined 53% of revenue is being absorbed by SG&A and R&D.

These are the same financial for the most threatening competitor, VIX:

Fiscal	2008	2009	2010	2011	2012	2013	2014	2015	YTD
Revenue (Mil)	D	D	D	24.60	43.68	80.47	141.84	203.52	130.32
Operating Income (Mil)	D	D	D	-22.36	-14.96	-26.53	-55.64	-48.64	-30.26
Operating Margin %	D	D	D	-90.89	-34.25	-32.96	-39.23	-23.90	-23.22
Net Income (Mil)	D	D	D	-22.74	-18.48	-31.68	-56.57	-51.33	-31.33

Sales growth are almost identical for VIX but the Operating loss is much bigger. This translate a poorer management on VIX end, as the company is clearly spending more without having the same levels of results yet. Plus, Shopify is currently two times more valued than VIX which only has a \$1.7b Market Cap.

Valuation

Valuing Shopify Inc is a limited to simple valuation data and analysis. The company's IPO was May 20, 2015 so a full year of financial data is not available or difficult to find. Shopify's market price on 4/15/16 by market close was \$30.97. With a 1-year target price of \$36.37, on the 10 /6/16 the price was at \$43.68 so an increase of \$12.71 which represent a 14% jump. This "under-the-radar" firm develops computer software for online stores and retail point-of-sale systems. It has solid, long-term earnings potential, carries almost no debt, is approaching EBITDA breakeven, and is a "buy" OR "outperform" among most of investment analysts. The company EBITDA is at -10.5 million so the this on appearance looks like a high reward high risk investment. The EBITDA margin is a - 6.82% versus and industry average at 12.54%. Regarding the fact this is a recent company it is a sign that the company growing and expanding and is not necessarily doing bad and the that investors should keep an eye on it. As a matter fact last reported levels of EBITDA for SHOP are more relative to one time charges by the means of the acquisition they did so far this year. In this sector more than any other small company have a lot more room and potential for growth than the big players that can only do worse. The historical sales growth for SHOP is at 79.1% and the last reported at 94.98%. the industry average for the revenue growth is at 24.92% which shows that SHOP is considerably doing better than competitors. This also means that the company is reinvesting all the cash they earn in order to expand, either by acquiring or developing products, and therefore chose not to sit on a pile of cash (Retained Earnings -47,854 in 2015). ROIC of the company is at -14.53% Trailing Twelve Month when the industry is at 10.92%.



In the case of an internet services based provider, a negative ROIC is actually a positive thing. Indeed this proves that the companies business model requires very little in hard assets and collects cash before providing services. Those are 2 very positive attributes.

Important Dates and Catalysts

Some of the Catalyst for the company are already in passive form. In other words, they already occurred in a recent past and are already anchored in the price. Nevertheless, this added strength and steadiness to the current price. The first one is the acquisition of Boltmade this week. Loren Padelford, VP of Shopify Plus said, "Shopify is committed to investing in talent. The acquisition of Boltmade will bring a strong group of designers and engineers to Shopify Plus. We're thrilled to have them join our team to help shape the future of commerce for larger merchants." Founded in 2013, Boltmade is a 21-person product-focused digital consulting firm that designs and builds software products for early stage startups to Fortune 500 companies. On the same day the stock price went up by 3% going to \$43.84 from \$42.34. In mid-April of the same year, SHOP purchased Kit-CRM. Founded in 2013, and seed funded by Technicolor Ventures and Visionnaire Ventures, Kit CRM created "virtual marketing tools" that could perform a variety of functions, including running targeted ads on Facebook and Instagram, post updates to company's Facebook pages, make recommendations to customers based on their store activities, and more.

Earnings Summary | Transcripts

Q2: 08-03-16	EPS of \$-0.04 beat by \$0.04	Revenue of \$86.65M (+92.9%) beat by \$6.02M	⤴
Q1: 05-04-16	EPS of \$-0.06 beat by \$0.03	Revenue of \$72.72M (+94.7%) beat by \$5.83M	⤴
Q4: 02-17-16	EPS of \$-0.01 beat by \$0.05	Revenue of \$70.17M (+99.5%) beat by \$8.97M	⤴
Q3: 11-04-15	EPS of \$-0.03 beat by \$0.03	Revenue of \$52.79M (+93.0%) beat by \$5.15M	⤴
Q2: 07-30-15	EPS of \$-0.03 beat by \$0.06	Revenue of \$44.90M (+89.6%) beat by \$6.80M	⤴

Furthermore, the company is soon to be releasing its Q3 Earning calls end of October, and as history is showing (Tab. above) the company is constantly beating estimates. If the company meets its guidance and beat estimates again, this would be a catalyst for an increase in price.

In December 2014 Amazon.com set a new standard for all its online retailers to use Shopify to monitor their boutiques and use the Shopify Payment. This represent a major move in the industry and gage of trust from well-established firms. Shopify store owners can simplify their checkout process for hundreds of millions of online shoppers. Instead of manually entering their payment and shipping information (which can be a real pain on mobile),

customers can now quickly checkout using the existing details in their Amazon account.

To finish the company is subject to rumors of a potential acquisition by gigantic firm Google. If the deal goes through the company will most likely double in value on the day of the announcement.

Summary

Shopify can do for online merchants what Salesforce.com has done for customer relationship management via the cloud. But there's a big difference, Salesforce has had difficulty making a profit from the beginning. That's not been a problem for Shopify, or at least less important. In its sector the company is clearly a best-in-class on almost every financial level ranging from Sales to Operating income. The strong allocation in SG&A and R&D are driving company's profit down but the outcomes are optimistic and its feasible to foresee a shiny future for the firm. On top of this, results are showing the efficiency of Shopify business and moreover its brilliant management. In this sector, Shopify looks the most attractive to investors seeking medium and long-term capital gain. Think of Shopify as a software company that enables online e-commerce growth. This is highly promising especially when we know that the sector is booming and expand a really fast pace. According to CNN Money, earnings growth for the next five years could be around 25%. This is built on Shopify's advantages over its competitors. Shopify may not grow revenues by more than 90% every quarter. However, what it will do is bring in solid recurring revenues, as more mature software companies like Adobe and SAP do.

As stated above the Analysts 1-yr target is in the \$45 to \$46 range. So this may not show an immediate entry point as the stock is supposedly on a top at current level of \$44.36, but running my analysis shows me that the target price should rather be in the \$50.00 range. I would recommend this stock .

Shopify Inc. (SHOP)

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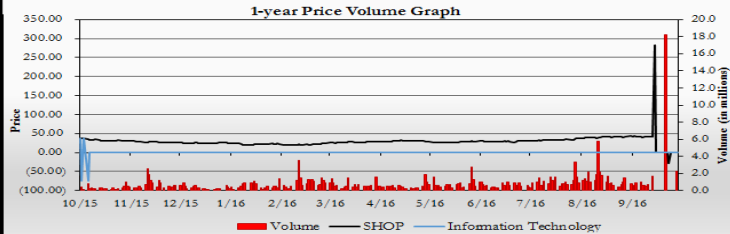
NEUTRAL

Analysis by P.C. Principal
10/7/2016

Current Price: **\$44.28**
Dividend Yield: **0.0%**

Intrinsic Value
Target Price: **\$50.00**

#VALUE!
Target 1 year Return: **12.92%**
Probability of Price Increase: **90.8%**



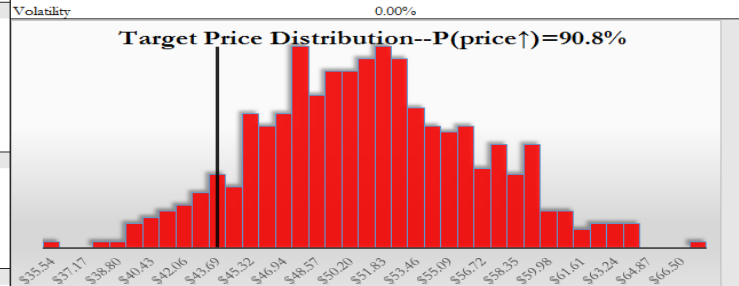
Description
Shopify Inc. provides a cloud-based and multi-channel commerce platform for small and medium-sized businesses.

General Information
Sector: Information Technology
Industry: Internet Software and Services
Last Guidance: November 3, 2015
Next earnings date: November 3, 2016
Estimated Country Risk Premium: 6.66%
Effective Tax rate: 35%
Effective Operating Tax rate: 35%

Market Data	
Market Capitalization	\$3,882.14
Daily volume (mil)	0.18
Shares outstanding (mil)	88.88
Diluted shares outstanding (mil)	79.06
% shares held by institutions	49%
% shares held by investments Managers	28%
% shares held by hedge funds	10%
% shares held by insiders	21.99%
Short interest	1.78%
Days to cover short interest	1.48
52 week high	\$45.20
52-week low	\$18.48
Levered Beta	1.00
Volatility	0.00%

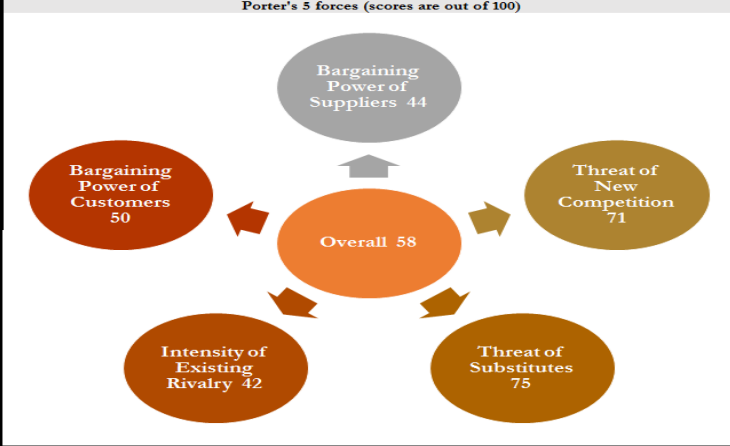
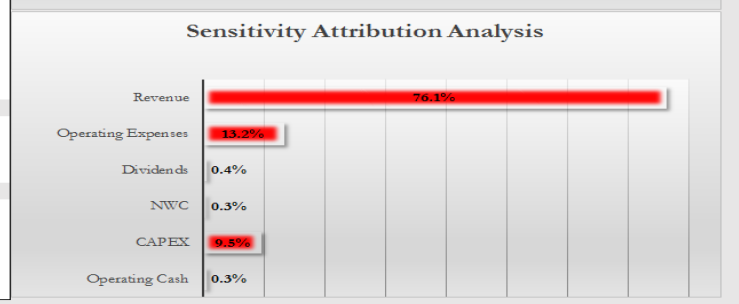
Quarter ending	Revenue	EBITDA
6/30/2015	17.22%	-178.52%
9/30/2015	9.97%	-209.18%
12/31/2015	9.80%	-9977.97%
3/31/2016	7.11%	-309.77%
6/30/2016	6.54%	-320.50%
Mean	10.13%	-2199.19%
Standard error	1.9%	1944.9%

Management	Position	Total compensations growth	Total return to shareholders
Lutke, Tobias	Founder, Chairman and Chief	N/M	N/M
Weinand, Daniel	Co-Founder, Chief Design Off	N/M	N/M
Jones, Russell	Chief Financial Officer	N/M	N/M
Finkelstein, Harley	Chief Operating Officer	N/M	19.22% per annum over 1y
Miller, Craig	Chief Marketing Officer	N/M	N/M
Keita, Katie	Director of Investor Relatio	N/M	N/M



Profitability	SHOP (LTM)	SHOP (4 years historical average)	Industry (LTM)
ROIC	8.2%	57.62%	15.21%
NOPAT Margin	5%	#DIV/0!	18.8%
Revenue/Invested Capital	1.59	#DIV/0!	0.81
ROE	4.7%	65.04%	16.34%
Adjusted net margin	5%	#DIV/0!	17.6%
Revenue/Adjusted Book Value	0.91	#DIV/0!	0.93

Invested Funds	SHOP (LTM)	SHOP (4 years historical average)	Industry (LTM)
Total Cash/Total Capital	48.5%	64.6%	74%
Estimated Operating Cash/Total Capital	14.4%	15.3%	N/A
Non-cash working Capital/Total Capital	-9.1%	-9.6%	-14%
Invested Capital/Total Capital	66.1%	72.6%	43%



Period	Revenue growth	Invested Capital
Base Year	95.0%	\$0.00
6/30/2017	47.5%	\$12.86
6/30/2018	23.7%	\$45.27
6/30/2019	11.9%	\$98.79
6/30/2020	5.9%	\$177.14
6/30/2021	4.1%	\$244.50
6/30/2022	4.1%	#VALUE!
6/30/2023	4.1%	#VALUE!
6/30/2024	4.1%	#VALUE!
6/30/2025	4.1%	#VALUE!
6/30/2026	4.1%	#VALUE!
Continuing Period	4.1%	#VALUE!

Valuation	NOFAT margin	ROIC/WACC
Base Year	5.2%	0.77
6/30/2017	32.3%	5.32
6/30/2018	30.1%	#VALUE!
6/30/2019	28.3%	#VALUE!
6/30/2020	26.8%	#VALUE!
6/30/2021	26.0%	#VALUE!
6/30/2022	25.4%	#VALUE!
6/30/2023	25.2%	#VALUE!
6/30/2024	25.1%	#VALUE!
6/30/2025	25.3%	#VALUE!
6/30/2026	25.4%	#VALUE!
Continuing Period	26.8%	#VALUE!