

# Shopify (SHOP): Recommendation: BUY

**Thesis:** Shopify exhibits four common characteristics of a powerful growth stock: (1) The ability to disrupt an enormous total addressable market (TAM), (2) misunderstanding and fear by short-sighted Wall Street analysts, (3) a competitive advantage, and (4) significant and attractive inside ownership.

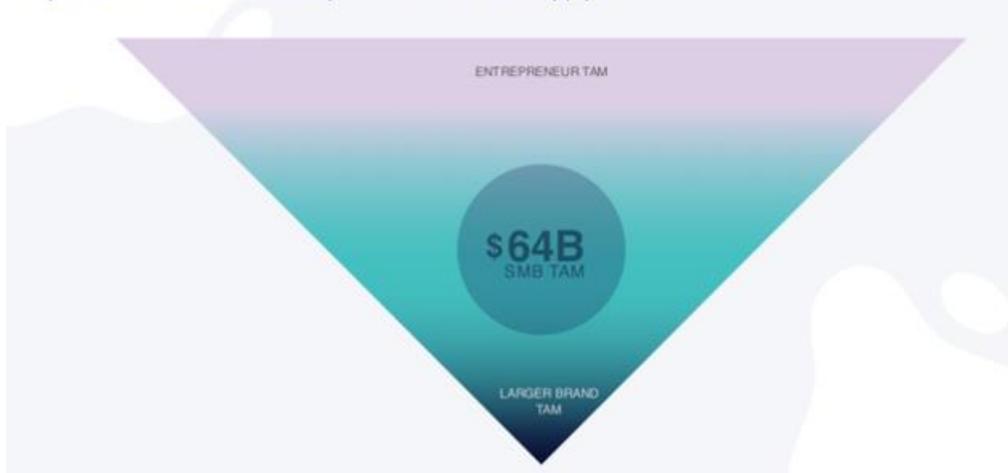
**Overview:** Shopify operates a cloud-based commerce platform designed for small and medium-sized entrepreneurs. Its software is used to run a business across all sales channels, including web, tablet and mobile storefronts, social media storefronts, and brick-and-mortar and pop-up shops. Its business has been growing rapidly.



**1. Large TAM:** Retail is changing. What was once “brick and mortar” is now a combination of websites, smart phones, social media, apps, and brick & mortar stores. Shopify helps merchants exist across all of these channels, and the TAM is enormous.

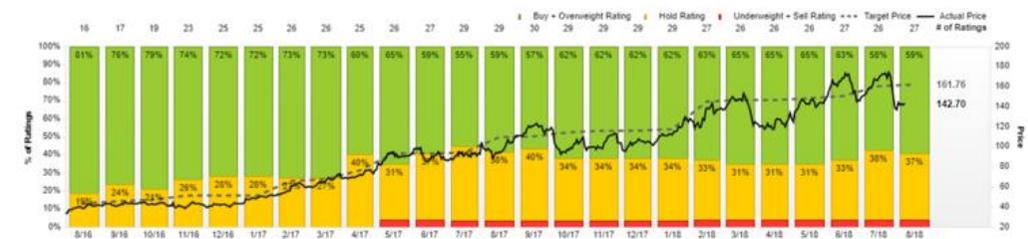
## Total Addressable Market

Anyone who wants to make more money from their site than what they pay for it



**2. Misunderstanding and Fear (Short-Sighted Wall Street Analysts):** Wall Street analysts are notoriously short-sighted, and they chronically underestimate the long-

term growth potential of disruptors like Shopify because the high short-term valuation metrics scare them when inappropriately compared to the same metrics for non-disruptor companies.



**3. Competitive Advantage:** At this point, Shopify does not have any direct competition, and the company has a big first mover advantage. Per Shopify’s CEO during the most recent quarterly call, Adobe’s (ABDE) Magento is the closest thing to competition right now, but it’s not really even close to a threat:

*“Adobe is a company I admire greatly. They have a lot of free cash flow. If they are willing to pump it all in, or much of it into Magento, maybe something interesting could come out of it. I would actually frankly welcome a strong competitor of some kind, because it’s usually good for markets if people compete... There’s no one else who sort of at least looks a little bit dangerous. So, that might be fun for everyone, I don’t know. I can probably keep going and talk about another 50 irrelevant things about Magento. I think the main message is, I don’t think it matters much.”*

**4. Attractive Inside Ownership:** There is a high level of inside ownership at Shopify (11.6% of the shares), and the founder CEO, Tobias Lütke, owns 6.9% of the shares. Shopify was founded in 2004 by Lütke, Daniel Weinand (0.85%), and Scott Lake after attempting to open Snowdevil, an online store for snowboarding equipment.

**Risks:** Big risks for Shopify are volatility and short interest (11.1%). The short-term price can fluctuate widely, depending on the anticipated rate of growth. In the long-term, the business is improving.