



shopify

Senior Analyst: Matt DeVellis

Junior Analyst: Spencer Johnson

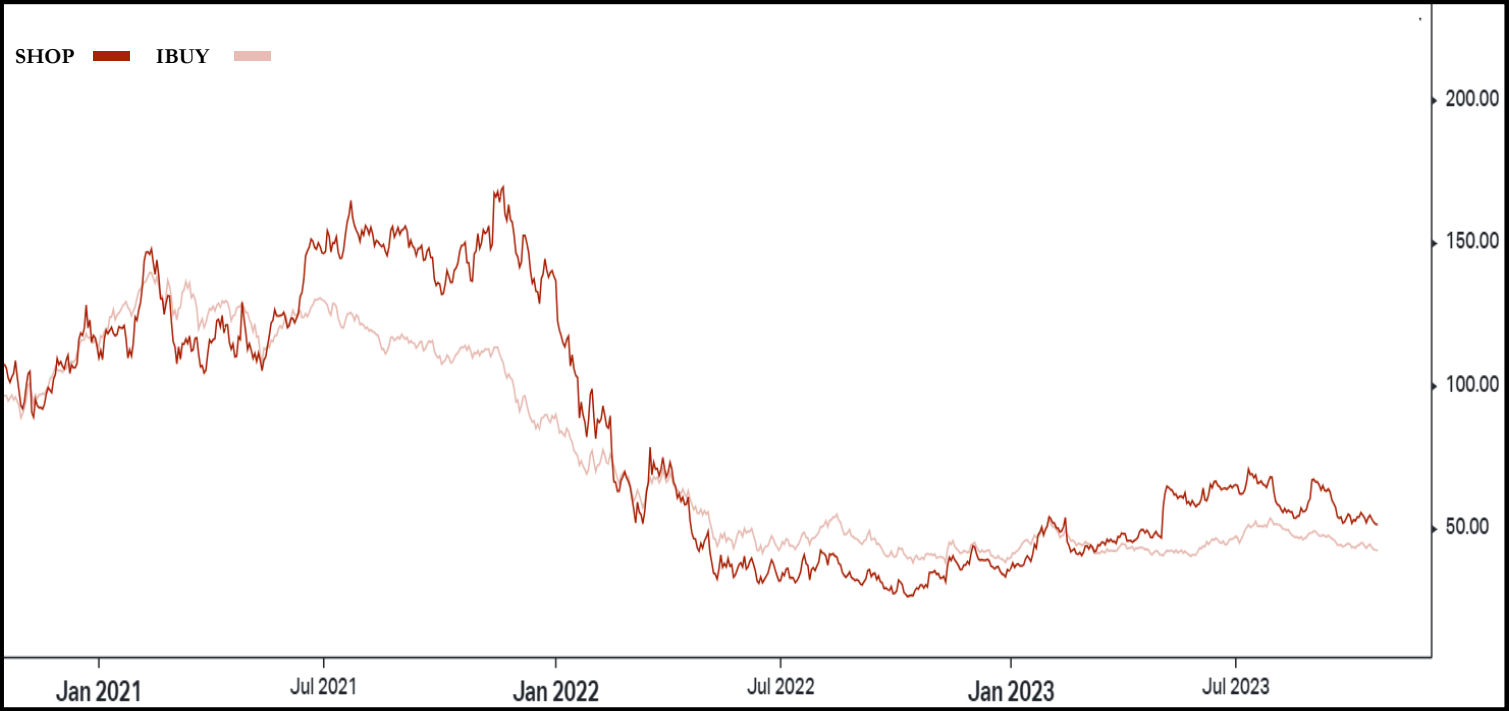
October 2023

We recommend a long position in Shopify Inc. with a 33.99% upside based on a \$65.37 target with a timeframe of ~1 year. Our bull case has an upside of 49.18% and our bear case has a downside of 15.54%

Company Background



Shopify Inc. is a Canadian **e-commerce platform** that operates in **175 countries** throughout the world. Its services are used by over **2 million merchants** and allows merchants of any size to **start, manage, and scale a business**. Shopify offers a wide variety of subscription plans and tools that allow merchants to create a unique and **highly customizable store** that facilitates sales and optimized efficiency



Stock Price	\$48.79
Market Cap*	\$68,405
LTM Revenue*	\$6,303
Adjusted EBITDA*	\$(2,238.35)
Diluted EPS	\$(1.68)
Shares Outstanding*	1,204

**All numbers are represented with TTM data and in millions (\$) except for EPS*

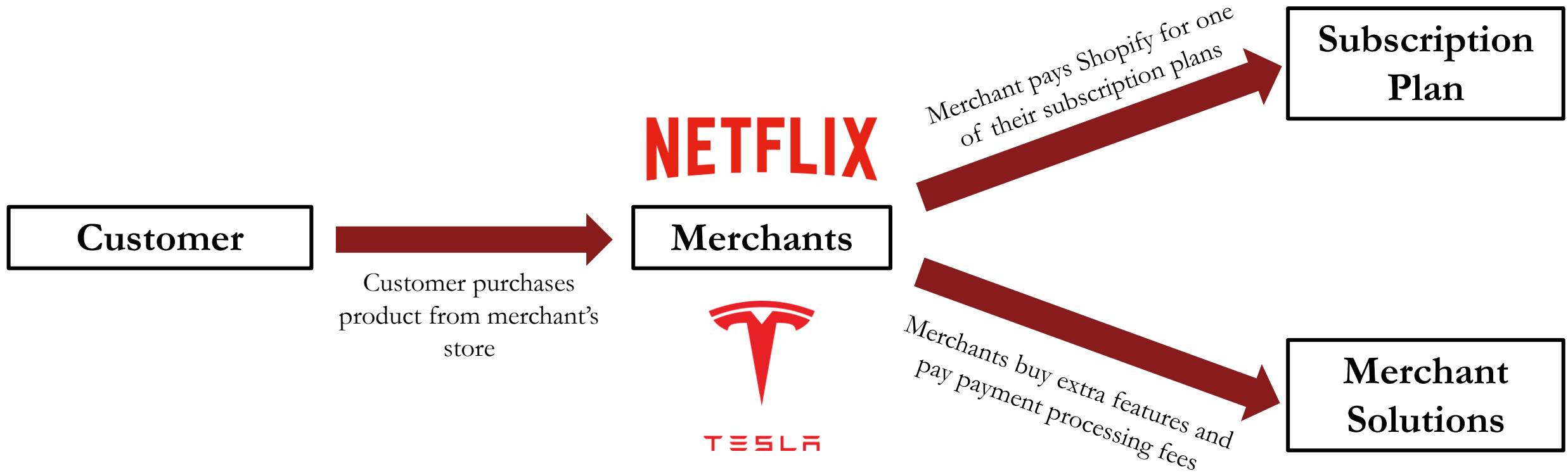
Comparable Companies



All numbers displayed in \$M (except per share data)

Ticker	Name	Market Cap	EV	LTM			Valuation			Ests
				Revenue	SBC	P/E	EV/NTM Revenue	EV/NTM FCF	EV/NTM EBITDA	
SHOP	SHOPIFY INC - CLASS A	\$65,645.33	\$79,357.33	\$6,303.18	\$403.62	93.98x	11.41x	122.78x	138.45x	-9.19x
E-Commerce Solutions										
GLBE	GLOBAL-E ONLINE LTD	\$5,748.87	\$6,523.44	\$496.36	\$29.96	-39.88x	11.11x	93.4x	72.24x	-4.59x
WIX	WIX.COM LTD	\$4,753.52	\$4,484.87	\$1,464.90	\$213.12	20.74x	2.89x	28.73x	20.62x	-2.74x
SQSP	SQUARESPACE INC - CLASS A	\$3,991.95	\$4,611.94	\$931.07	\$85.41	31.21x	4.64x	21.57x	20.08x	.1x
BIGC	BIGCOMMERCE HOLDINGS-SER 1	\$709.36	\$800.57	\$292.02	\$33.44	-87.35x	2.61x	-49.36x	-118.71x	4.14x
LQDT	LIQUIDITY SERVICES INC	\$594.49	\$501.17	\$309.71	\$4.09	21.35x	2.07x	11.43x	11.26x	-4.09x
Average		\$3,159.64	\$3,384.40	\$698.81	\$73.20	-10.79x	4.66x	21.15x	1.1x	-1.44x
Median		\$3,991.95	\$4,484.87	\$496.36	\$33.44	20.74x	2.89x	21.57x	20.08x	-2.74x
Payment Processing										
Basket 1: Large Cap										
FI	FISERV INC	\$67,362.45	\$100,084.65	\$18,452.00	\$255.17	14.74x	5.51x	26.09x	12.42x	2.5x
PYPL	PAYPAL HOLDINGS INC	\$58,624.22	\$74,844.46	\$28,556.00	\$1,165.59	10.64x	2.52x	15.64x	10.09x	-7.1x
FIS	FIDELITY NATIONAL INFO SERV	\$29,860.26	\$49,925.40	\$14,574.00	\$169.85	8.34x	3.41x	15.97x	8.16x	2.68x
GPN	GLOBAL PAYMENTS INC	\$28,893.12	\$42,015.92	\$9,283.27	\$129.01	10.63x	4.84x	18.61x	9.72x	2.5x
SQ	BLOCK INC	\$26,831.15	\$39,117.59	\$19,691.53	\$807.97	26.98x	1.81x	51.01x	25.74x	-3.58x
FLT	FLEETCOR TECHNOLOGIES INC	\$17,675.82	\$24,062.86	\$3,626.12	\$87.24	13.95x	6.32x	14.83x	11.83x	2.19x
BILL	BILL HOLDINGS INC	\$10,767.17	\$11,702.41	\$1,058.47	\$312.28	46.96x	8.98x	59.14x	64.18x	-12.97x
Average		\$34,287.74	\$48,821.90	\$13,605.91	\$418.16	18.89x	4.77x	28.75x	20.3x	-1.05x
Median		\$28,893.12	\$42,015.92	\$14,574.00	\$255.17	13.95x	4.84x	18.61x	11.83x	2.19x
Basket 2: SMID Cap										
TOST	TOAST INC-CLASS A	\$9,416.43	\$11,066.30	\$3,318.00	\$184.07	-41.84x	2.87x	255.69x	330.29x	-42.23x
WEX	WEX INC	\$8,064.18	\$9,717.80	\$2,468.04	\$77.07	12.68x	3.85x	16.35x	9.04x	-4.3x
FOUR	SHIFT4 PAYMENTS INC-CLASS A	\$4,152.97	\$6,760.88	\$2,269.00	\$39.18	13.36x	7.05x	26.3x	15.12x	.65x
FLYW	FLYWIRE CORP-VOTING	\$3,349.93	\$3,137.99	\$347.51	\$23.90	-209.38x	8.27x	337.27x	85.01x	-18.35x
MQ	MARQETA INC-A	\$2,833.40	\$1,229.91	\$843.88	\$126.99	-11.8x	1.89x	-6.85x	-47.95x	99.9x
PAGS	PAGSEGURO DIGITAL LTD-CL A	\$2,481.66	\$2,599.53	\$3,019.80	\$19.53	4.73x	.83x	31.39x	3.97x	-1.38x
PAY	PAYMENTUS HOLDINGS INC-A	\$1,834.18	\$850.65	\$497.00	\$5.32	17.67x	1.41x	40.72x	19.41x	-6.48x
Average		\$4,590.39	\$5,051.87	\$1,823.32	\$68.01	-30.65x	3.74x	100.13x	59.27x	4.53x
Median		\$3,349.93	\$3,137.99	\$2,269.00	\$39.18	4.73x	2.87x	31.39x	15.12x	-1.38x
Marketplaces										
MELI	MERCADOLIBRE INC	\$58,591.89	\$60,168.78	\$12,144.00	\$0.79	57.65x	4.35x	29.76x	25.01x	-.29x
JD	JD.COM INC-ADR	\$38,313.38	\$40,358.86	\$153,910.17	\$1,093.91	7.55x	.27x	12.86x	7.21x	-6.57x
CPNG	COUPANG INC	\$31,483.08	\$29,244.42	\$22,066.53	\$207.19	55.84x	1.22x	26.23x	28.62x	-5.46x
EBAY	EBAY INC	\$21,690.74	\$27,562.77	\$9,940.00	\$403.04	9.76x	2.72x	13.4x	8.68x	.41x
ETSY	ETSY INC	\$7,983.60	\$11,740.31	\$2,671.46	\$182.40	20.02x	4.27x	18.41x	15.73x	.56x
W	WAYFAIR INC- CLASS A	\$5,086.84	\$10,133.82	\$11,886.00	\$416.33	-22.71x	.83x	-75.92x	40.43x	6.49x
Average		\$27,191.59	\$29,868.16	\$35,436.36	\$383.94	21.35x	2.28x	4.12x	20.95x	-.81x
Median		\$26,586.91	\$28,403.59	\$12,015.00	\$305.12	14.89x	1.97x	15.9x	20.37x	.06x

Merchant Lifecycle

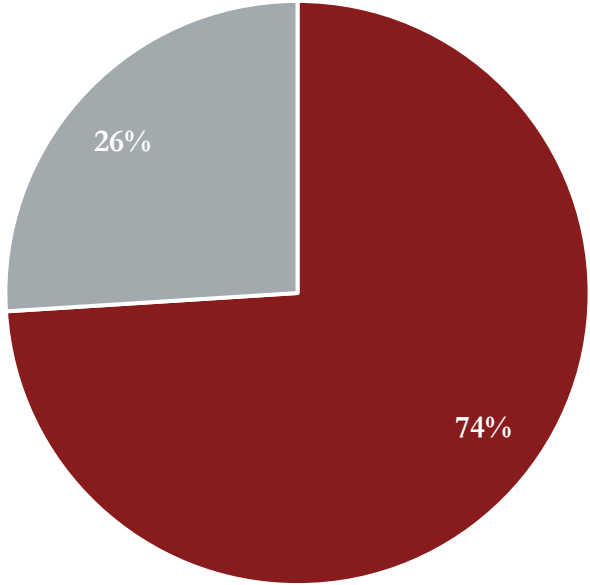




Revenue Breakdown

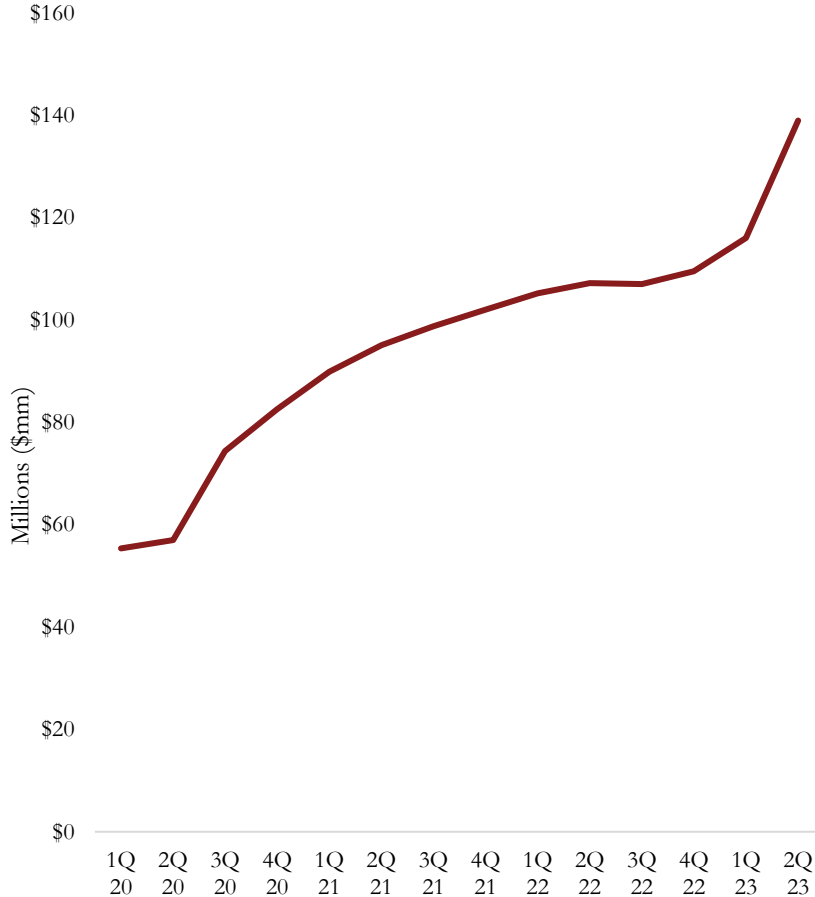


Revenue Split



■ Merchant Solutions ■ Subscription Solutions

MRR (Monthly Recurring Revenue)



GMV (Gross Merchandise Volume)

GMV represents the **dollar amount of orders** that are facilitated and powered by Shopify. Shopify Payments processing fees for every purchase are **based on a percentage of the dollar amount processed**

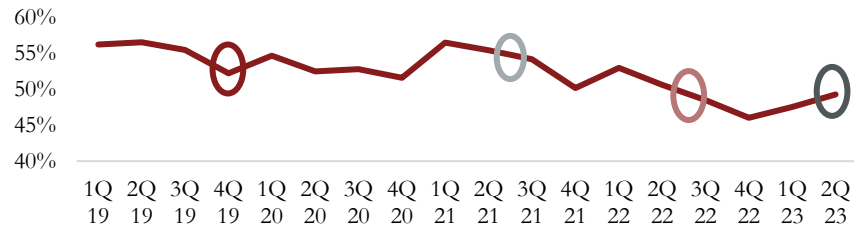
GPV (Gross Payment Volume)

GPV is simply the amount of GMV **processed through Shopify Payments**. Shopify charges transaction fees for payments **not processed through Shopify Payments**. Transaction fees to Shopify are based on a percentage of GMV

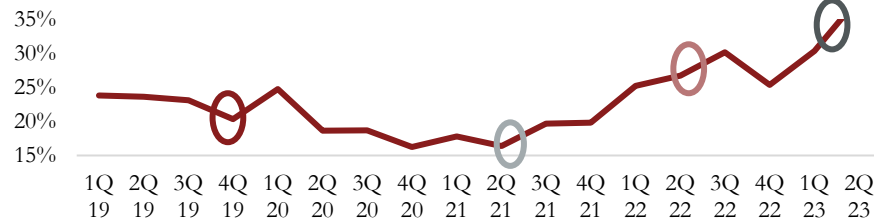
Deliverr Didn't Deliver



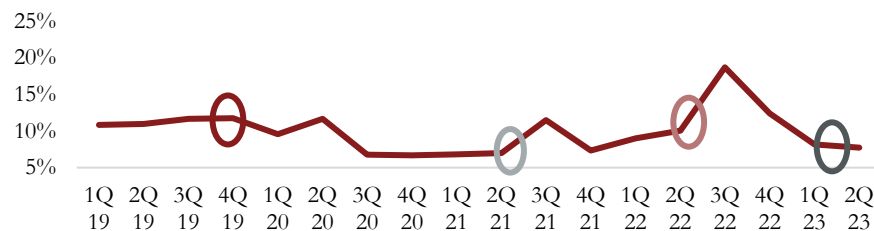
Gross Margin



R&D Margin



SGA Margin



Acquisition of 6 River Systems, a warehouse robot manufacturer, for \$450mm

September 2019

Shopify invests in Swyft, a digital logistics startup

April 2021

Divestiture of Deliverr and 6 River Systems, resulting in a \$1.3bn impairment fee

May 2023

Purchase of Deliverr, an e-commerce fulfillment startup, for \$2.1bn (80% Cash & 20% Equity)

May 2022

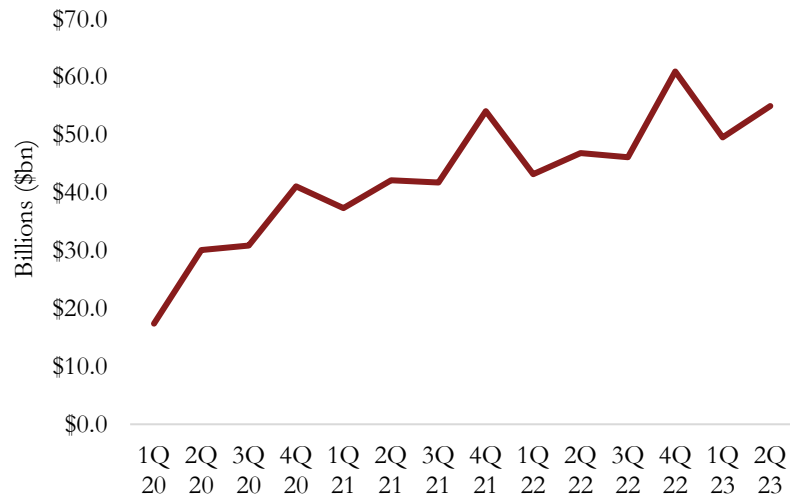
“In order to adapt and stay at the forefront of commerce, Shopify **must operate with even greater speed and efficiency**. So we are **making changes** and **refocusing the priorities** that we believe will get Shopify to the size and the shape necessary to unlock the next era of growth and innovation, but that does not make this earnings call any easier”

— Harley Finkelstein, President, Q1 23 Earnings Call

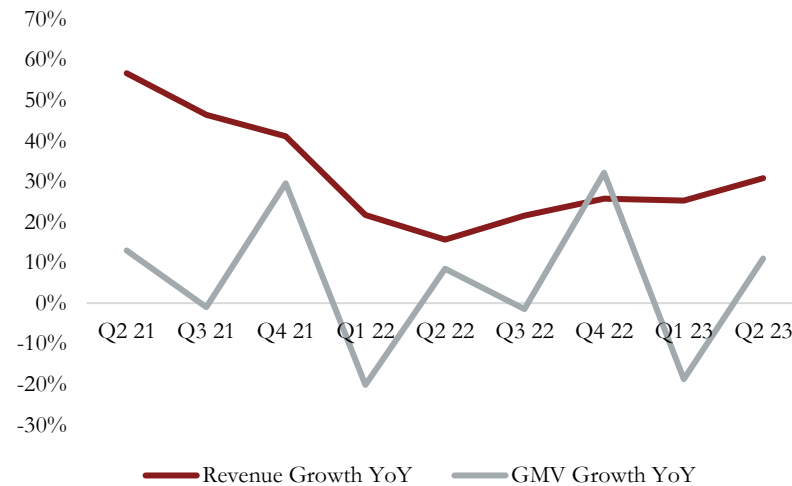
Giant GMV Growth



Historical GMV



Revenue Growth vs. GMV Growth



Increased payments penetration
as a % of GMV



20% of Q2 23 GMV,
+37% YoY



GMV is arguably the **single largest driver** of Shopify's stock, and has sustained **continuous growth** in spite of headwinds from the end of the pandemic & e-commerce boom

Shopify has been able to consistently **boost revenue above GMV growth** through their subscriptions, showing their ability to capture value **in the face of GMV fluctuations**



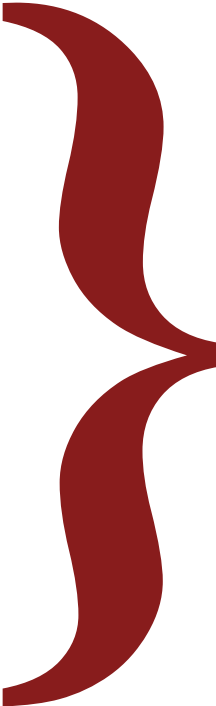
Mitigates one of Shopify's largest risks



Creates a new avenue for GMV growth



Uniqueness of a Shopify store with Amazon logistics

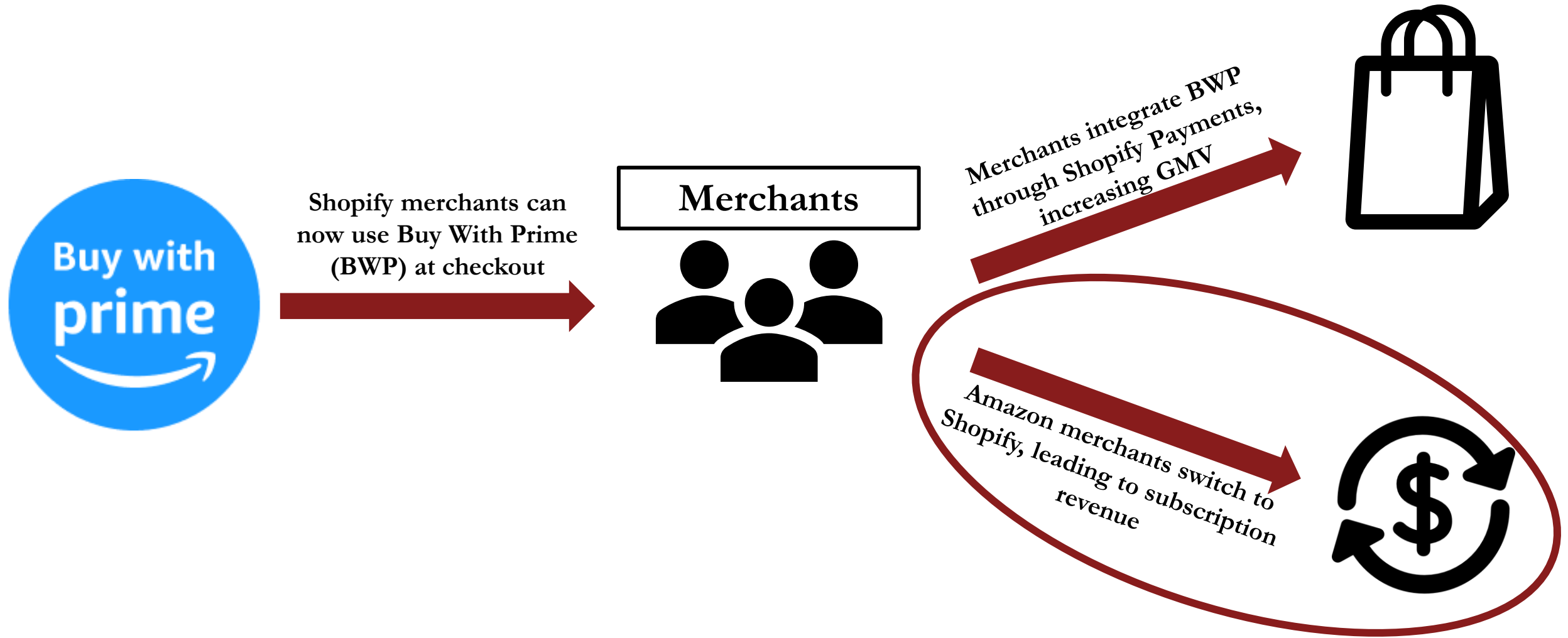


Shopify retains brand and payment processing

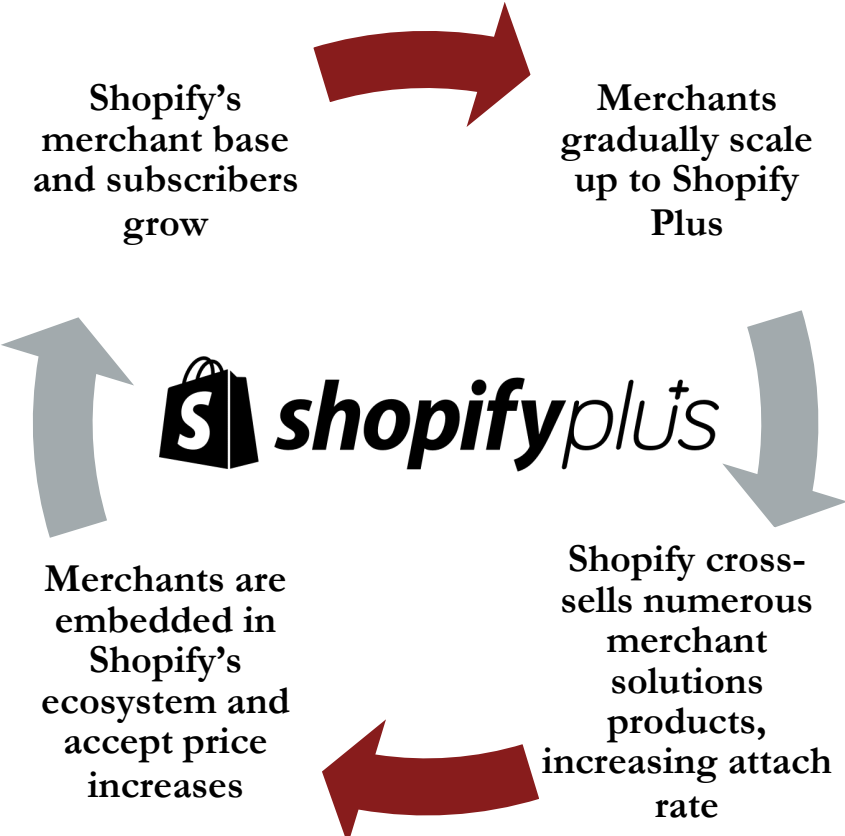
15% of App Store Sales after 1st \$1mm

Access to millions of Amazon customers' data

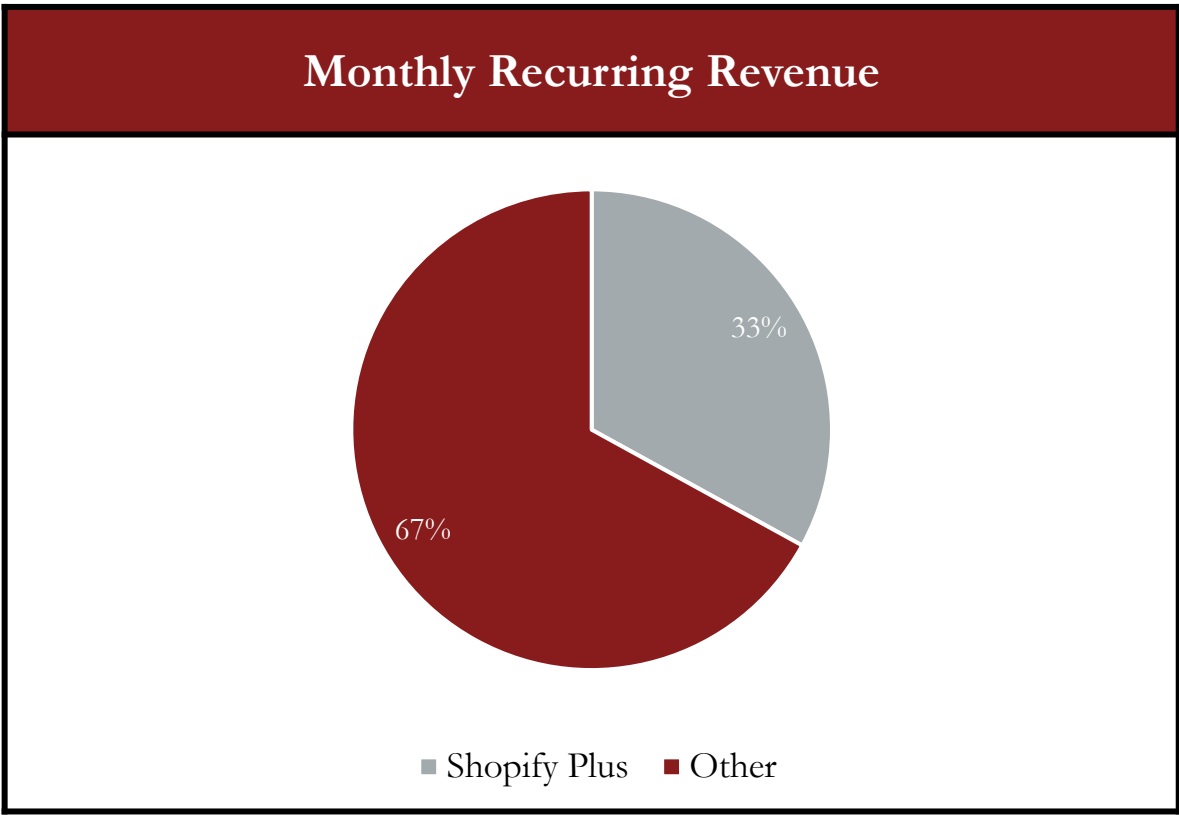
Merchant Lifecycle After BWP



Plus-Sized Growth

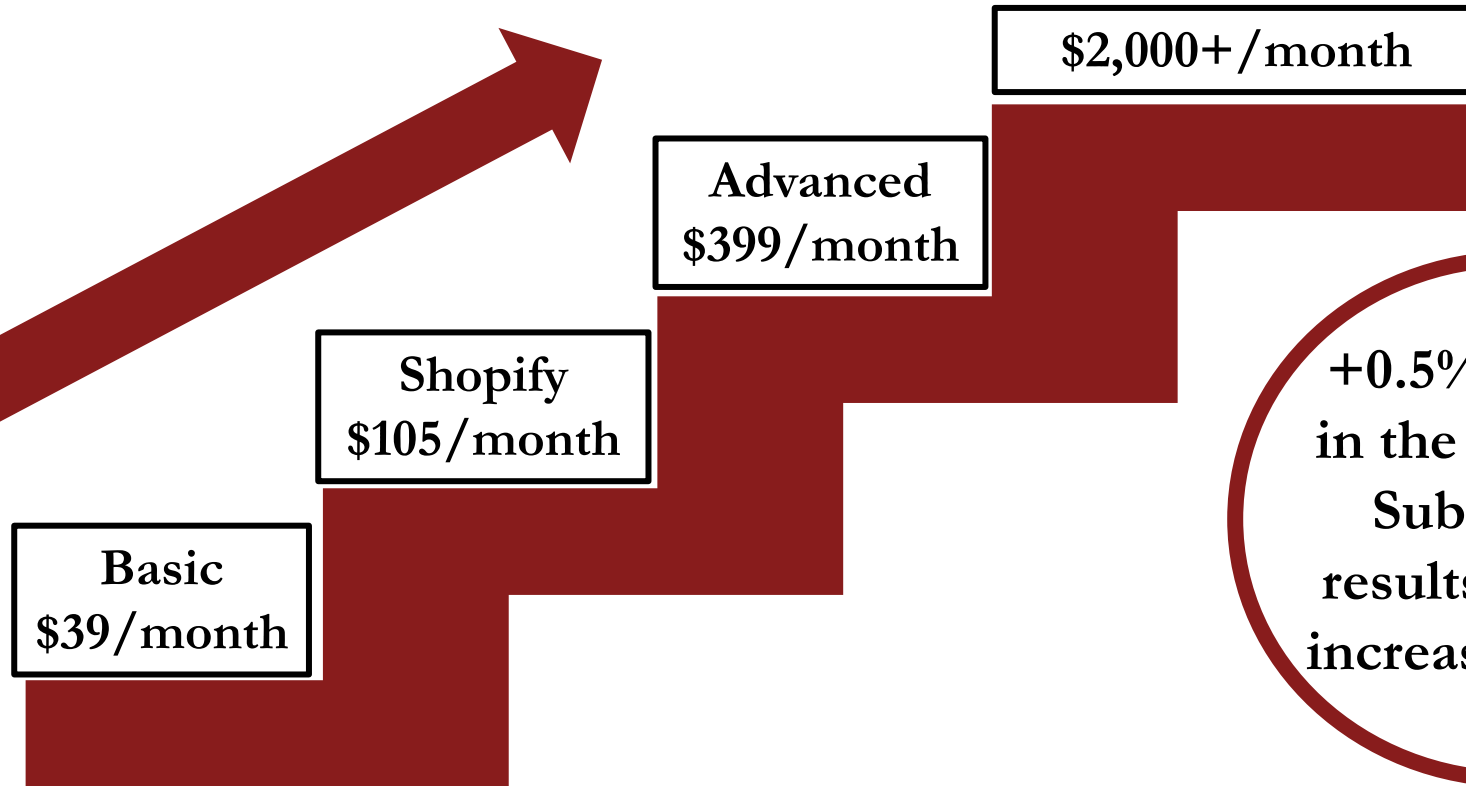
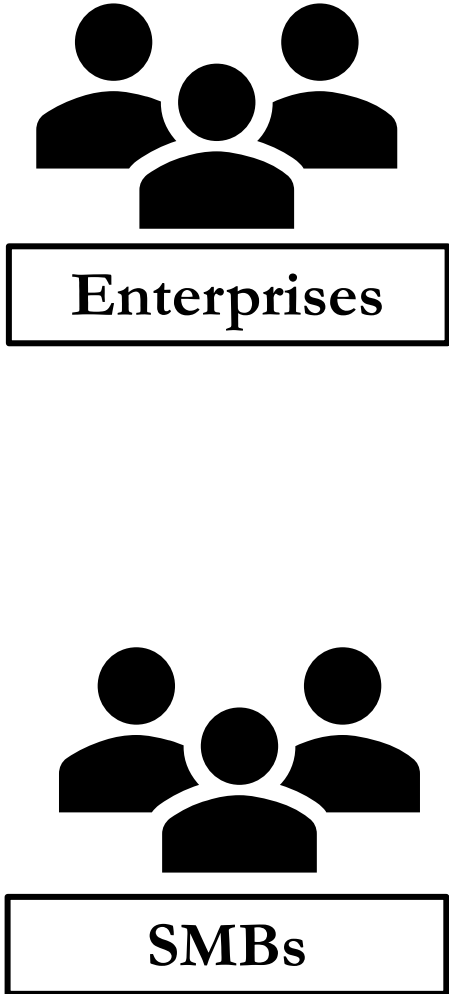


“We are seeing our merchants **continue to remain** on the platform rather than **using the price change to move off-platform**” — Jeff Hoffmeister, CFO, Q2 23 Earnings Call



Despite making up roughly **1%** of Shopify merchants, Plus subscribers make up **33%** of Shopify's **Monthly Recurring Revenue** and **55-60%** of **GMV**

The Power of Plus



+0.5% increase
in the % of Plus
Subscribers
results in a 38%
increase in MRR

Data-Driven Approach



Shopify Audiences

- Helps merchants lower CAC through **targeted advertising** campaigns towards high-intent buyers **using Shopify end-user data**
- The Shopify Audiences app utilizes algorithms **powered by millions of commerce insights** from participating Shopify merchants



New user data from Amazon customers and merchants will **enhance both demand and the algorithm** itself substantially

“In fact, our data suggests that **Audiences is now a key reason merchants choose to upgrade to Plus**, averaging just over a week from upgrade to install of the product” — Harley Finkelstein, President, Q1 23 Earnings Call

More Than Just E-Commerce



- POS Pro **subscription** is \$89/month **per location**
- Already offers POS systems for **over 1,000 locations**
- Helps attract **brick-and-mortar** as well as **omnichannel merchants**
- Likely to be adopted by **enterprise Plus subscribers**



- Introduced Shopify Collective this July, **exclusive to Plus**
- B2B GMV has grown **61% 1H 23**
- Announced **partnership with wholesaler Faire** on September 27th, 2023
- Attracts merchants that **only serve B2B**

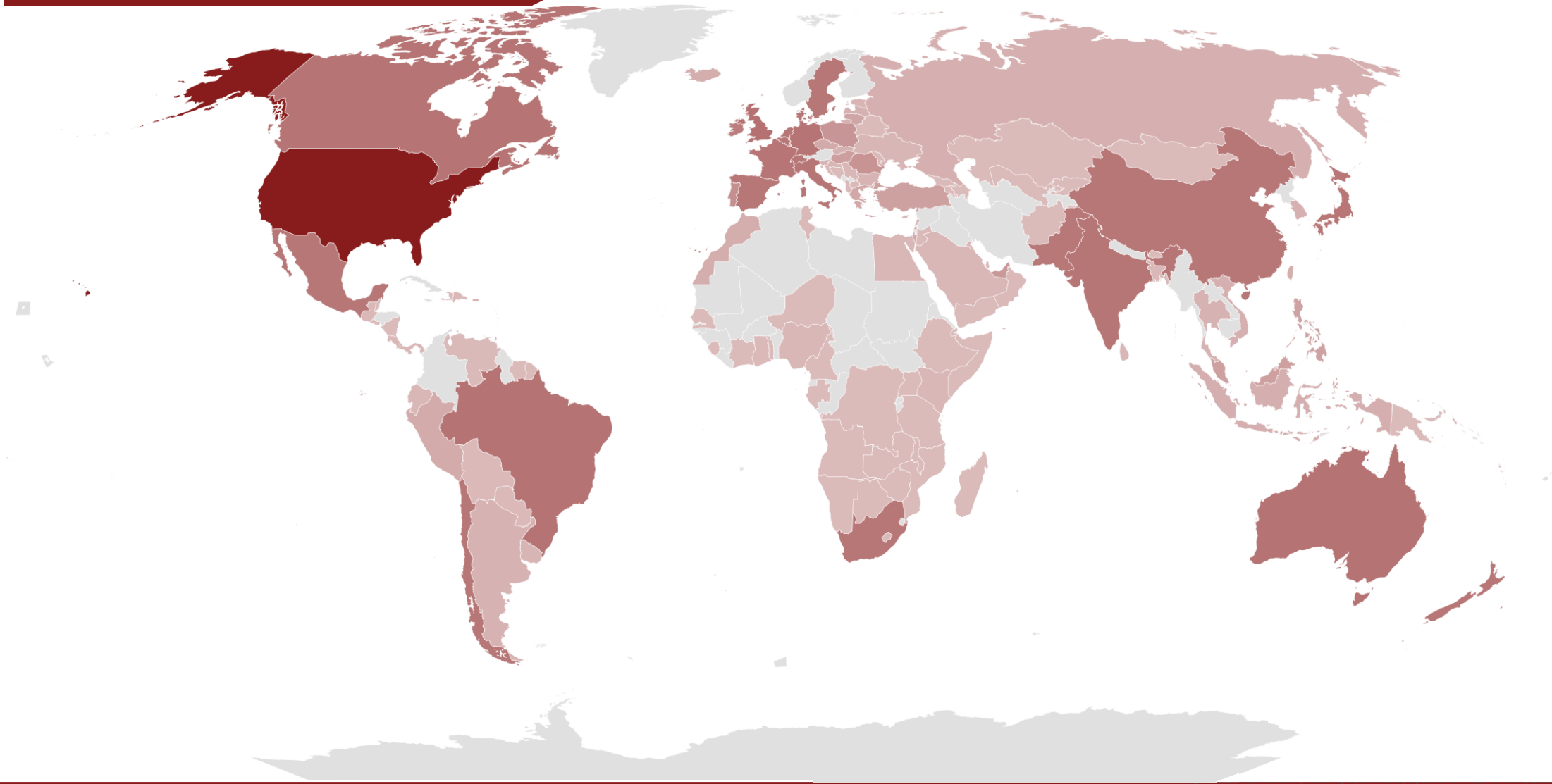
POS Retailers with 20+ locations



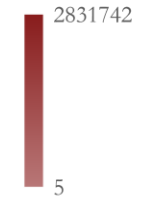
70% Through Shopify Payments

“Offline GMV increased **23% year-over-year** as we won **larger multi-location merchants across the 14 countries** [...] our deep investment in our point-of-sale platform coupled with transformation in our go-to-market process are enabling us to sell our retail offering more effectively, **especially with larger merchants**”
—Harley Finkelstein, President, Q2 23 Earnings Call

Merchant Geographic Footprint



Number of Shopify Websites

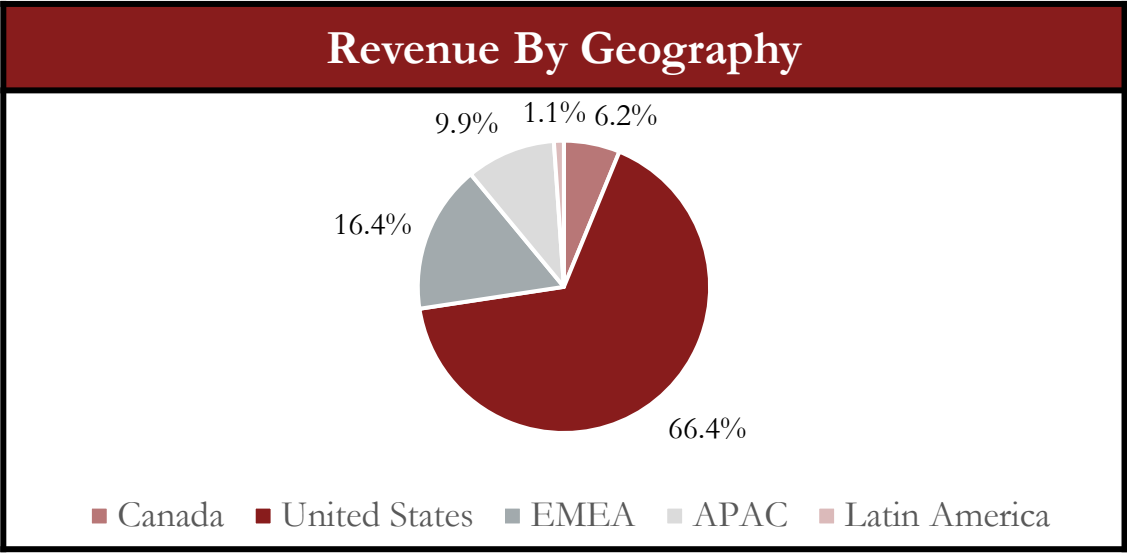




9% take rate for Markets Pro (6.5% service fee + 2.5% FX fee), substantially improving GPV

Markets and Markets Pro only makes up **15% of GMV**, with Markets Pro still in early access

Partner Global-E handles **cross-border sales** through tax & duty compliance, currency conversion, shipping, etc.

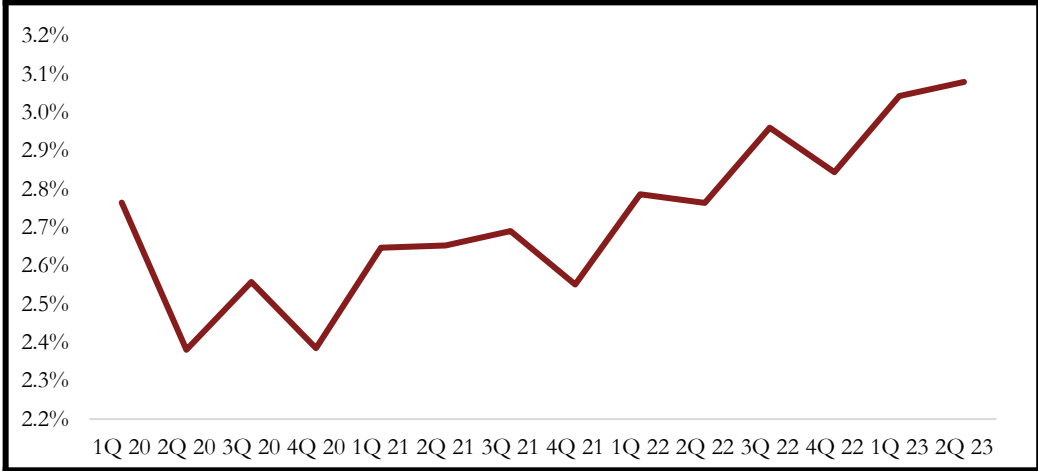


“In the **EMEA** region, the rate of **new merchant growth** continues to **surpass that of North America**, contributing to the strong growth we witnessed in Europe in the quarter. This was led by Germany, France, Spain, and Italy, all of which **experienced GMV growth exceeding 40%**”
– Harley Finkelstein, President, Q2 23 Earnings Call

Attach Rate Advantage



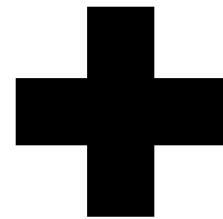
Attach Rate



What is Attach Rate?

- Attach rate is defined as **revenue divided by GMV** for the total period
- A **higher attach rate** essentially means that **merchants are spending more** on the platform relative to **the same amount of sales volume**
- **Will gradually increase** given Shopify's **new products** and **merchant's growing dependence** on them

Merchants
grow
dependent on
Shopify's
infrastructure

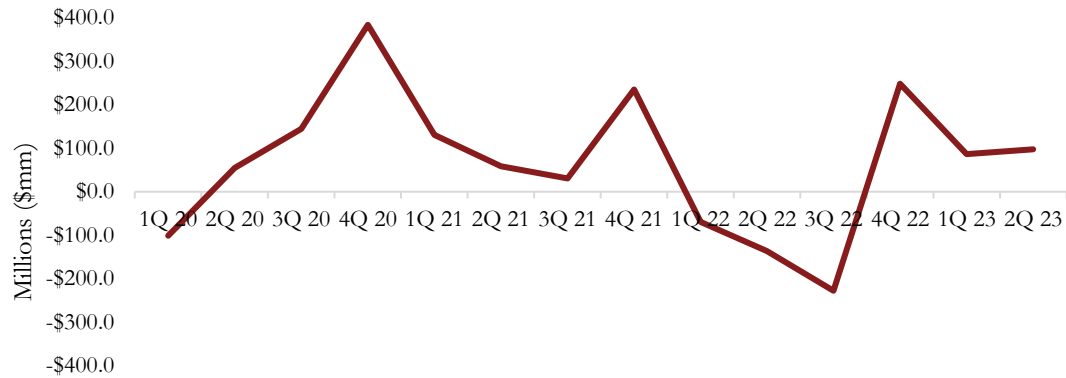


Shopify
continually
offers more
merchant
solution
products



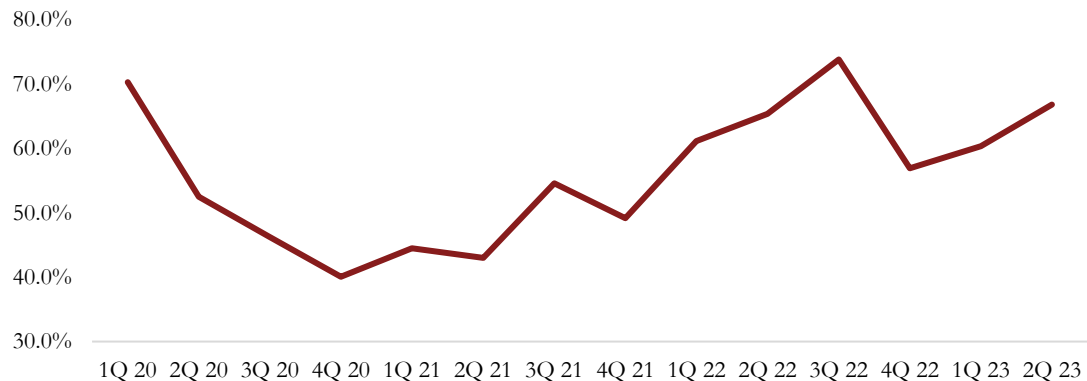
Attach rate
increases

Free Cash Flow



“Our focus on operating expenses remains unwavering and our free cash flow generation continues to **strengthen**, now a three consecutive quarters of positive free cash flow [...] [we will be able to] deliver a business model that achieves a compelling **combination of growth, operating leverage, and free cash flow generation**”
 – Jeff Hoffmeister, CFO, Q2 23 Earnings Call

Total Operating Expenses (as a % of Revenue)



“Our goal is to, as I alluded to, when we were talking about operating expenses continue to make sure that we stand with [...] the **10% sequential decline in operating expenses and a 12% sequential increase in revenue**, [...] we can sustain that going forward and continue to **make sure we're doing as much as we can with every OpEx dollars**”
 – Jeff Hoffmeister, CFO, Q2 23 Earnings Call

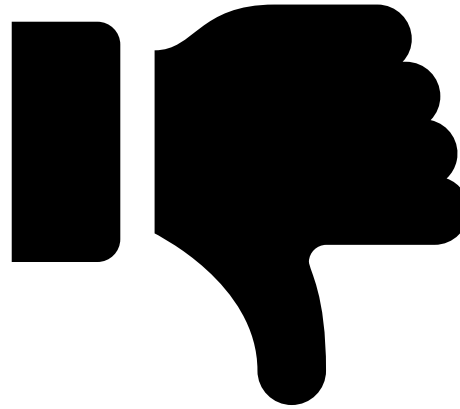
Risks & Mitigants



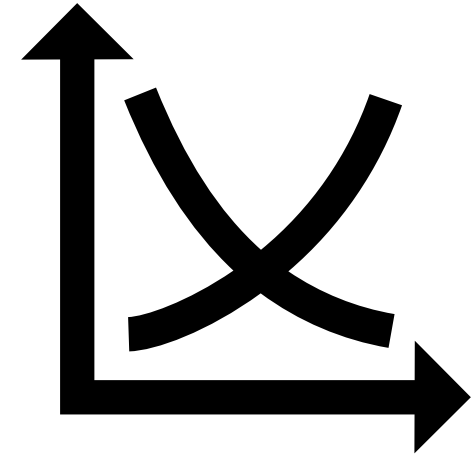
Weak Macro Environment



Failed Adoption of Merchant Solutions



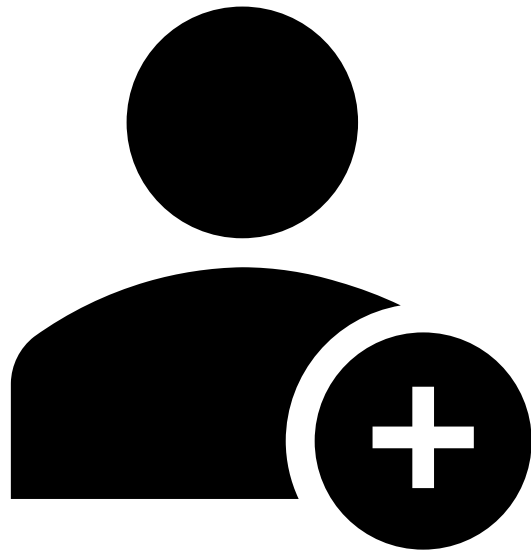
Increased Sensitivity to Price Changes



Thesis Recap



Heightened Subscription Revenue



Merchant Stickiness & Low Churn



International Expansion



DCF Valuation



Discounted Cash Flow	Entry	2023	2024	2025	2026	2027	2028	Exit
<i>Date</i>	11/1/2023	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2028
<i>Year Fraction</i>		0.17	1.00	1.00	1.00	1.00	1.00	
EBIT	\$	(240.21)	\$ 910.63	\$ 1,463.02	\$ 1,803.91	\$ 2,334.08	\$ 4,049.43	
Less: Cash Taxes	\$	(21.62)	\$ 81.96	\$ 131.67	\$ 162.35	\$ 210.07	\$ 364.45	
Plus: SBC	\$	669.63	\$ 595.89	\$ 717.24	\$ 792.66	\$ 837.49	\$ 939.26	
Plus: D&A	\$	96.81	\$ 119.67	\$ 145.53	\$ 176.15	\$ 197.95	\$ 300.56	
Less: Capex	\$	46.73	\$ 124.58	\$ 176.71	\$ 201.31	\$ 258.86	\$ 319.35	
Less: NWC Investment	\$	253.00	\$ 112.51	\$ 24.20	\$ 130.18	\$ 173.70	\$ 285.84	
Adjusted Free Cash Flow	\$	248.12	\$ 1,307.15	\$ 1,993.21	\$ 2,278.87	\$ 2,726.89	\$ 4,319.62	\$ 173,957.17
<i>Transaction Cash Flow</i>	\$	<i>41.35</i>	\$ <i>1,307.15</i>	\$ <i>1,993.21</i>	\$ <i>2,278.87</i>	\$ <i>2,726.89</i>	\$ <i>4,319.62</i>	\$ <i>173,957.17</i>

Intrinsic Value	
Enterprise Value	\$ 83,227.46
Plus: Cash	\$ 1,611.00
Less: Debt	\$ 1,134.00
Less: Preferred Equity	\$ -
Equity Value	\$ 83,704.46
Equity Value per Share	\$ 65.37

Assumptions:	
Tax Rate	9.0%
Discount Rate	18.0%
Perpetual Growth Rate	2.5%
EV/Rev Multiple	17.0x
Transaction Date	11/1/2023
Fiscal Year End	12/31/2023
Current Price	\$ 48.79
Diluted Shares Outstanding	1,280.41
Debt & Other LT Liabilities	\$ 1,134.00
Cash & Investments	\$ 1,611.00
Preferred Equity	\$ -

Terminal Value	
Perpetual Growth	\$ 28,565.23
EV/Rev	\$ 319,349.11
Average	\$ 173,957.17

Upside (Downside)	
Current Share Price	\$ 48.79
Intrinsic Value	\$ 65.37
Upside %	33.99%

Sensitivity Tables



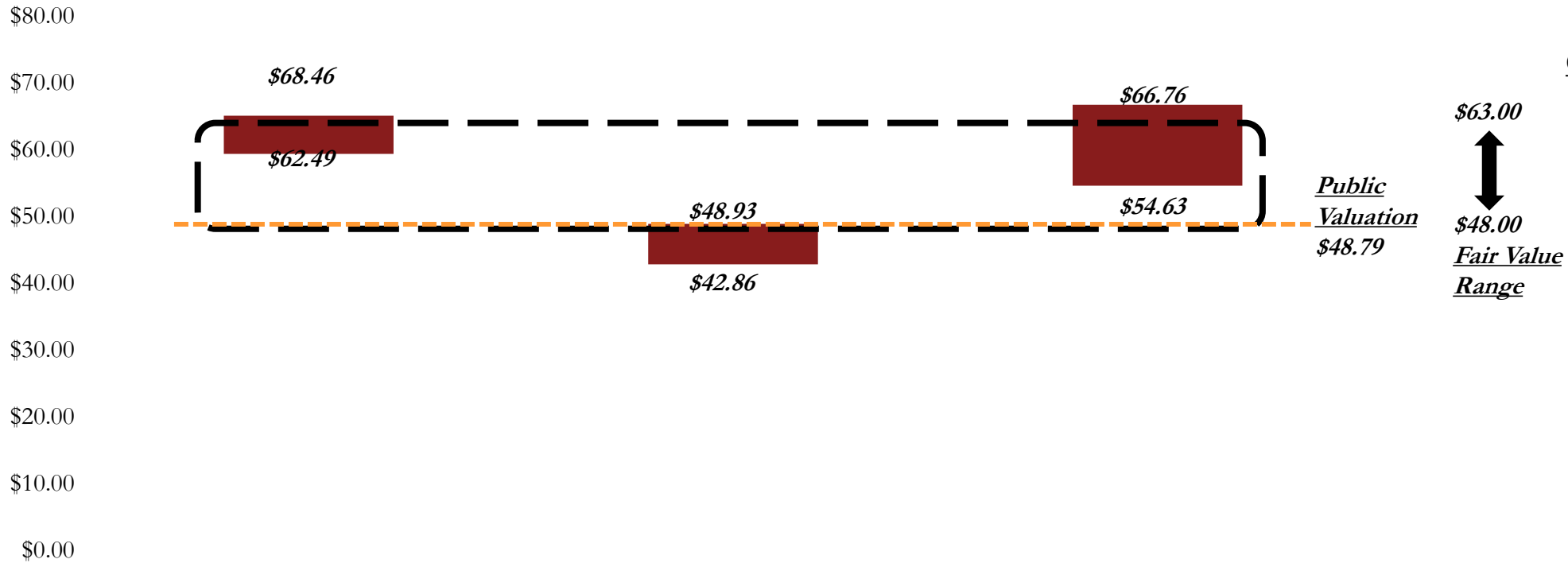
Equity Value:

	15.0x	16.0x	17.0x	18.0x	19.0x
20%	53.88897829	56.83406739	59.7791565	62.7242456	65.6693347
19%	56.34358243	59.41465286	62.48572329	65.55679371	68.62786414
18%	58.96614661	62.16971964	65.37329266	68.57686569	71.78043872
17%	61.77686643	65.11986052	68.46285461	71.8058487	75.14884279
16%	64.80054911	68.29030781	71.78006651	75.2698252	78.7595839

Upside (Downside):

	15.0x	16.0x	17.0x	18.0x	19.0x
20%	10.45%	16.49%	22.52%	28.56%	34.60%
19%	15.48%	21.78%	28.07%	34.37%	40.66%
18%	20.86%	27.42%	33.99%	40.56%	47.12%
17%	26.62%	33.47%	40.32%	47.17%	54.03%
16%	32.82%	39.97%	47.12%	54.27%	61.43%

Valuation Methodology



Commentary:

- DCF Valuation:**
The range represents the DCF base case using 17%-19%
- EV/NTM Revenue Trading Multiple:**
The range represents the average 7.0x – 8.0x spread of multiples for publicly traded peers
- Price/NTM Revenue Trading Multiple:**
The range represents the average 9.0x – 11.0x spread of multiples for publicly traded peers

Method	DCF
High	17.0%
Low	19.0%

Method	EV/NTM Rev
High	8.0x
Low	7.0x

Method	P/NTM Rev
High	11.0x
Low	9.0x

Estimates vs. Consensus



MAIF vs. Consensus (\$mm)	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E
MAIF Subscription Solutions Revenue	1,792.81	2,166.43	2,545.56	2,927.39	3,351.86	3,703.81
<i>Consensus Subscription Solutions Revenue</i>	1,792.87	2,099.29	2,424.54	2,821.35	3,345.86	3,648.35
<i>Difference (%)</i>	0%	3%	5%	4%	0%	1%
MAIF Merchant Solutions Revenue	5,317.93	6,381.51	7,849.26	9,654.59	11,875.14	15,081.43
<i>Consensus Merchant Solutions Revenue</i>	5,126.37	6,222.18	7,595.49	9,303.21	11,171.56	14,313.44
<i>Difference (%)</i>	4%	2%	3%	4%	6%	5%

MAIF vs. Consensus (\$mm)	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E
MAIF Gross Margins	51%	55%	57%	57%	57%	59%
<i>Consensus Gross Margins</i>	49%	51%	51%	53%	55%	59%
<i>Difference (%)</i>	3%	8%	10%	6%	4%	1%

MAIF vs. Consensus (\$mm)	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E
MAIF Adjusted EBITDA Margins	20%	19%	22%	22%	22%	28%
<i>Consensus Adjusted EBITDA Margins</i>	18%	19%	22%	21%	22%	26%
<i>Difference (%)</i>	11%	0%	2%	3%	2%	9%

MAIF vs. Consensus (\$bn)	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E
MAIF GMV	229,660	273,534	332,634	408,914	502,491	629,306
<i>Consensus GMV</i>	230,100	269,300	317,918	360,622	418,075	479,552
<i>Difference (%)</i>	0%	2%	5%	13%	20%	31%

Consensus Estimates

- Modeling **consistently positive FCF** starting next quarter
- **R&D** and **CapEx** as a % of revenue **going down to mid-20s** and **less than 1%**

Management Estimates

- Guiding Q3 23 FCF to be **greater than all of 1H 23**
- Q3 23 **200-300 bps improvement in gross margin** from logistics sale and price increases
- Q3 23 **operating expenses will be lower than Q1 23 and Q2, Q3, and Q4 22**

MAIF Consensus Estimates

- **In-line or above street** on merchant solutions revenue, given consensus on payment penetration
- **3-4%+ above street** on subscription solutions revenue when considering ramp up in Plus adoption
- Modeling roughly **17% YoY growth** in Plus Subscribers

Q&A

Appendix

Management



Tobias Lütke

Chief Executive Officer and Founder

Co-founded Shopify in September 2004, serving as Chief Technology Officer until he became CEO in April 2008



Jeff Hoffmeister

Chief Financial Officer

Spent 22 years as an MD for Morgan Stanley's Technology Investment Banking group before becoming CFO in September 2022



Harley Finkelstein

President

Joined as Shopify's Chief Platform Officer in 2010, becoming COO in January 2016 and then finally President in September 2020

Sources



Slide 1: N/A

Slide 2: N/A

Slide 3: Koyfin.com, Company Filings

Slide 4: Bloomberg

Slide 5: N/A

Slide 6: Company Filings

Slide 7: Company Filings

Slide 8: Company Filings, Q1 23 Earnings Call

Slide 9: Company Filings

Slide 10: Company Filings

Slide 11: N/A

Slide 12: Company Filings, Q2 23 Earnings Call

Slide 13: Company Filings

Slide 14: Company Filings, Q1 23 Earnings Call

Slide 15: Company Filings, Q2 23 Earnings Call

Slide 16: kinsta.com/shopify-market-share/

Sources



- Slide 17: Company Filings, Q2 23 Earnings Call
- Slide 18: Company Filings
- Slide 19: Company Filings, Barclays Equity Research
- Slide 20: Company Filings, Q2 23 Earnings Call
- Slide 21: N/A
- Slide 22: N/A
- Slide 23: N/A
- Slide 24: N/A
- Slide 25: N/A
- Slide 26: N/A
- Slide 27: N/A
- Slide 28: N/A
- Slide 29: Company Website