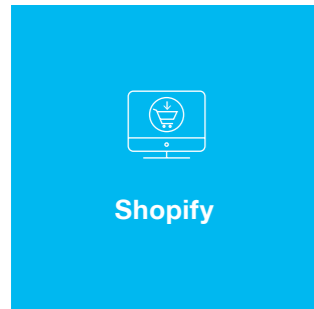


Shopify

Ecommerce enabler

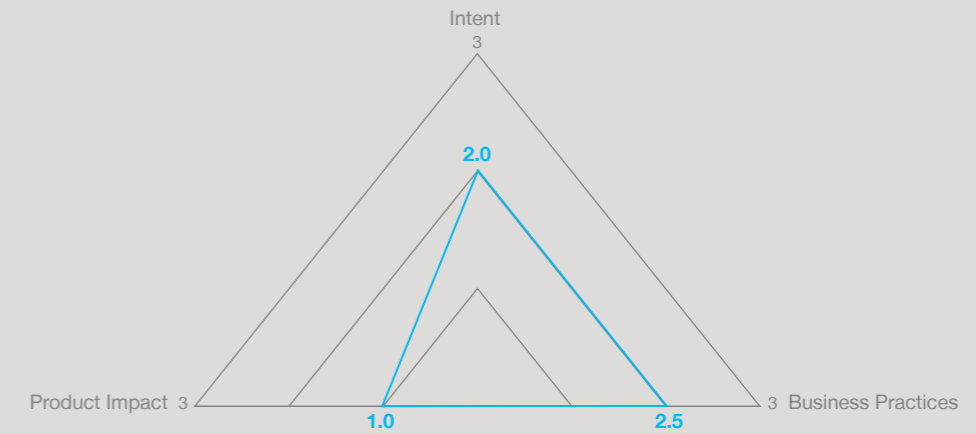


Shopify is a Canadian software company that enables small businesses to set up and sell products online which promotes entrepreneurship and job creation. Shopify provides low-cost software tools including hosting, fulfilment and payment services which allows merchants to manage their business across an increasingly complex and fragmented industry.

Investment Case

| | |
|---|--|
| What challenge is the Company tackling? | Small or medium enterprises (SMEs) make up the majority of global businesses: in the OECD area they comprise 99% of all firms and provide the main source of employment, accounting for 70% of jobs on average; in emerging economies they contribute up to 45% of total employment and 33% of GDP. By providing software enabling a business to set up and sell online, Shopify is promoting entrepreneurship, enabling (SMEs) to grow and scale, and provide job creation. |
| Is the Company's offering sufficiently different and better than the status quo? | Shopify provides simple, low cost software which enables business owners to move online efficiently and quickly. Its innovative cloud-based model is the most flexible and lowest friction model available in the market place, well ahead of the competition. A large part of Shopify's value is the ability for retailers to tailor their online stores rather than conform to a template. Shopify is the only one of its competitors that charges on a commission basis as opposed to a licensing fee. This means it can add products and services for free e.g. search engine optimisation, whereas other providers charge for these services. |
| Is there a committed management team? What have they done before? | Shopify's mission to 'make commerce better for everyone' is something the management team believe can only be achieved over the long term. Shopify CEO and founder Tobias Lütke has a deep technology background which has helped the company gain its reputation for excellence. He owns 7% equity in the company and has 36% of voting power. The board consists of Lütke and 5 independent external members, 2 from business software and 3 from legal/financial backgrounds. Shopify has a Chief Support Officer on its management team which speaks to a commitment to delivering for its customers. |
| How does the Company treat stakeholders? | Shopify appears to take its responsibilities as employers seriously, with personal development one of its three factors of value creation. The second is putting the needs of its customers first, demonstrated by its philosophy for growth which is to grow because its merchants are doing well, not at their expense. Shopify's approach to pricing is evidence of this – management prefer to keep prices lower than the benefits they bring, thereby growing through increasing merchant counts rather than through price hikes. Shopify has also been very active in supporting technology skills development in its home market of Canada, and the management team see this as the third element of value creation at the company. |
| Is there a potential to create a profitable and defensible business? | Shopify is already a profitable business with gross margins in excess of 50%. Its annual Gross Merchandise Value ('GMV') of \$60 billion and annual revenue of \$1.4 billion in 2019 demonstrate the scale of the business which only started in 2004. Shopify is the leader in its market place, demonstrated by 19% of all on-line black Friday sales in 2019 going through Shopify created stores. Shopify's software has the advantage of being the most flexible and lowest friction option for customers. |
| Is the business attractively valued? | Long-term growth will be driven by increasing i) online penetration ii) the number of Shopify customers iii) the number of products per customer iv) the commission charged. Over the next 5 years the number of merchants on Shopify could grow by 25% per year, and GMV by 35%. This would mean a GMV of \$270bn in 2024 and 3m merchants on the platform by 2024. Global ecommerce ex China by 2024 is estimated to be around \$3-4trn, which implies Shopify would have high single digit market share. A 20x EV/EBIT could be justified given the market opportunity and the potential to develop other tools to reduce the friction of doing business for entrepreneurs. |

Impact Analysis



Product Impact

Shopify is operating in a space where the ability to deliver social change is more marginal, albeit intact. It is skewed towards the lower end from a scoring perspective due to its limited relative breadth with demographics that most need support.

Intent

Shopify's intent to deliver on its mission is strong and is continually reinforced by its actions; management are focused on doing what they do well and appear to think broadly about how this can be delivered. To achieve a higher score, Shopify needs to extend entrepreneurship to marginalised populations to maximise the potential positive impact.

Business Practices

Shopify takes a great approach to its customers: its initiatives to develop a strong skills base is integral to its mission and impactful from a much broader societal perspective. Weaker governance practices are expected to evolve over time as the company matures.

| | Relevant Targets | Relevant Products |
|--|---|---|
| | <p>Target 8.1 Sustain per capita economic growth in accordance with national circumstances and, in particular at least 7% gross domestic product growth per annum in the least developed countries.</p> <p>Target 8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high value-added labour-intensive sectors.</p> | <p>Shopify is indirectly enabling entrepreneurs and SMEs to scale their businesses. SMEs account for roughly 99% of all firms in the OECD area and 70% of total jobs.</p> |

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