

ValuationBot.ai

Shopify Inc. (SHOP)

Date: Feb 09, 2026 01:40am
Prepared for: Edmund Simms
Prepared by: ValuationBot

© 2025–2026 Lyceum Analytics Ltd. ValuationBot is a trading name of Lyceum Analytics Ltd.
Not financial advice. Use at your own risk.

Table of contents

Tap a section title to jump

- [1. Executive summary](#)
- [2. Overview](#)
- [3. Investment summary](#)
- [4. Company background](#)
- [5. Financial summary](#)
- [6. Investment thesis](#)
- [7. Catalysts](#)
- [8. Valuation](#)
- [9. Risks](#)
- [10. Appendix](#)

ValuationBot.ai

1. Executive summary

Company: Shopify Inc.

Ticker: SHOP

Recommendation: Strong Sell

Current price: US\$112.05

Estimated value: US\$20.12

Upside: -82.0%

Expected IRR: 5.6%

I believe Shopify is overvalued at US\$112. The market is pricing in a long runway of hyper-growth of about 35.6% a year, very high steady-state profitability with a 32.1% net income margin, and unusually strong capital efficiency of about 1.2x sales to equity. I see a different picture. Management's recent outlook and the business mix towards payments-led Merchant Solutions suggest growth should remain strong but fade towards about 20.0%, while ongoing AI and international investment and structurally lower Merchant Solutions gross margin make a 32% net margin hard to sustain; at the same time, stock-based compensation, a large equity base, and reinvestment in intangibles keep sales to equity nearer 0.7x than 1.2x. Compared with peers where Shopify already trades at rich multiples, I estimate fair value at about US\$18–US\$25 per share (base case US\$20), which implies about 82% downside from today's price. Key events such as the next two to three earnings prints and 2026 guidance will test whether growth, margins, and capital discipline can reach what the market implies. The main risks are an extended period of high-20s to low-30s growth, faster operating leverage that lifts steady-state margin well above 18%, and a more aggressive buyback that raises sales to equity. Taking all this together, I rate the shares a Strong Sell over the next 12 months.

2. Overview

Company	Shopify Inc.
Ticker	SHOP
Analysis date	Feb 09, 2026
Expected IRR	5.6%
Latest filing	10-Q, Nov 04, 2025
Industry	Software – Application
Sector	Technology
Recommendation	Strong Sell
Upside potential	-82.0%
Exchange	NASDAQ
Market cap	\$146.23bn
Current price	US\$112.05
Estimated value	US\$20.12

3. Investment summary

Recommendation: Strong Sell SHOP (Shopify Inc.) shares at US\$112.

Thesis: The market prices Shopify as a near-flawless compounder with 35%+ growth, 30%+ net margins, and rising returns on equity, but the payments-heavy revenue mix and ongoing reinvestment make those steady-state economics unlikely. I expect strong but moderating growth, an 18.0% stable net income margin, and 0.7x sales to equity, so the current price embeds unrealistic long-run outcomes.

Catalysts: The next two to three quarterly results and the first clear 2026 outlook update should force investors to reconcile reported trends with the market's implied 35.6% growth and 32.1% margin. Evidence of growth settling in the low-to-mid 20s, margins tracking closer to an 18–22% long-run path, and no step-change in capital returns should compress the valuation towards intrinsic value.

Valuation: I estimate intrinsic value at about US\$18–US\$25 per share (base case US\$20). That implies about 78–84% downside versus US\$112, which supports a Strong Sell.

Risks: The key risk is that Shopify sustains high-20s to low-30s growth for several years, lifts steady-state net income margin well above my 18.0% assumption, and uses buybacks to move sales to equity materially above 0.7x. In that scenario, the market's implied assumptions would look more achievable and the de-rating could be smaller or delayed, even if the current price still leaves limited margin of safety.

4. Company background

Industry

Software – Application

Description

Shopify runs a commerce platform that helps merchants sell online and offline. It earns subscription revenue from access to its software and earns merchant solutions revenue from services such as payments, shipping, and financing that scale with merchant activity and gross merchandise volume (GMV).

Key products

Shopify subscription plans and Shopify Plus
Shopify Payments and merchant solutions (currency conversion, referrals)
Shopify Capital and financing tools
Apps, themes, and domain names
Omnichannel tools for web, mobile, and point of sale

Business model

Value proposition: One platform for online, in-store, and omnichannel selling with a large app and partner ecosystem.

Revenue engine: Subscriptions plus usage-based merchant solutions led by Shopify Payments and financing.

Cost drivers and investment focus: Payment processing and cloud costs, plus heavy spend on product, AI, and go-to-market.

Unit economics

Key unit: Paying merchant on the Shopify platform.

Revenue per unit: Not disclosed per merchant; monetisation rises with plan mix and

payments attach.

Cost per unit: Not disclosed per merchant; cost of revenues runs at about 50% of revenue in recent periods.

Contribution margin: Gross margin around 49–50%, with Merchant Solutions structurally lower than Subscription Solutions.

Competitive landscape

Direct competitors: Direct competitors: BigCommerce, Wix, Squarespace, WooCommerce, and marketplace-led tools.

Relative positioning: Relative positioning: Shopify leads smaller peers on scale, ecosystem depth, and payments integration.

Key threat/trend: Competition and regulation raise compliance and customer acquisition costs, which can cap long-run margins.

Operating segments

Merchant Solutions (74%): Payments and other services tied to GMV and merchant activity

Subscription Solutions (26%): Platform subscriptions, Plus, and software add-ons

Geographic segments

United States (55%): Largest merchant base and highest GMV density

Europe Middle East and Africa (20%): Faster cross-border and localisation opportunity

Canada (10%): Home market and meaningful SMB base

Asia Pacific (10%): Earlier-stage penetration and partner-led growth

Latin America and Rest of World (5%): Smaller but growing markets

5. Financial summary

All financial figures in \$ millions

Fiscal year	2024	2023	2022	2021	2020
Revenue	8,880	7,060	5,600	4,612	2,929
YoY growth	25.8%	26.1%	21.4%	57.4%	85.6%
Adjusted net profit	2,467	1,261	(1,968)	3,789	861
Margin	27.8%	17.9%	-35.1%	82.2%	29.4%
Reinvestment	2,525	1,261	(1,968)	5,331	3,439
FCFE	(58)	0	0	(1,541)	(2,579)
Adjusted equity	17,196	14,256	12,301	13,703	8,096
Return on equity (ROE)	14.3%	8.8%	-16.0%	27.7%	10.6%
Sales to equity ratio	0.52	0.50	0.46	0.34	0.36

6. Investment thesis

The market prices Shopify as a near-flawless compounder with 35%+ growth, 30%+ net margins, and rising returns on equity, but the payments-heavy revenue mix and ongoing reinvestment make those steady-state economics unlikely. I expect strong but moderating growth, an 18.0% stable net income margin, and 0.7x sales to equity, so the current price embeds unrealistic long-run outcomes.

Growth fades as Shopify scales up: The market's 35.6% growth assumption looks too high because it implies multi-year re-acceleration from an already large revenue base.

Recent performance supports strong momentum, but management guidance has pointed

to mid-to-high-20s growth, not a sustained mid-30s run-rate. As penetration rises, larger-merchant wins take longer, and competitors defend share, Shopify should still grow well but at a more normalised pace. I therefore forecast 20.0% as a sustainable growth rate in the earlier part of the model before it tapers.

Payments mix and investment needs cap steady margins: The market's 32.1% stable net income margin implies very large operating leverage with limited ongoing reinvestment. Shopify's revenue mix is weighted to Merchant Solutions, where payment processing costs structurally pressure gross margin versus subscriptions, and management continues to invest in AI, international expansion, and enterprise selling. Reported net income can also swing with non-operating items, so I anchor on a normalised outcome rather than peak periods. I model an 18.0% steady-state net income margin, which still reflects platform scale but stays consistent with mix and reinvestment.

Equity base and reinvestment cap capital efficiency: The market-implied 1.2x sales to equity assumes Shopify generates far more revenue per dollar of equity than it does today or that it shrinks equity through large buybacks. Shopify stays operationally asset-light, but it reinvests heavily in intangibles such as product, AI, and ecosystem development, and it carries an equity base that can expand through stock-based compensation. Merchant financial services also add working capital needs and risk that reduce apparent capital efficiency. I therefore forecast 0.7x sales to equity, which improves with scale but remains well below the market-implied level.

7. Catalysts

Near-term revenue prints should challenge the 35.6% growth narrative: Shopify's next earnings releases over the next two to three quarters should provide the cleanest test of the market's implied 35.6% growth assumption. If year-on-year revenue growth lands in the low-to-mid 20s and forward guidance stays below 30%, investors should reduce the long-run growth path towards my 20.0% view. This change matters because growth is a primary support for Shopify's 16.5x sales multiple at today's price. A reset of the long-run growth narrative could plausibly drive a 40–60% share-price fall as the market de-risks the growth premium.

Operating spend and mix disclosures should reset long-run margin expectations: The next set of results and 2026 outlook commentary should clarify how long Shopify plans to keep investing heavily in AI and international expansion. If management maintains elevated operating spend and Merchant Solutions remains the dominant revenue stream, investors should move steady-state net margin expectations away from 32.1% and towards an 18.0% to low-20s range. This would directly hit the earnings power implied by the current 59.3x price to earnings multiple. A margin expectation reset could drive an additional 15–25% downside, especially if it arrives alongside weaker growth.

Capital allocation updates will expose whether 1.2x sales to equity is realistic: The market-implied 1.2x sales to equity assumes either sharp revenue scaling relative to equity or meaningful equity shrinkage via buybacks. Any capital allocation update alongside upcoming earnings will therefore matter, but exact dates are unconfirmed. If Shopify does not commit to a material buyback and stock-based compensation remains high, the equity base should keep expanding and sales to equity should stay closer to 0.7x

than 1.2x. That outcome would reduce confidence in very high long-run returns on equity and support a lower valuation multiple, with a potential 10–20% negative reaction if investors were positioned for stronger capital discipline.

8. Valuation

Current price: US\$112.05

Base case value: US\$20.12

Upside potential: -82.0%

Expected IRR: 5.6%

Currency: USD

Report date: Feb 09, 2026

Latest annual financials: Dec 31, 2024

[Base case assumptions](#) [DCF model](#) [Bull/Bear scenarios](#)

Story:

Shopify operates a scaled commerce platform with a broad ecosystem that helps merchants sell across channels and adopt payments, shipping, and financing services. I place it in a scaling growth stage, where growth stays strong but slows as the merchant base matures and competition in commerce tools and payments remains intense. The base case assumes Shopify sustains share through product depth, partner distribution, and international expansion, while it keeps investing in AI, analytics, and enterprise features to lift merchant outcomes. Profitability improves with scale, but stock-based pay, service mix, and ongoing reinvestment keep margins below peak levels and push returns towards strong but more normal levels over time.

Multiples snapshot

Peers in high-growth software and platform businesses still trade at elevated levels versus history, and Shopify sits at the expensive end of that range at 16.5x price to sales (83rd percentile), 59.3x price to earnings (71st percentile), and 8.5x price to book (90th percentile). This premium only makes sense if Shopify sustains the market-implied fundamentals of 35.6% growth, 32.1% net margin, and much higher capital efficiency than I forecast, but my reverse DCF inputs point to 20.0% growth, 18.0% net margin, and 0.7x sales to equity as more realistic given payments mix and continued investment. A fairer outcome looks closer to the peer median valuation implied by the provided ranges, which places Shopify near US\$39 at the 50th percentile of price-to-sales implied prices and near US\$61 at the 50th percentile of price-to-earnings implied prices; even the 75th percentile of price-to-book implied prices is US\$71. Those anchors still sit well below US\$112 and reinforce a Strong Sell rating.

Price-to-sales: 16.5x (83th percentile vs. peers) with implied share prices from US\$14 to US\$169 across the revenue-weighted peer set.

Price-to-earnings: 59.3x (71th percentile vs. peers) with implied share prices from US\$25 to US\$400 across the revenue-weighted peer set.

Price-to-book: 8.5x (90th percentile vs. peers) with implied share prices from US\$20 to US\$112 across the revenue-weighted peer set.

9. Risks

AI and enterprise wins could keep growth nearer the market view: Shopify could beat my 20.0% growth forecast if AI features raise merchant conversion and retention and if Shopify Plus keeps taking share in larger merchants. If revenue growth holds in the high-20s to low-30s for several years, investors could continue to underwrite something closer to the market-implied 35.6% path. If growth expectations re-rate upwards, the share price could hold closer to the 90th percentile of simulated intrinsic values at about US\$32 rather than falling quickly. Even in this scenario, the current price still requires unusually strong execution to avoid meaningful downside.

Faster cost leverage could push margins above 18%: Margins could beat my 18.0% stable net income margin if Shopify slows hiring, reduces stock-based compensation, and improves payments economics through scale and pricing. A shift to higher-margin subscription mix and tighter operating spend could lift steady-state net margin into the mid-20s, closer to the market-implied 32.1%. If the market gains confidence in that margin path, the valuation could move towards my bull-case fair value of about US\$48, which would reduce downside but still leave the stock overvalued versus US\$112.

Large buybacks could lift sales to equity: Shopify could raise sales to equity above my 0.7x forecast if it executes large buybacks, materially reduces dilution, or takes actions that shrink equity relative to revenue. That would move the profile towards the market-implied 1.2x and support higher returns on equity. If investors see a credible path to that outcome, they could keep paying a premium multiple for longer and the de-rating could slow. This risk matters most if it arrives alongside upside surprises in growth and margin.

10. Appendix

10.1 Base case assumptions

Valuation story

Shopify operates a scaled commerce platform with a broad ecosystem that helps merchants sell across channels and adopt payments, shipping, and financing services. I place it in a scaling growth stage, where growth stays strong but slows as the merchant base matures and competition in commerce tools and payments remains intense. The base case assumes Shopify sustains share through product depth, partner distribution, and international expansion, while it keeps investing in AI, analytics, and enterprise features to lift merchant outcomes. Profitability improves with scale, but stock-based pay, service mix, and ongoing reinvestment keep margins below peak levels and push returns towards strong but more normal levels over time.

Revenue growth rate

Value: 20.0%

Explanation: Shopify sits in a scaling growth stage, with a large installed base and more room to expand through enterprise, international markets, and more merchant services. The analyst revenue path implies a mid to high teens multi-year run rate from the current revenue base to the medium-term estimates, so I set a 20% growth rate as a plausible first-half (Y/2) CAGR before tapering as penetration rises and competition bites.

Stable growth rate

Value: 3.5%

Explanation: In maturity, Shopify should grow near the wider economy once e-commerce and payments penetration normalises and the business saturates its core markets. I set terminal growth slightly below the 3.922% risk-free rate to reflect a mature, large-cap platform that still benefits from digital share gains but cannot outgrow GDP for ever.

Years to stability

Value: 10.0

Explanation: Shopify still has meaningful runway from product expansion, partner-led distribution, and international scaling, but it is no longer an early-stage hyper-growth firm. A 10-year fade period makes the 20% rate plausible as a 5-year CAGR that lines up with the medium-term consensus revenue trajectory, then allows a gradual step-down to a stable rate as growth becomes harder to sustain.

Sales-to-equity ratio

Value: 0.7

Explanation: Shopify remains capital-light in physical terms, but it reinvests heavily in intangibles like product, marketing, and ecosystem development, which reduces apparent capital efficiency in the adjusted numbers. I move the ratio up from the recent ~0.5 range towards the industry median-to-upper range as scale improves and reinvestment becomes more targeted, but I avoid a very high ratio given ongoing investment in AI, international build-out, and merchant financial services.

Stable net profit margin

Value: 18.0%

Explanation: A mature Shopify should keep a strong margin due to software scale, ecosystem stickiness, and monetisation from payments and services, but mix in merchant solutions and ongoing stock-based pay should cap the ceiling. I set the stable margin near the industry 60th percentile and below Shopify's unusually high adjusted recent peak,

which likely includes one-off or cycle-driven benefits that do not persist.

FY+1 net profit margin

Value: 22.0%

Explanation: The consensus net income margin rises sharply over the next few years, but it uses expensed treatment of R&D and go-to-market costs, while the adjusted model capitalises them and can show higher margins in good years. I set FY+1 margin below the latest adjusted level to reflect continued investment and competitive spend, while still showing operating leverage consistent with the consensus direction of travel.

Margin convergence

Value: 6.0

Explanation: Shopify should not snap straight to its mature margin because it plans continued spend on AI, analytics, enterprise selling, and international expansion. I therefore phase the margin down and then stabilise it over several years, staying consistent with the medium-term consensus trend of improving profitability while allowing for mix and reinvestment volatility.

Stable ROE

Value: 14.0%

Explanation: Shopify's stable ROE should stay above its stable cost of equity if the platform moat holds, but it should drift towards a more normal level as growth slows and competition increases. I set stable ROE around the industry median-to-60th percentile and above the 10.28% stable cost of equity, which fits a mature but still differentiated software platform.

Credit rating

Value: A3/A-

Explanation: Shopify operates a largely subscription and payments-led model with strong scale economics and limited reliance on heavy fixed assets, which supports resilient cash generation through the cycle. The disclosed convertibles and business risk from merchant exposure argue against a top-tier rating, but the size, liquidity profile, and earnings power support an upper investment-grade outcome in the base case.

Recovery ratio

Value: 50.0%

Explanation: In default, Shopify would rely mainly on recoverable cash, securities, and the value of software-related intangibles, which are harder to realise than hard assets. I use a mid-range recovery to reflect some balance sheet support and going-concern value, but I avoid a high recovery because platform value can erode quickly under distress.

10.2 DCF model

All financial data in US\$ millions unless stated otherwise

	Base year	FY+1	FY+2	FY+3	FY+4	FY+5	FY+6
Revenue	8,880	10,656	12,787	15,345	18,414	22,096	25,786
YoY growth, %	25.8%	20.0%	20.0%	20.0%	20.0%	20.0%	16.7%
All expenses	6,413	8,312	10,059	12,173	14,731	17,824	20,973
Net profit	2,467	2,344	2,728	3,171	3,683	4,272	4,813
Net margin, %	27.8%	22.0%	21.3%	20.7%	20.0%	19.3%	18.7%
Reinvestment	2,525	2,537	3,045	3,653	4,384	5,261	5,272
Invested equity	17,196	19,733	22,778	26,431	30,816	36,077	41,348
ROE, %	14.3%	11.9%	12.0%	12.0%	12.0%	11.8%	11.6%
S/E ratio, x	0.5	0.7	0.7	0.7	0.7	0.7	0.7
FCFE	-58	-193	-317	-482	-701	-989	-458
Stable value							
FCFs to discount		-193	-317	-482	-701	-989	-458
Discount factor		1.0	0.9	0.8	0.7	0.6	0.5
Cost of equity, %	14.4%	14.4%	14.0%	13.5%	13.1%	12.6%	12.1%
PV of FCFE		-193	-278	-373	-480	-600	-248
	...		FY+7	FY+8	FY+9	FY+10	Stability
Revenue			29,242	32,195	34,384	35,588	36,833
YoY growth, %			13.4%	10.1%	6.8%	3.5%	3.5%
All expenses			23,978	26,400	28,195	29,182	30,203
Net profit			5,264	5,795	6,189	6,406	6,630
Net margin, %			18.0%	18.0%	18.0%	18.0%	18.0%
Reinvestment			4,936	4,219	3,128	1,719	1,658
Invested equity			46,284	50,504	53,631	55,350	
ROE, %			11.4%	11.5%	11.5%	11.6%	14.0%
S/E ratio, x			0.7	0.7	0.7	0.7	0.7
FCFE			327	1,576	3,062	4,687	4,973
Stable value							
FCFs to discount			327	1,576	3,062	4,687	73,340
Discount factor			0.5	0.4	0.4	0.4	0.4
Cost of equity, %			11.7%	11.2%	10.7%	10.3%	10.3%
PV of FCFE			159	687	1,205	1,673	26,183
Sum of PV of FCFE							27,736.2
Less: Distress adjustments							267.9
Distress likelihood, %							1.4%
Recovery ratio, %							50.0%
Value of common equity							27,468.3
Less: Employee options							1,204.1
Less: Unfunded liabilities							0.0
Value of common shareholders' equity							26,264.1
Divide: Share count							1,305.1
Equity value per share							US\$20.12

10.3 Scenarios

Bear case

Value: US\$5.39

Upside: -95.2%

Story: Shopify moves from scaling growth towards a more challenged, late-growth phase

as merchant demand weakens and competitors squeeze pricing in commerce tools and payments. I assume churn rises among smaller merchants, and larger merchants negotiate harder, which slows both subscription growth and merchant solutions take rates. Shopify keeps spending on artificial intelligence, analytics, and international expansion to defend the platform, but this spend delays operating leverage and caps long-run profitability. The moat holds in core use cases, but it looks less durable at the margin, so growth and returns fade faster and settle closer to industry norms.

Revenue growth rate: 14.0%

Stable growth rate: 3.2%

FY+1 net margin: 16.0%

Stable net margin: 13.0%

Sales-to-equity ratio: 0.6

Years to stability: 10.0

Stable ROE: 11.0%

Bull case

Value: US\$48.47

Upside: -56.7%

Story: Shopify stays in a scaling growth stage and converts its ecosystem breadth into a wider lead in multi-channel commerce. It wins more larger merchants and expands faster outside its core regions, while merchant services such as payments, shipping, and financing attach at higher rates and lift revenue per merchant. AI-led tools improve merchant outcomes and reduce support and operating costs, so Shopify captures operating leverage without starving product investment. This bull case looks plausible because Shopify already shows strong revenue momentum and improving profitability in the consensus trajectory, and the upside comes from execution and mix rather than an unrealistic market re-write.

Revenue growth rate: 24.0%

Stable growth rate: 3.8%

FY+1 net margin: 25.0%

Stable net margin: 23.0%

Sales-to-equity ratio: 0.9

Years to stability: 12.0

Stable ROE: 18.0%

10.4 Other claims

(in US\$ millions unless stated)

Employee stock options

Number of stock options: 14.6

Weighted avg. strike price: 64.92

Weighted avg. maturity: 3.9

Assumed volatility: 66.0%

Assumed dividend yield: 0.0%

Value of options: 1,204.1

Unfunded liabilities

Pension obligations: 0.0

Post-retirement benefits: 0.0

Healthcare liabilities: 0.0

Deferred compensation: 0.0

Lawsuit contingencies: 0.0

Environmental liabilities: 0.0

Other: 0.0

Total liabilities: 0.0

10.5 Cost of equity

Inputs for risk-free rate

Ten-year bond yield, %	4.2%
Bond yield country	United States of America
Default spread, %	0.3%
Risk-free rate, %	3.9%

Beta calculation

Operating segment	Sales	EV/Sales	Weight, %	Business beta
Software - Application	2,350	5.3	26.5%	1.8
Software - Application	6,530	5.3	73.5%	2.1
Business beta				2.05
Debt-to-equity ratio, %				0.8%
Cash-to-firm value ratio, %				3.7%
Marginal tax rate, %				22.4%
Equity beta				2.0

Beta selection notes

Software – Application (50th percentile of the industry, 1.8): Subscription revenue is relatively recurring because merchants pay monthly for access to the platform, which dampens demand swings versus transaction-based services. However, it still faces competitive pressure and some churn in weaker economic periods, so a middle-of-the-pack risk level is most appropriate.

Software – Application (60th percentile of the industry, 2.1): Merchant services revenue (payments, shipping, fulfilment and financing) is closely tied to merchants' sales volumes, so demand is more cyclical than a pure subscription product. While some costs scale with transactions, the segment still carries meaningful platform and compliance fixed costs, so earnings can swing when volumes change.

Equity risk premium (ERP) calculation

Geographic segment	Sales	Weight, %	ERP, %	Tax rate, %
United States of America	5,434	64.3%	4.5%	21.0%
Latin America (LATAM)	92	1.1%	9.8%	31.3%
Canada	460	5.4%	4.0%	26.5%
Asia-Pacific	843	10.0%	6.4%	25.5%
Europe, Middle East, and Africa (EMEA)	1,625	19.2%	7.4%	23.6%
Company ERP, %				5.3%

Cost of equity calculation

Risk-free rate, %	3.9%
Beta x ERP	10.5%
Equity beta	2.0
Equity risk premium, %	5.3%
Cost of equity, %	14.4%

Stable cost of equity calculation

Risk-free rate, %	3.9%
Beta x ERP	6.4%
Stable beta (clamped)	1.2
Equity risk premium, %	5.3%
Stable cost of equity, %	10.3%

10.6 Reverse DCF

Expected IRR			5.6%
Driver	Base value	Market-implied value	Difference
Stable net profit margin, %	18.0%	32.1%	+14.1
Sales-to-equity ratio	0.7	1.2	+0.5
Revenue growth rate, %	20.0%	35.6%	+15.6