

Shopify has a BIG Facebook Problem!

Shopify's "entrepreneur" program, one of its sexiest metrics, is in serious jeopardy.
Shopify should immediately trade back to \$100.

Shopify and Facebook have been in an unholy alliance for years – in which Facebook has shared your personal information with Shopify sponsored/supported opportunists. The warning signs have been there, but as the scope of Facebook's severe privacy problem gets exposed, Facebook has no choice but to drastically revamp how it sells its data – **data about you and your personal behaviors.** Rocked to the core of its business model, Facebook has no choice but to take away Shopify's punchbowl.

While Citron agrees that Shopify offers best-in-class ecommerce solutions for its 3,600 Shopify Plus merchants (a real customer base, and a slow-growth one), we will prove that the growth engine of the company might come to an abrupt halt with revised Facebook privacy guidelines.

Shopify's recent stock price run can be attributed to the growth in "Entrepreneurs" who have extended SHOP customer base to a staggering 600,000 "stores".

It is because of this explosive growth in stores, not profits, that has allowed Shopify's core business to trade at a staggering 37x sales. Compare this to Wix at 11x sales, or the recent private equity investment into Squarespace at 6x sales.

What has been the #1 key to Shopify's growth? Facebook!!

It's no secret that Shopify pitches the Facebook/Instagram solution to its "entrepreneurs". It is no coincidence that Shopify tells you that you can become a "Facebook millionaire" ***not a Shopify millionaire.***



Citron Research

Describing Shopify's business model, Goldman Sachs Research published this diagram to illustrate how FB is the nexus of marketing for Shopify.

Exhibit 5: SHOP's dropshipping opportunity is two-sided
Shopify services merchants and suppliers with Oberlo



Source: Goldman Sachs Global Investment Research

Now here comes the problem that wasn't a problem....until now. Many of these "entrepreneurs" are more wolves in sheep's clothing as expressed in these recent mainstream articles

Warranted or not, users place trust in well-known platforms — this much is clear from the number of complaints expressing disbelief that Facebook and Shopify would continue doing business with companies that might not be legitimate.

-- Racked, December 13, 2017

<https://www.racked.com/2017/12/13/16762872/scam-sites-facebook-shopify>

Some Instagram retailers are legit brands with employees and products. Others are simply middlemen for Chinese goods, built in bedrooms, and launched with no capital or inventory. All of them have been pulled into existence by the power of Instagram and Facebook ads combined with a suite of e-commerce tools based around Shopify.

-- The Atlantic, January 10, 2018

<https://www.theatlantic.com/technology/archive/2018/01/the-strange-brands-in-your-instagram-feed/550136/>

So what information does Facebook confer on these Entrepreneurs? - You Won't Believe! It gives them my travel schedule, political views, and life events....not to mention the ability to track me all over the internet.

Citron Research

Below are two paragraphs that Citron has excerpted from an 84-page document made available to Shopify.



“Unlike interest targeting, behaviors allow you to target people by purchase history, intent, and more. This data is gathered from Facebook’s analysis of many factors combined with external data sets. As an example, you can target people currently traveling or planning their next trip.”

-- Written about Shopify! Embraced by Shopify!

“Just click one of the targeting topics in the menu and you’ll be able to refine your audience based on many options. As an example, you’ll be able to target people by their political views, life events, job titles, ethnicity, and so on.”

-- Written about Shopify! Embraced by Shopify!

Why Does Shopify promote the “entrepreneur program”?

Shopify's stock price is perched on the halo of increased merchant count, which all of the growth and the bulk of the numbers is from the “entrepreneur count”, which has been skyrocketing due to Shopify's aggressive affiliate marketing efforts.

The real Shopify customers, the legitimate brands that operate on the Shopify platform, are already decelerating.

The amount of net customer additions for Shopify Plus went into deceleration in 2017.



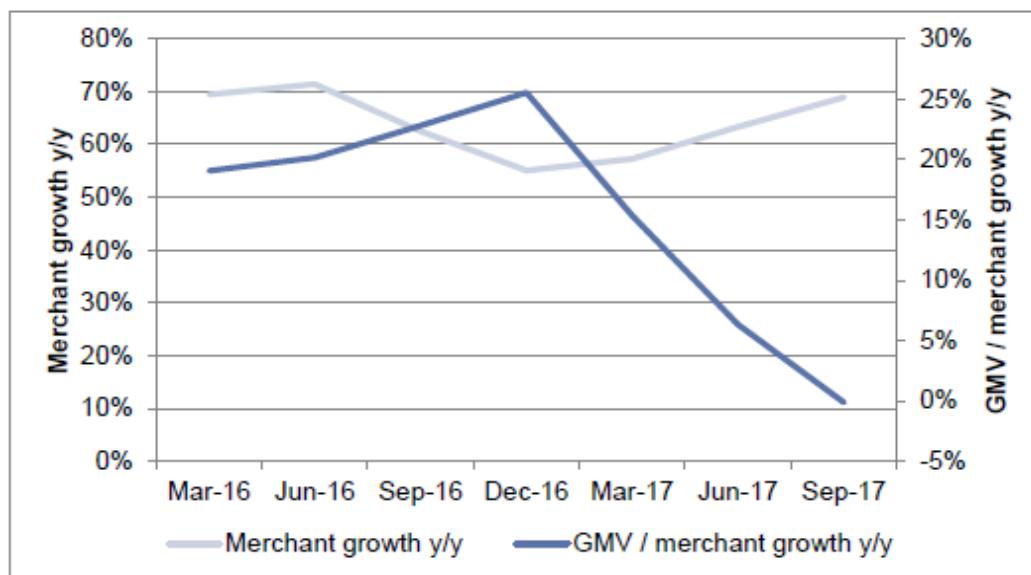
But more Importantly

The GMV/merchant (Gross Merchandise Volume per merchant) is collapsing as the entrepreneurs are struggling to actually “get rich”.

Despite getting access to your personal information for drop shipping, the prospects for becoming a Facebook millionaire are not as promised., no surprise the company does not discuss churn.

Exhibit 1: Merchant growth has accelerated, but GMV/merchant growth has stalled

Est. Merchant Growth and GMV/merchant 1Q16-3Q17



Source: Company reports, Company data, Goldman Sachs Global Investment Research

It cannot be disputed that tighter Facebook restrictions on access to privacy and pixels will annihilate the already fragile and dodgy business of the Shopify Entrepreneurs.

What happens to the stock price once the total customer count reverses back to 500,000k, on its way to 400,000 and then 300,000???

Citron is not the only one taking notice. The Shopify/Facebook relationship was recently labeled.

“The Fake News of E-Commerce”



The Fake News of E-Commerce

How sketchy sites use Facebook ads to scam customers and rip off brands.

By Hilary George-Parkin | Dec 13, 2017, 9:02am EST

<https://www.racked.com/2017/12/13/16762872/scam-sites-facebook-shopify>

Here are some excerpts:

“It’s difficult to get a full picture of how many customers and businesses have been affected by misleading ads, counterfeits, and scam sites. Complaints online call out businesses selling products that run the gamut from diet supplements and baby clothes to video game consoles and kayaks.

Many specifically call out the viral Facebook ads that lead them to the sites in the first place, and the Shopify-hosted storefronts that processed the transactions. ”

“More and more aspiring e-commerce business owners are buying into this get-rich-quick promise, taking advantage of the rock-bottom barriers to entry offered by online platforms that let merchants sell other companies’ products as if they were their own, then give them the tools to promote them through inexpensive, hyper-targeted advertising.

Note: Shopify cannot be dismissed as just a platform, as the company encourages this aggressive behavior from its merchants. This is proven all over the Internet. The company is only able to do this with the cooperation of Facebook.

Citron Research

Analysts had to see this coming. Macquarie, the #1 “biggest bull” on the street, stated in a report defending the “affiliate partner” program:

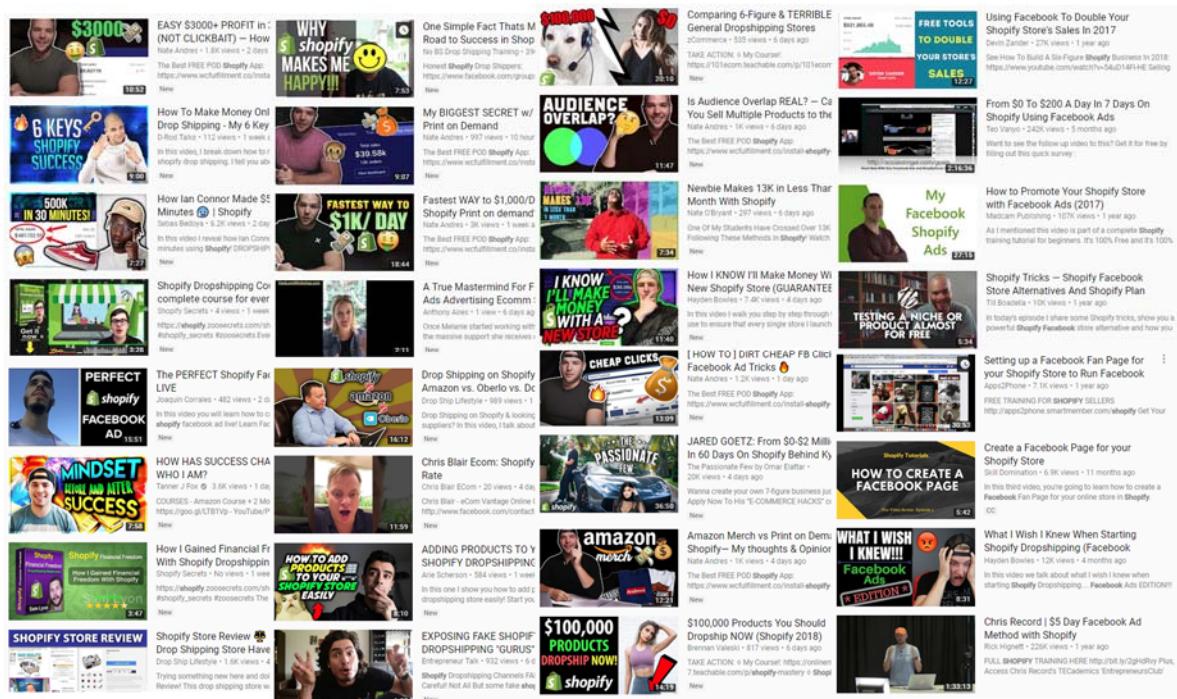
“All applicants are screened by an internal multi-person team at Shopify, 2) only those that are deemed fit, credible, and identifiable” are approved.”

... and...

“Referral partners are strictly screened: We spoke to a Shopify Plus partner who took us through the vetting procedure Shopify uses – explaining that it was rather exhaustive”

This claim is pure fiction, and Citron now exposes it. In contrast to our first report, Citron will not single people by names, as we are not trying to be mean spirited or target those who are simply trying to hustle for a living. But, we have documented **many** people who either through criminal records or multiple bankruptcies would not pass a simple vetting process from Shopify ... let alone access to your personal information via Facebook.

Here is a sample of some of the affiliate marketers **from just the past week**. Shopify - did you really screen all of these people? Really?



The cesspool of information has now attracted whistleblowers willing to demonstrate exactly how simple it is for Shopify/Facebook affiliate marketers to fake the results they display on Facebook.

<https://m.youtube.com/watch?v=8vEgcHp7jQo>

Shopify has already identified the risks that will soon become realities in their filings. As we read from their recent 40-F:

Moreover, such" laws could restrict our merchants' ability to run their businesses, for example by limiting their ability to effectively market or advertise to interested consumers. This could reduce our revenues and the general demand for our services."

-- *Most recent Shopify 40-F Risk Disclosure*

What happens to Shopify Now?

"We have a responsibility to protect your information. If we can't, we don't deserve it." Mark Zuckerberg

Facebook will undoubtedly begin to restrict who has access to their deep base of information and access to the Facebook tracking pixel.

Facebook users will start opting out of sharing all of their browsing data with whoever is willing to put a credit card down in Menlo Park.

Facebook must start a vetting process that might force business to show an operating history, background check, and some guarantee that they are not misrepresenting their offering to a customer.

Whereas larger brands and those who are using the Facebook ad tools to promote their business, this will represent a minor change. For those who are looking to game the system (entrepreneurs) – The gig is up.

Shareholders must ask themselves, what does Shopify look like once Wall St. values it as a e-commerce solution, albeit a good one, that competes in a competitive marketplace that is not in hyper growth mode?

Stock Price??

Lets us look at this simple way. Facebook started the year at \$180 a share and despite strong earnings now trades at \$160 due to engagement and more importantly data scandal.

Shopify started the year at \$105 and is now \$145 and LOSES money.....you do the math.