Shopify Inc.: How Investors Have Done Post-IPO

Description

With the completion of an Initial Public Offering (IPO) a little over one year ago, investors who've purchased and held shares of **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) have done very well.

Although the expectation from investors is to buy a well-performing company at the time of an IPO, the reality is, the experience is not always an easy road like this one. In actuality, most IPOs are overpriced, and investors will oftentimes lose money throughout the first year. Additionally, there are studies that have shown a general underperformance of the company being offered in an IPO in comparison to the performance of the general market.

Shopify stock has performed very well over the past year. In fact, it offers a return in excess of 250%, so investors can argue the stock did better than very well. Following the increase of the stock price was an increase in revenues by close to 75% (when evaluating the first quarter of 2017 to the same quarter one year prior). The fantastic news is the cash flow from operations, which was barely positive for the first quarter one year ago, has grown to $4 million. Cash flows for the entire year have been fairly consistent year over year.

If the increase in revenues and cash flows are a sign of things to come, then investors may want to take a good look at Shopify. As was established in 1999 and 2000, the internet (and the ability to sell goods online) was going to be a very important and high-growth segment of the economy. The company is currently in the business of assisting small- and medium-sized businesses in bringing their products and services to the online platform for sale. Basically, the company enables others to derive revenues from the internet.

Let's consider the technical indicators when looking at this name. With a share price which has continued to run after breaking out almost one year ago, shareholders are experiencing a perfect example of watching simple moving averages (SMAs) trying to catch up to the share price. Going back to the 10-day SMA, the share price has settled on only a small number of occasions in the past year, allowing the SMA to catch up.

If we take the 50-day and 200-day SMAs under consideration, the share price has not paused long enough to cross over either SMA in the past six months. At the very end of 2016, the 50-day SMA and the share price moved sideways in tandem, only to see the share price break out.

While investors have reaped large rewards from holding this investment, it is important to understand that momentum can turn very quickly. Like any other investment, it is the company and industry fundamentals that will drive the share price further instead of just the momentum continuing.

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