The Next Crisis: Shopify Inc.

Description

Over the past week, shares of **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) have started to find a comfortable trading range, as the slide from $150 to the current price of approximately $120 seems to have found a base.

For those who did not follow the story, famed short seller Andrew Left from Citron Research came out swinging a little more than one week ago, taking aim at the company's business practices. Effectively, Left said that if it appears too good to be true, then it usually is.

For investors who have been long this security, the 52-week low was ~$50.84 per share, which had a drastic run up to more than $150. Based on simple valuation metrics alone, the company may have been ready to cool off.

Although revenues for the second quarter of the year increased by 75%, the income from operations has almost doubled from negative $8.66 million to negative $15.91 million. Clearly, this is not the way investors want to see this metric going. When get to the bottom line of the income statement, the higher revenues have not improved things at all. The losses from net profits increased from $8.44 million to a loss of $14.03 million from the second quarter of last year to this year's second quarter.

For those willing to look far behind the curtain, the statement of cash flows is not helping make the bull case for the company either. For the first six months of the current fiscal year, cash from operations is negative $4.86 million, which is down from a positive number of $14.02 million for the previous fiscal year. In order to remain solvent throughout this period, the company issued an additional $565 million in stock!

While many still believe in the company, it is important to take into consideration what happened the last time a Canadian gem was targeted by short sellers. In the case of **Home Capital Group Inc.** (TSX:HCG), the company was forced to accept a high interest loan from a pension fund before Warren Buffett came to the rescue and offered the company a lifeline. In this case, there was a substantial amount of equity on the balance sheet in the form of mortgages which would be paid over time. The value was clear.

In the case of **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) the value was not as clear, and shares have yet to recover after plunging from more than $335 to a current price of approximately $16 per share. Clearly, investors are stuck with a company which has very limited opportunities to raise its prices. Instead, the bottom line is under pressure, as the company has taken on far too much debt.

When investors consider shares of Shopify, there are a number of factors still working in the company's favour, such as the absence of debt in addition to the opportunity for growth as the internet continues to evolve. The downside, however, may be that the company is currently losing a greater amount of money as revenues increase. Only time will tell where this bird finally lands!

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