



Shopify Inc. Takes Another Left Hook to the Chin

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) management has attempted to address and dismiss allegations made by Andrew Left of Citron Research, but investors still aren't happy, as the stock continued to plunge following what many would agree was an [outstanding Q3 2017 earnings report](#).

Although the quarter was solid, it really doesn't matter since Shopify's stock has been fueled by euphoria, and shares are ridiculously overvalued at this point anyway. Investors were already expecting terrific numbers, so it's [going to take a lot more to sustain a rally](#) at these levels.

Shopify executives fire back at Andrew Left

Shopify CEO Tobias Lütke addressed Andrew Left's claims following the release of Shopify's Q3 2017 earnings, but the general public wasn't buying what he was selling. Mr. Lütke referred to Mr. Left's claims as "preposterous" and went on to call Mr. Left a "short-selling troll."

Although Lütke's aim was to comfort investors, he actually escalated the situation by drawing attention to it with such remarks, opening a door for Left to respond. There's no doubt that Lütke and company seem to be extremely bothered by their newfound enemy in Andrew Left, but such remarks won't do Shopify stock any favours.

Shopify CFO Russ Jones recently appeared in a televised interview on *BNN* to speak more about Andrew Left and to shed more light on Shopify's business model with the hopes of comforting investors: "I think it's something that we should put in our rear-view mirror and really go back to focusing on the business, which is our primary objective," said Mr. Jones

In addition, Mr. Jones claimed to be in contact with other firms that have dealt with short-sellers in the past.

Shopify could learn a lesson from Valeant when it comes to addressing short sellers in public

When Mr. Lütke and Mr. Jones appeared publicly to speak of short-seller allegations, shares of SHOP tumbled for the day. Both Lütke and Jones had the hopes of comforting investors to stop the bleeding;

however, the opposite happened as investors became unsettled since management seemed to really be bothered by the whole fiasco.

Back when Left attacked **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX), billionaire activist investor, Bill Ackman was trying to stop the bleeding, but to no avail. Shares of VRX continued to plunge during Ackman's lengthy three-hour conference call with investors, which was meant to stop the bleeding, but actually exacerbated it.

If Jones wants to leave Left's allegations in the "rear-view mirror," then he should do just that, instead of appearing on televised interviews to comfort viewers which may be potential shareholders.

Investors will eventually forget about the short report (until Left returns with more), but if management keeps drawing attention to it, investors will continue to sell, regardless of what Shopify execs have to say.

Throwing personal jabs at Andrew Left is asking for more trouble

As a Shopify exec, calling Mr. Left names like "troll" probably isn't the best idea if you want to put the situation in the rear-view mirror. Such "immature" jabs would just cause Left to respond with even more fear-inducing material that would drive shares of SHOP down even further.

"It is impossible to understand the real strength of Shopify's core business without getting specifics of their true customer acquisition cost. To accomplish that, churn needs to be analyzed, so investors can discount or strip out the dirty/illegal part of their business that will inevitably be curbed by regulators. Immaturity and hubris of management prevents them from addressing these issues." said Left in a response to Lütke's recent post-earnings retort.

Bottom line

Shopify is back in the red as investors are reminded of Left's short report.

Personally, I'd avoid shares of SHOP, as it's a very dangerous time to be a shareholder, especially if Left returns with another in-depth report.

In addition, there are many claims that have yet to be properly addressed by management, and I don't believe they have the answers that investors are looking for.

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