



Shopify Inc. Is Back in the Green: Time to Buy?

Description

On October 31, **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) posted a strong increase in revenue for its most recent quarter. The Ottawa-based company took advantage of the unveiling of its results to defend itself against “preposterous claims” by a “short-selling troll.” Its explanations did not seem to reassure investors, and its shares fell by 8.5% on that day.

First adjusted operating profit

In the third quarter, Shopify posted its first adjusted operating profit since it was listed on the stock market — a threshold it was hoping to break through in the next quarter. Its revenue increased 72% to US\$171.5 million during the period ended September 30 compared to the same quarter last year.

The e-commerce platform posted a loss of US\$9.4 million for its third quarter, or US\$0.09 per share. In contrast, it had realized a loss of US\$9.1 million, or US\$0.11 per share, for the same period last year, during which time it had fewer shares outstanding.

On an adjusted basis, Shopify made a profit of US\$5 million, or US\$0.05 per share, in its most recent quarter compared to an adjusted loss of US\$1.8 million, or US\$2 per share, one year earlier.

Investors unsatisfied with Lütke’s response to Left

Shopify chief executive Tobias Lütke responded to claims made earlier in October by short seller Andrew Left of Citron Research. Left’s accusations against Shopify’s business model had pulled the company’s stock down by more than 10% on the TSX.

Shopify waited nearly a month before responding to the charges, because it refuses to engage in short-term management of its stock.

The company did not provide information on the acquisition costs and the [churn rate](#) mentioned by Left to support his assumption that the business is overvalued.

On October 4, Andrew Left released a video in which he argued that Shopify did not meet the

standards set by the U.S. Federal Trade Commission (FTC). He also calculated that the real value of the stock was closer to US\$60 before any potential action taken by the FTC.

According to Left, Shopify is mastering a “good ol’ get-rich-quick scheme” by recruiting merchants and promising them self-employment and multi-million-dollar earnings.

In response to those allegations, Lütke assured that the company sold an e-commerce platform, not business opportunities, and complied with the FTC’s rules.

Shopify has consulted legal counsel, who also believe the claims are unfounded. In addition, the company was not contacted by the FTC.

Citron Research was unimpressed by Shopify’s response and added in a statement that it had sent the FTC a record of its allegations.

Citron claims that Shopify must disclose its figures on customer losses, which indicate how many entrepreneurs stop using its platform.

Shopify did not respond to a request for comment on Citron Research’s claims.

A major shipping partnership pushed up the stock

Concerns about Shopify seem to have calmed down since then. News that was released on November 16 pushed the stock by more than 5%, and the share price is still going up.

Shopify announced on that day that it had integrated **UPS** into its shipping platform. American merchants will be able to manage all aspects of shipping in one place and have access to rates that are normally available only to larger retailers. The timing is ideal, since the holiday season is coming, and merchants will make more sales, and thus, more shipments.

For Canadian merchants, Shopify has partnered with Canada Post for the past five years.

Is it time to buy Shopify’s stock?

I don’t think Shopify is doing anything illegal, and for that reason, I think investors’ reaction to Citron’s report was exaggerated. However, to reassure investors, Shopify’s CEO should answer questions more clearly by giving numbers such as churn rates.

The share price looks [overvalued](#), with a forward P/E over 300. While there is room for growth, I don’t think paying such a high price is prudent. So, I would say Shopify is a buy only if you have a very high tolerance for risk.

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1. Investing
2. Tech Stocks

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