



Shopify Inc. Takes a Left Hook to the Gut Amid Facebook Inc.'s Fall

Description

After months of inactivity, infamous short seller Andrew Left has returned with a new short report on **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) after the stock surged as high as ~52% YTD. Left is still short the stock. While it's clear his position is starting to feel tremendous pain, it doesn't sound like he's ready to be squeezed out anytime soon.

It's been remarkable how Shopify has been able to soar and leave Andrew Left's concerns behind over the past few months; however, I've warned investors on numerous occasions that [Andrew Left would likely be back](#) with more dirt on the company, and this indeed is what has happened. Shares of Shopify shed 3.64% on a day where the broader market rallied after the S&P 500 bounced back from lows not seen since the February correction.

Left is an opportunistic short seller. He'll prepare a short report and wait until investor fear is at a high point before "attacking" the stock. With **Facebook Inc.** (NASDAQ:FB) shares tanking over 17% from all-time highs following the Cambridge Analytica fiasco, tech investors are becoming increasingly concerned over the heavily data-driven business models of some major tech firms.

It's clear that Facebook crossed a line when it came to user privacy, and while this debacle may not affect the usage pattern of many users, government regulations could become a burden for Facebook and many other tech firms where the user is seen as the product from the eyes of prospective advertisers.

Facebook + Shopify = "The fake news of e-commerce?"

I'm hesitant to purchase Facebook shares on the dip, even though they may seem like a tremendous bargain when you weigh forward-looking earnings growth versus the seemingly attractive valuation metrics at current levels.

Potential regulations could cripple a huge chunk of Facebook's forward earnings, which will also hurt those who have become overly dependent on Facebook for their targeted ads. Andrew Left believes that Shopify is one of these firms that will be negatively impacted, as Facebook cleans up its act when it comes to beefing up its privacy policies.

Left noted that Shopify's business relies on the exchange of personal information collected by Facebook that's sold to Shopify "entrepreneurs," and this collaboration has been the "#1 key to Shopify's growth."

"Rocked to the core of its business model, Facebook has no choice but to take away Shopify's punchbowl," said Left. "Shopify's 'entrepreneur' program, one of its sexiest metrics, is in serious jeopardy. Shopify could immediately trade back to \$100."

Left also referred to the relationship between Shopify and Facebook as an "unholy alliance" and re-emphasized Shopify's "staggering" overvaluation with shares trading at ~37 times sales.

What to make of Left's latest short report

While I do believe strict regulations will hurt Facebook and its advertising "customers," I think the shady relationship between Shopify and Facebook is overly opportunistic and overblown. It's just another way to shed light on the fact that a huge chunk of Shopify's subscribers doesn't have "sustainable" businesses and could easily dump their subscriptions at a whim.

Are there "get-rich-quick" fraudsters operating on Shopify using targeted ads to trick potential customers?

Sure, and that could represent a meaningful portion of the company's subscribers, but it's impossible to quantify how many of these "low-quality" subscribers exist, unless Shopify issues a merchant audit on a case-by-case basis, which will probably never happen!

Before Left's initial short report, a majority of Shopify's subscriber base may be operating "legitimate" startup businesses, but they will also be [short-lived subscribers](#).

An overwhelming majority of startups fail, and with targeted ads being frowned upon, many of these seemingly legitimate startups may go under, resulting in substantial subscriber losses for Shopify at a greater magnitude than gains experienced in the past.

While there are bad eggs in Shopify's subscriber base, I believe most of the non-plus subscribers wish to run legit businesses; however, given the nature of startups and how easy it's become to start a site with the intention of formulating the business idea later, I think an overwhelming majority of subscribers could ditch their subscriptions gradually over time. And if economic conditions become hard, well, such subscription losses will accelerate profoundly. Shopify's relationship with Facebook has been a catalyst for subscriber growth, and the elimination of the "unholy alliance" could be a trigger event for Shopify's much-needed correction.

Bottom line

Overvaluation, churn rates, and ties with Facebook are setting the stage for a much-needed +50%

peak-to-trough decline.

Although there are many positive developments to be excited about with Shopify, including digital cannabis sales, investors should avoid shares like the plague at these frothy levels, especially since broader-market volatility may trigger a growth-to-value or growth-to-defensive rotation in equities.

Moreover, the “short-selling troll” will probably stick around until he finally gets his way!

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