



## Shopify Inc (TSX:SHOP): Time to Buy the Dip?

### Description

It's been a crazy three years for **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)). Since the company's IPO in 2015, it has grown to 600,000 stores, \$63 billion in (all-time) sales, and a market cap of \$18 billion. The stock has also risen by over 400% since going public — not too shabby.

But more recently, Shopify shares have been retreating; down by 22% in the past month, they haven't been having a great August. And yet with revenue growth remaining solid at 62% year over year, Shopify is still a rapidly growing company. Is the recent pullback in Shopify stock a buying opportunity? Or are there more fundamental issues at play that investors should be wary of?

It helps to start by looking at Shopify's earnings

### Revenue and earnings

As I already mentioned, Shopify's revenue is growing quickly. However, the 62% growth observed in the most recent earnings statement is [down from 68% growth](#) the quarter before. In fact, Shopify's revenue growth has declined for the past three consecutive quarters. Granted, when growth figures are in the upper double digits, that hardly means the company is on a downward spiral. But investors generally expect companies this young to not only grow, but accelerate — especially when the company hasn't reliably delivered positive net income.

On a more positive note, the company *did* deliver positive (adjusted) earnings of \$0.02 per share in the most recent quarter. This was a significant improvement over what analysts expected (a loss of \$0.03 per share). For a company that has had negative earnings many times in the past, these figures are good news.

### Dilution of ownership

One factor that could be driving Shopify shares down is [dilution of ownership](#). The company continues to issue shares to raise money for operations, as its revenues aren't keeping up with costs. The more shares are issued, the less each Shopify investor owns in the company. Theoretically, this "dilution" is offset by the influx of cash into the company. But when you have a company that burns through cash

like Shopify, the additional cash on hand can disappear quickly.

### **Bad press**

A final factor that could be driving down Shopify shares is bad publicity. In 2017, the activist investor Andrew Left published a scathing report saying that Shopify's numbers were being inflated by unscrupulous vendors on the platform, including MLM promoters. The idea was that the platform was home to many ethically questionable vendors and may have to take action against them for regulatory reasons. This would drive the company's earnings down. As of August 2018, it has not happened, but Left's negative reports about the company continue.

### **Bottom line**

Shopify is, like many tech companies, a rapidly growing enterprise with high revenue but shaky net income. Whether the stock is a good long-term play depends on whether the company can start reliably showing a profit. Despite encouraging signs in Q2, there is no solid trend in this direction, so I'd hold off on investing in Shopify for now.

### **CATEGORY**

1. Investing
2. Tech Stocks

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

### **PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

### **Category**

1. Investing
2. Tech Stocks

### **Tags**

1. Editor's Choice

### **Date**

2025/09/19

### **Date Created**

2018/08/22

**Author**

andrewbutton

default watermark

default watermark