

## Why Is This Shopify Inc (TSX:SHOP) Insider Selling Shares?

### Description

**Shopify Inc** ([TSX:SHOP](#))([NYSE:SHOP](#)) is the darling of the Canadian tech industry. Between soaring revenue growth, frothy returns and untold volumes of media coverage, it's clear this stock is riding high. But despite all the accolades, some see Shopify stock as an unambiguous sell. Apparently, one of them is a Shopify director.

According to a recent report, Steven Alan Collins sold 2000 Shopify shares worth approximately \$273,000 on October 31. The move came after a big fall season driven by legal cannabis sales and a Q3 earnings report that most commentators regarded as positive.

Granted, with a \$15 billion market cap, Shopify's stock will hardly be affected by Collins' comparatively minor sale. Still, the act of selling by an insider always raises questions. Is he simply taking profits? Is it a vote of no-confidence in the company? Should non-insider holders emulate the move? In Collins' case, it's hard to say, mainly because Shopify stock is generally well regarded and still up year-to-date (although down considerably from its 12-month highs).

To understand why insiders might be cashing out of Shopify right now, it helps to look at the stock's performance this year.

### Year-to-date performance

On the whole, Shopify has had a strong 2018. Although the stock is down from its high of \$229, it's up about 44% year-to-date. This is a very strong return and well ahead of the TSX average.

This could also help explain why a Shopify insider would sell shares in the company. Steven Collins has been a Shopify board member since 2014 before the company even went public. Since the IPO, Shopify shares have gained a whopping 985%. Collins has most likely held a stake the entire time, making the investment a ten bagger. After seeing Shopify shares begin to falter in late 2018, he may have simply decided to sell in order to take profits when they were available to do so. If this is the case, then Collins' sale may not be so much a vote of no confidence as the cluing up of a mega-profitable play.

### Growth

It's still possible that Collins had other, more fundamental reasons for selling his stake in Shopify. One reason could be the company's revenue and earnings growth.

Shopify's revenue growth, although strong, appears to be decreasing every quarter, having slid from 68% in Q2 fiscal 2017 to 58% in Q3 fiscal 2018, suggesting that the company may be running out of fuel. On the profit front, things don't look much better. Because of its ballooning costs, Shopify is struggling to post an operating profit, and the operating loss grows wider each quarter.

Additionally, although the company is posting positive net income, earnings [fell by about 10%](#) year-

over-year in Q3. This is a company that will need to [get its costs under control](#) before it starts making the kind of money that would justify its valuation.

### Bottom line

Ultimately, only Steven Collins knows exactly why he sold his Shopify shares. However, the fact that he sold when he did is instructive. Shopify is currently at the tail end of three consecutive years of frothy returns during which the stock has gained nearly 1000%. After all these years, the company is still struggling with profitability, which makes one wonder how long the party can last.

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