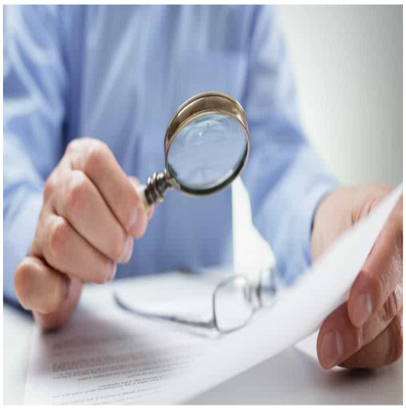

Is Shopify Inc (TSX:SHOP) Stock a Buy After Issuing New Shares?

Description

For **Shopify Inc** (TSX:SHOP)(NYSE:SHOP), 2018 has been a tremendous growth year. Now it looks like the company is eyeing even more growth, as it has sold $400 million worth of Class A subordinate voting shares to fuel further expansion. The news comes at a pivotal moment for the company, which posted phenomenal sales numbers on Black Friday and is expected to hit sales records again this holiday season.

The question investors need to ask themselves is whether this new share issuing will help or harm the company. To answer that question, we first need to look at how it will affect shareholder equity.

Diluting equity

When a company issues new shares, it dilutes current shareholders' equity. In other words, it means that each share represents less of a claim on the company's equity (assets minus liabilities). Of course, the issuing of shares means that the company's total equity pie increases. But if proceeds from a stock sale are wasted, the net effect of the sale is to make each share worth less. Fortunately, in Shopify's case, it looks like the company has some solid ideas for what to do with the $400 million it has raised.

Improving the balance sheet

One of the reasons Shopify cited for issuing shares was improving its balance sheet. Although Shopify has no long-term debt to speak of, the company has little in the way of long-term investments. Shopify is planning on investing a portion of its share issuance proceeds into long-term interest bearing investments, which will improve the assets portion of its balance sheet while possibly contributing revenue that could tip the company toward profitability. Although Shopify posted a loss in GAAP terms in Q3, it was not by a wide margin, so a little investment interest could be all the company needs to achieve positive net income.

Fuel for growth

In addition to bulking up its balance sheet, Shopify plans on using part of its $400 million windfall to fuel growth. Shopify is already growing at 58% year-over-year, but it grew faster in past quarters. To get its revenue growth up to the high 60s again, the company could pursue many strategies: increasing advertising, new product offerings, new pricing tiers, etc. Any one of these strategies will cost money, so issuing equity to fund expansion might make sense. The question is whether growth initiatives like these will work well enough to overcome dilution of equity. Whether that turns out to be the case remains to be seen.

Bottom line

Shopify is already one of Canada's fastest-growing and most respected tech companies. With a large and growing market share in the online shopping cart market, it's becoming an increasingly dominant ecommerce player. Shopify's $400 million share issuance is a play at growing beyond this already enviable positions. If it works, then Shopify will easily be the best TSX tech play in 2019.

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