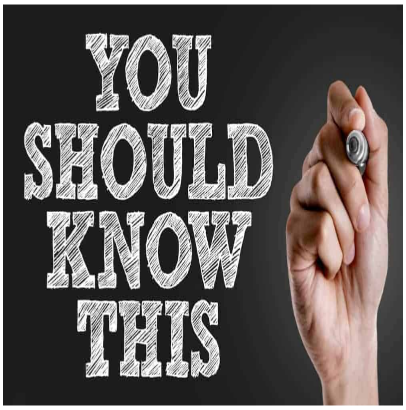

3 Key Takeaways From Shopify Inc's (TSX:SHOP) Q4 Results

Description

On Tuesday, **Shopify** (TSX:SHOP)(NYSE:SHOP) released its full-year results for 2018. It was a momentous achievement, as the e-commerce giant recorded revenues of over $1 billion for the full year, a new record for the company, for a year-over-year improvement of nearly 60%. However, let's take a closer look at the company's financials to see just how good of a quarter it was for Shopify and whether you should buy the stock.

Sales continue to rise at a decreasing rate

It's a trend that just isn't going away: sales were up 54% this past quarter, but that's down again from the 58% growth that Shopify achieved back in Q3. I was optimistic that perhaps Shopify might get a boost this quarter from the newly legalized marijuana industry doing a lot of business on its platform, but clearly that wasn't enough to overcome what we've been seeing for some time — that sales are slowing down.

To Shopify's credit, however, increasing even at 50% every quarter is a significant accomplishment and not easy to replicate. The problem is, a growth stock's focus is always going to be on the top line and how strong it is. The company is expecting to see growth continue to slow in 2019, as it projects revenues to fall between $1.46 billion to $1.48 billion for the full year.

Company still can't find a path to break even

Complicating the problem of slowing growth is that costs have been rising in tandem. With operating expenses totaling $195 million in Q4, that's a 53% increase from a year ago. As a result, Shopify came away with a loss from its operations totaling more than $9 million, up from the $6 million loss it incurred a year ago. Other income of around $8 million was able to inch up the company's overall net loss to $1.5 million, but it still was not enough to pull the bottom line into the black.

Shopify has burned through a lot of cash

During the past 12 months, Shopify has been able to generate just $9 million in cash from its day-to-day operating activities. That has been nowhere near enough to cover investing activities totaling $811 million, which have been largely related to the purchase of marketable securities. The problem for investors is that this results in more shares being issued and more dilution for existing shareholders. However, with Shopify's stock price being so strong, it helps minimizes the number of shares needing to be issued.

Bottom line: Is the stock a buy?

Prior to the earnings release, Shopify had closed at $229, as it was coming off a new 52-week high. The stock trades at significant multiples to both sales and book value, and it’s hard to justify paying so much for a company that continually fails to stay out of the red. Especially with sales growth slowing down, the focus should be on the company cleaning up its house and ensuring some efficiencies can be gained to ensure there’s some breathing room between costs and sales. Until that happens, it’s not a stock I’d consider buying.

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