Investors: Do You Need to Be Worried About Shopify (TSX:SHOP)?

Description

Shares of Canada's high-growth tech company, **Shopify** (TSX:SHOP)(NYSE:SHOP) has taken a beating in the last few days. The stock fell 6.2% yesterday and has slumped over 18% since August 27, 2019.

Do investors need to be worried? Will the stock decline further as 2019 comes to a close, or will it rebound yet again? Let's have a look at how Shopify has bounced back from previous corrections.

Shopify shares fell from $49 in July 2015 to $34 in September 2015 — a decline of 30.6%. The stock then recovered to $48 in October 2015 before falling 44% to $27 in February 2016. Shopify shares gained enough steam in the next two years and reached $192 per share in March 2018.

Shares fell 23% to $148 in April 2018. Shopify stock then fell from $225 in July 2018 to $166.39 in December last year — a decline of 26%. Shopify's massive corrections have been between 23% and 44% since its IPO back in May 2015.

Shopify was trading at a premium

The last two days have seen overvalued tech stocks correct significantly. Shopify was trading at a premium and was expensive. Shopify is valued at $38.5 billion, or 25 times 2019 sales. Despite the recent pullback, Shopify shares have gained an incredible 1,167% since its IPO.

Though the stock is trading 18.5% below its 52-week high, it has surged 137% year to date and might decline in the coming weeks. Though Shopify is trading 7.4% below its 12-month average trading price, investors would be advised to exercise caution on the stock.

I had advised investors to refrain from buying Shopify earlier this month, citing the company's high valuation.

Shopify announces the acquisition of 6 River Systems for $450 million

Shopify stock was also impacted as the company announced the acquisition of 6 River Systems for $450 million. 6 River Systems is a leading player in the collaborative warehouse fulfillment segment. Shopify had earlier announced its intention to pump money and set up fulfillment centres to enable timely delivery of products, lower shipping costs, and robust customer experience.

The 6 River Systems acquisition is set to complement Shopify's expansion plans. Shopify will look to leverage 6 River's solutions in fulfillment software and robotics. According to Shopify's press release, the company will integrate 6 River's software and collaborative mobile robots to its own fulfillment network. This will help increase the efficiency of warehouse operations by empowering employees with tasks such as inventory replenishment, sorting, and packing.

Shopify's CEO Tobi Lutke stated, "Shopify is taking on fulfillment the same way we've approached other commerce challenges, by bringing together the best technology to help everyone compete. With 6 River Systems, we will bring technology and operational efficiencies to companies of all sizes around the world."

Shopify ended the June quarter with $2 billion in cash, which is more than enough to fund this acquisition. But the acquisition will not be an all-cash transaction.

It will consist of 60% in cash (around $270 million) and 40% in Shopify Class A Subordinate Voting Shares. The deal will be closed in the fourth quarter of 2019 and will have no material impact on Shopify sales this year. But Shopify's expenses will rise by $25 million due to the acquisition.

Investors need to keep an eye on Shopify and buy it at every major dip. The company still has solid growth potential and will always trade at a premium.

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