



The Real Reason Behind Shopify's (TSX:SHOP) Stock Price Performance

Description

In business, professional networks matter when raising capital on the stock exchange. Just because a stock attracts a score of capital, it doesn't mean the stock is worth its weight. That may be the real reason behind **Shopify's** ([TSX:SHOP](#))([NYSE:SHOP](#)) success.

Shopify's stock price soared nearly 200% in the past 12 months. The logic behind this price performance is baffling. Not only does Shopify issue no [dividends](#), but the company's cash flows are not likely to grow by much in the next five years.

It is difficult to imagine that Shopify could be worth \$300 a share when it has an operating margin of negative 8.97%. The company isn't profitable, and its true valuation is, at most, half the current share price.

So, this raises two questions. Why is the stock so expensive? And when the stock price corrects downward, who will gain and who will lose?

Who owns Shopify stock?

Shopify's CEO Tobias Lütke is a computer programmer originally from Germany. Lütke and his wife Fiona McKean are [well connected politically](#) in Canada. This connection stems from Fiona's father, Bruce McKean, a former civil servant, who owns nearly 10% of Shopify's shares outstanding. At the end of the fiscal year 2018, Tobias Lütke owned 63.98% of Shopify's class B shares.

It is likely that between Mr. & Mrs. Lütke, they were able to raise substantial capital externally through wealthy friends. IPOs can be extremely profitable for insiders and early investors. These initial investors certainly have the upper hand over those everyday investors.

On the New York Stock Exchange, institutional ownership is up to 67.08%, according to the Nasdaq. The issue is, which groups of investors overvalued the shares and who will begin selling first?

Canadian investors should be concerned about holding onto Shopify shares for too long. A billionaire

may pop this stock's bubble and wipe out your retirement savings.

What is Shopify's business model?

Investors may be confused about the potential profitability of Shopify's business model. It is not appropriate to compare Shopify to **Amazon**. Shopify is essentially a web-hosting platform designed specifically for small business owners to manage customer orders through multiple sales channels easily. Thus, Shopify's peers are more along the lines of **Wix** and **GoDaddy** than Amazon.

Shopify creates opportunities for small businesses to reach more consumers through the internet. Additionally, the platform provides a convenient and easy-to-use data management system to track sales from multiple platforms, including storefronts.

Even if Shopify were comparable to Amazon, the chances of Shopify legitimately competing with Amazon are meagre. Amazon is a one-stop shop that is well connected to the final consumer. Shopify is strictly a B2B interface, well removed from their client's customers.

Foolish takeaway

Shopify shareholders should take care not to take too much stock in the hype and public relations surrounding Shopify. Tax-Free Savings Account and Registered Retirement Savings Plan investors should ensure that they do not invest too heavily in overvalued stocks.

In the case of Shopify, Canadian investors should be wary of holding onto stocks that may be overvalued due to [family connections](#) to wealth and substantial insider ownership.

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