Why Shopify (TSX:SHOP) Stock Fell Over 10% Yesterday

Description

It's a rare day on the TSX when **Shopify** (TSX:SHOP)(NYSE:SHOP) is listed as one of the biggest losers. Yet, that's exactly what happened on April 2. Stock in the company declined by more than 10%, even as other stocks in the TSX were making gains.

Since the beginning of 2019, Shopify had been on a tear. Over the past year, shares reached as high as $786. As of this writing, the stock is trading at $493.33.

What happened to cause the decline?

Due to the coronavirus outbreak, Shopify announced it was pulling its 2020 guidance. While some of its customers may get a boost from increased online sales, there's a risk that some of the smaller online merchants may fail. Previously for 2020, Shopify expected revenue of $2.13 billion to $2.16 billion.

Shopify also announced that it had terminated thousands of merchants that were either charging unfair prices or making false claims relating to products for COVID-19, including face masks and hand sanitizer. The company wants to be clear that it will not tolerate this type of misconduct from its merchants.

Shopify was outpacing the TSX

Prior to this news, Shopify stock was up approximately 20% year-to-date, easily outperforming the benchmark index.

Shopify's all-inclusive online selling platform serves over 1.2 million merchants. For a monthly fee, merchants can create and develop an online store to promote, sell, and ship their products. The company's low startup cost and easy-to-use interface have contributed to its success.

In its fourth quarter earnings release, Shopify reported that sales grew by 47% to US $505.2 million.

The company ended the quarter with over $2.4 billion in cash on hand and no debt.

Consumer spending habits likely to change forever

During the coronavirus crisis, sales in most brick-and-mortar retail stores have been halted. This event is likely to have lasting effects on the buying patterns of consumers — even those who traditionally prefer brick-and-mortar retail – as they adjust to shopping online.

These customers will likely become accustomed to the convenience of having packages delivered at home. This trend could change spending habits of the general public forever.

Even as spending is likely to be down across the board due to the growing strain on the economy, online shopping is expected to grow. A former CEO of **eBay** recently noted that e-commerce sales as a percentage of retail sales in the U.S. is currently around 11%.

But by the second quarter, he expects this number to be closer to 25%. While the percentage of Canadian online shopping lags the U.S., that too is expected to massively increase.

How Shopify is handling the pandemic

In response to COVID-19, Shopify is implementing a number of initiatives. For example, the company is extending their 14-day trial to 90 days for new customers.

As people are impacted by a job loss or reduced hours due to the pandemic, becoming an e-commerce vendor is a low-cost way to make some extra money. With Shopify's new policy, it is a perfect time to introduce themselves to the platform.

At the end of the free trial, Shopify can expect many conversions to paying customers. These merchants will have put significant time and effort into their platforms over the introductory period.

The company has also set aside $200 million for loans to merchant customers during the coronavirus pandemic.

The bottom line

This week, Ron Johnson, former CEO of **J.C. Penney** and architect of the **Apple** retail stores, provided a grim forecast for department stores. He said that it will be difficult for these stores to survive, as the coronavirus has shuttered stores across North America indefinitely.

It's clear that online shopping is the wave of the future. Despite the recent bad headlines, Shopify is well-positioned to take advantage of this trend.

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