



Are Shopify's Stock Offerings a Sell Signal?

Description

Since hitting a high of more than \$1,900 per share earlier in February, **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock sold off significantly in the past few weeks. One of the key reasons for this? Yet another stock issuance at a discount to its stock price at the time.

This 13% decline from its peak to yesterday's close isn't truly game changing. However, investors may be starting to become concerned with the pace at which Shopify has issued shares of late. Here's why.

Stock offerings inherently bearish — sometimes

Numerous stock offerings within a short window of time can be taken by the market as a bearish signal, as companies tend to issue shares when they believe the market is over-pricing their stock.

Issuing shares at too low a valuation could provide significant dilution. However, at higher prices, the dilution effect for the dollar amount received is minimal. If a company believes its stock price is elevated to a degree that doesn't make sense, issuing as many shares as possible before the window of opportunity closes is what most management teams will want to do.

The fact that Shopify has tapped equity markets three times in the past nine months could be concerning. Indeed, investors could be worried that Shopify's management team thinks its stock is overpriced. This stock carries a valuation in the nosebleeds. It's not a leap to suggest this could be the case.

I said *sometimes*

However, investors need to remember that one of the great things about Shopify is the company's aversion toward debt. Indeed, Shopify has managed to grow at its incredible pace via tapping equity markets along the way. The company's debt load is relatively microscopic compared to its market capitalization. Shopify's managed this by focusing on equity markets for capital over the years.

Shopify has a little less than \$1 billion in debt, but more than \$6 billion in cash. Some investors may be concerned that these issuances are not needed right now. In other words, Shopify's tapping equity markets when it doesn't need to. If one believes the stock price will go up over time, why not wait to raise money at higher prices?

However, a lot of capital will need to be deployed to fund this growth in the near-term. Accordingly, investors bullish on Shopify's growth potential may like a bigger war chest. The ability to pursue acquisitions or aggressively go after new markets, that's a good thing.

For long-term investors, Shopify's a world-class company with tons of upside. I'm not necessarily worried about these equity raises, and think they're net beneficial to Shopify over the long haul.

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1. Investing
2. Tech Stocks

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TICKERS GLOBAL

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Author

chrismacdonald

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