Shopify’s CEO Shreds Analysts: Journalist Offers Solution

Description

Recently, **Shopify** (TSX:SHOP)(NYSE:SHOP) CEO Tobias Lütke took to **Twitter** to discuss his stock’s falling price. Over the weekend, he bashed financial analysts who downrated his company’s stock, saying that

- Macroeconomic factors can drive corporate performance;
- A company “missing estimates” is better understood as analysts failing to make accurate predictions; and
- Financial analysts as a whole need to be held accountable.

This wasn’t the first time Lütke publicly criticized Wall Street’s reaction to his company’s performance. A few months ago, he called SHOP stock a “hell of a deal,” implying that Wall Street had been selling it excessively. Ever since SHOP’s first-quarter earnings release, analysts have been reducing their target price targets on the stock, which has fallen 75% year to date. Lütke believes that analysts should be held accountable, as their forecasts often mislead investors.

National Post suggests an answer

Last night, a Canadian journalist offered some potential solutions to the problems Tobi Lütke identified. In a story titled “Shopify founder Tobi Lütke throws shade on the analysts who are down on his company,” the *National Post’s* Marisa Coulton suggested TipRanks as a possible cure to the problem of irresponsible analysts.

TipRanks is an online data platform that collects analysts’ ratings and gives them an average return estimate. This lets investors see how top financial experts are performing. In addition to covering analysts, the platform also has ratings for bloggers, hedge fund managers, and corporate insiders. TipRanks’s own marketing says that it aims to “keep Wall Street accountable.” It does indeed seem to give investors insights into whether analysts’ ratings are accurate.

Will it work?

Marisa Coulton offered a good solution to Lütke's problem with analysts not being held accountable. Assuming its data is accurate, then TipRanks can help investors decide which analysts are worth listening to.

It remains to be seen whether that will move the needle for Shopify stock. Shopify analysts are revising their estimates due to genuine concerns with its performance. Among other things, SHOP's most recent quarter featured

- Its slowest growth in years;
- A large GAAP net loss;
- Shrinking non-GAAP profits; and
- single-digit growth in subscription revenue.

None of this reflects the kind of performance that investors are looking for in growth stocks like Shopify. In a high interest rate environment like this one, why not just hold banks or utilities when growth companies are losing money? Growth in revenue is not the same as profit growth. Perhaps defensive companies will actually deliver more profit than growth stocks going forward.

Foolish takeaway

In many ways, Tobias Lütke was right in questioning analysts' practices. Earnings estimates are often way off, and even when they're right, they encourage short-term thinking. Additionally, they can cause investors to misjudge quarterly reports. If analysts have an EPS figure they're obsessively hoping to see "beaten," they might ignore a strong showing on free cash flow (FCF). This actually happened in **Alphabet's** recent earnings release, which triggered a selloff, despite showing massive FCF growth. So, Lütke definitely has a point. But that doesn't mean that SHOP deserves to be at all-time highs.

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