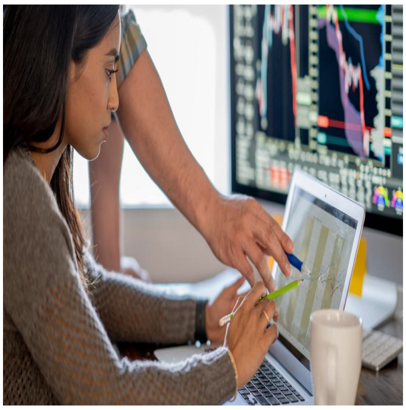

Shopify (TSX:SHOP) Stock Split: Here’s What Investors Need to Know

Description

Shopify’s (TSX:SHOP)(NYSE:SHOP) share price has been hit hard. Year to date, the stock is down over -68%, having hit a 52 week-low of $402 recently — a far cry from its 52-week high of $2,228.73.

As one of the pandemics growth stock success stories, the current high inflation, rising interest rate environment has not been favourable for Shopify’s valuation.

Despite this, at least two-thirds of Shopify shareholders voted yesterday at the annual general meeting in favour of a new corporate governance structure. Details include the following:

1. The new structure will protect founder and CEO Tobi Lutke’s voting power and ensure he will hold 40% of the company’s voting power via non-transferable founder’s shares.
2. Shareholders voted in approval of a 10-for-1 split of the company’s class A and class B shares, which would make the stock more affordable to retail investors.

How do share splits work?

Shopify’s recent split is an example of a forward stock split, where investors receive additional shares based on how many they own per a set ratio. In this case, the ratio is 10-to-1, meaning that for every share a Shopify investor owned, they would have 10 shares post-split.

While actual share prices are subject to change, let’s suppose that, for the purpose of this example, Shopify is trading at $400 by market close the day of the split.

An investor with one share of Shopify at $400 would have that share turned into 10 shares at $40 each. Their total position value remained the same at $400, but their number of shares increased.

A good way to visualize a stock split is thinking about exchanging a loonie for quarters, dimes, nickels, or pennies, which would correspond to 4-to-1, 10-to-1, 20-to-1, and 100-to-1 splits, respectively.

Why would a company decide to split?

The main reason a company decides to split their shares is to make them more affordable to a larger demographic of investors. This is a win-win for both sides. We saw this recently with **Alphabet** and **Amazon**.

Investors with smaller accounts can now buy cheaper shares of Shopify, giving them easier exposure. The buying pressure may raise the share price, which is beneficial for management. Case in point: Shopify shares are up over 2% today on the back of this announcement.

I own Shopify: What does this mean?

If you're a current shareholder, there's nothing that needs to be done. On the day of the split, your brokerage app may display a "corporate action" notification informing you of what's occurring. Your shares of Shopify will briefly disappear and be replaced shortly with the new number of shares.

If you own fractional shares, they may either be rounded down or paid out at their cash value. If you own options, the options chain will adjust itself to account for the new ratio, along with the number of contracts you own and their premiums.

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