Why Is Shopify (TSX:SHOP) Stock Down 16% Today?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) dropped 16% this morning, as it announced layoffs. The e-commerce giant is reducing its workforce by 10%, according to a report by the *Wall Street Journal.*

This has implications for Shopify's valuation and for other stocks in the consumer tech sector. Shopify stock has dropped another 16% today, and other retail stocks are feeling the impact, too. Here's a closer look.

Shopify's layoffs

The *Wall Street Journal* seems to have obtained an internal memo by CEO Tobias Lütke that suggests the company is expected to lay off 1,000 workers. That represents 10% of the company's global workforce.

According to the report, the layoffs are due to a pullback in consumer demand for online shopping. Shopify (and other e-commerce platforms) saw immense growth during the pandemic. Government stimulus measures coupled with a lack of discretionary spending on entertainment and travel created an online shopping boom.

This boom is now over, which is being reflected in Shopify's earnings and stock price.

Shopify stock is already down 75% year to date and 81.5% from its all-time high. Management has expressed concerns about a slowdown in growth and the struggle to retain talent, as stock compensation takes a hit. Recent earnings reports have highlighted this pain.

Now, investors should look ahead to see how long the pain could last.

What comes next?

Shopify's next earnings report is due tomorrow morning. The report is likely to show a slowdown in consumer demand, which means sales growth could be lower than anticipated. If the global economy is entering a recession, growth could slow further in the months ahead.

However, Shopify stock is now cheaper than its historical average and could have already priced in much of this pain. The stock is trading at just 5.4 times revenue per share — the lowest ratio since 2018. Shopify has also secured partnerships with major social media platforms to boost sales and has plenty of cash ($7.25 billion) to survive the downturn.

Management expects growth to recover eventually, as e-commerce adoption rates rebound to pre-pandemic levels. Global e-commerce remains a multi-trillion-dollar opportunity. Nevertheless, Shopify stock could remain under pressure for the rest of the year and perhaps into 2023. That could be an opportunity for long-term investors looking to make a contrarian bet.

Bottom line

Shopify has had a tough year, and it looks like there's more pain ahead. Consumers are struggling with high inflation, which means they're cutting back on discretionary spending. Online retailers like Shopify should see a significant slowdown in growth.

However, the company has enough cash on hand to survive the downturn. This recent round of layoffs should further strengthen its financial position and preserve cash flow. Investors looking to make a long-term bet and willing to face headwinds until 2023 should take a closer look at this out-of-favour growth story.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. vraisinghani

Category

1. Investing
2. Tech Stocks

Date
2025/08/27
Date Created
2022/07/26
Author
vraisinghani