Shopify (TSX:SHOP) Stock: Strategic M&A Key to Driving a Rebound?

Description

Beaten-down shares of **Shopify** (TSX:SHOP)(NYSE:SHOP) got a big jolt of relief over the past week, surging from around $400 per share to just shy of $500. The Tuesday bounce, which came on a sluggish day for Wall Street and the broader tech sector, was thanks partly to an intriguing $100 million bet on automation firm Klaviyo.

Undoubtedly, Shopify stock was so oversold going into the week that it wouldn't take a lot to get shares trending higher again. Just over a week ago, I noted the likelihood that shares of SHOP would bounce off its very strong support level in the low $400 range.

The tech waters have been quite rough

Now, Shopify has been making headlines of late, and for all the wrong reasons. The company's massive 1,000 employee layoff and acknowledgment from CEO Tobias Lütke that he overhired amid the pandemic upswing were taken very negatively by investors. Regardless, I think it was better for Lütke to deliver all the bad news in one go.

Now, all focus is on how Shopify will navigate through these choppy waters enroute to a recession (if we're not in one already). While retail sales have been somewhat sluggish, I think things have become a tad overblown, especially given the likelihood that the next recession could be far milder and shorter-lived than average.

Should retail sales bottom out quicker than expected, we could find ourselves in the early innings of a new bull market. And it's a bull market that could power Shopify stock toward $1,000 per share.

Shopify continues adding to its arsenal

Undoubtedly, Shopify's big layoff was seen as a sign that the firm is pulling back with its innovative capabilities. With rising competitors in the e-commerce space, most notably **Amazon**, which is continuing to flex its disruptive muscles, Shopify can't afford to be flat-footed going into a period of economic contraction.

There’s no question that a 10% reduction in staff is a big deal. That said, Shopify will still have around 9,000 workers — around 4,000 more than it had at the end of the first quarter of 2020. Shopify’s hiring boom was unprecedented. Though the big layoff was a tough pill for investors to swallow, investors should not expect the firm to slow its pace of innovation — not with hungry rivals breathing down its neck in the wildly competitive e-commerce space.

Shopify could pick up its pace of acquisitions

The recent partnership and investment in Klaviyo could be the start of something special. For now, Klaviyo will act as an email solution in Shopify Plus. The deal represents one of many intriguing moves that could help Shopify build upon its moat to keep big-league rivals like Amazon at bay.

Klaviyo sports a valuation of around $9.5 billion, making Shopify’s partial bet just a toe in the water. Regardless, I wouldn’t rule out an upped stake should the Shopify-Klaviyo partnership bear fruit over the coming quarters.

The Klaviyo partnership and investment comes just weeks after Shopify bought fulfillment technology firm Deliverr in a deal worth $2.1 billion. In a prior piece, I’d noted that the Deliverr deal would help Shopify keep up with Amazon, a firm that’s doubling down on logistics and fulfillment. The big deal could mark the start of a shopping spree (forgive the pun), as Shopify looks to bolster its competitive edge in an environment where there are great deals to be had in the smaller-cap side of the tech space.

The bottom line

Tech valuations have contracted in a big way in recent months. With nearly $7 billion worth of cash and cash equivalents as of June 2022, Shopify has the chips to place big bets. Such bets could help drive the stock, as investors think beyond the coming recession.

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