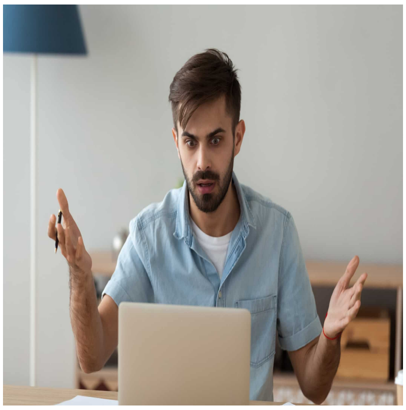

Why Dropbox Shares Fell 24% Last Month

Description

What happened

Shares of **Dropbox** (NASDAQ: DBX) fell 24% in August, according to data from S&P Global Market Intelligence. The provider of cloud-based storage and data management tools posted encouraging second-quarter results last month, but weak billings pointed to slower growth in the next couple of quarters. The stock closed nearly 13% lower the next day.

So what

Dropbox's second-quarter sales rose 18% year over year, stopping at $402 million. Adjusted earnings landed at $0.10 per share, 9% below the year-ago quarter's $0.11 per share. Your average analyst had been looking for earnings near $0.08 per share on sales of approximately $401 million, so Dropbox edged out the analyst consensus on both of these headline-grabbing metrics.

But order billings and deferred revenue came in significantly below analyst expectations. Those are bad signs for its near-term revenue growth, causing some investors to reduce their holdings in a hurry.

Now what

Dropbox recently introduced an updated set of storage tools, aimed at expanding the ways a user can tap into the company's cloud storage platform.

"For over a decade, Dropbox has been a magic folder that lets you have all your stuff in one place, and the new Dropbox evolves the magic folder into a magic workspace where you can have all your work in one place," CEO Drew Houston said on the earnings call. "With everything in one place, it's a lot easier to navigate. Users will have one search box, not 10, to search across all their stuff."

The revamped cloud computing toolkit lets Dropbox users access a variety of file types such as spreadsheets, text documents, and slideshows in a number of popular cloud computing frameworks. In this paradigm, everything a digital office worker does on a computer can be managed through a single portal that is provided by Dropbox and feels seamless to the user.

Dropbox hopes to inspire more of its users to pay for these upgraded services rather than sticking to a free but more bare-bones experience. If that plan works out as expected, it will boost both its top-line revenue and profit margins in a hurry. But until then, the company must spend money to execute on this vision — marketing and tech support for the new service model isn't cheap.

The stock has now dropped 24% over the last 52 weeks. If the company can carry out its market-widening plans without too many hiccups, we might be looking at a solid buy-in opportunity here. That being said, Dropbox has a lot of question marks to clear up before I'd be comfortable buying the stock. That's why the market reaction last month looks appropriate to me.

CATEGORY

1. Investing
2. Tech Stocks

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1. Syndicated

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1. NASDAQ:DBX (Dropbox)

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