



Why Shopify Stock Sold Off Last Week

Description

Shopify ([TSX:SHOP](#)) sold off last week, falling 10.45% for the whole week, and 18.4% from Thursday to Friday. The selloff surprised many investors, who got excited when SHOP's management announced that they would be increasing the prices of all of the company's paid plans. However, when we look at the news the company put out last week, we can start to appreciate why its stock went down so much.

A disappointing earnings release

By far the biggest culprit in Shopify's mid-February selloff was its fourth-quarter earnings release. The release came out on February 15. Most of last week's selloff occurred on February 16 and 17. In fact, the stock even rose modestly in the days leading up to its earnings release.

So, what was in Shopify's earnings release that disappointed investors?

By the numbers...

- Gross merchandise volume (GMV) increased 13%.
- Revenue came in at \$1.7 billion, up 26%.
- Monthly recurring revenue came in at \$109.5 million, up 7%.
- The operating loss (i.e., how much the company's operations lost) was \$188 million, worsened by \$174 million.
- The net loss was \$613 million, worsened by \$252 million.

It was a pretty rough showing. The losses all increased significantly, signaling that SHOP is not only not making money, it's losing money at an increasing pace. One bright spot was the revenue, which increased at a truly speedy 26% pace. However, investors weren't impressed by the rising losses.

A big run-up before earnings

Another reason why SHOP sold off so steeply last week is because it had been running up before its earnings release came out. A few weeks before the release was published, Shopify announced that it would [raise the prices](#) on all of its paid plans. The price hikes were as follows:

- \$10 on the basic plan (from \$29 to \$39)
- \$26 on the Shopify plan (from \$79 to \$105)
- \$100 on the advanced plan (from \$299 to \$399)

These were pretty significant price hikes. In fact, they probably single-handedly lifted SHOP stock in the weeks prior to the earnings release coming out. We know this, because no other news about Shopify was released in the month before the release, and the price hike news coincided with a 10% one day rally. The price hikes got investors feeling optimistic, but once earnings were released, it became clear that they hadn't improved the company's profitability as much as had been hoped.

Foolish takeaway

Having looked at all of the relevant factors, we can now answer the question, "why did SHOP stock fall last week?"

The answer is, because the company's earnings release disappointed investors, and because the stock ran up too much before the release came out. Earlier this year, we saw high-growth tech stocks rally for reasons that weren't exactly clear. Shopify was one of them. After last year's bear market, investors thought it was a good idea to buy unprofitable [growth stocks](#). It turned out they thought that way too soon. Hyper-growth stocks are still too expensive. I'd possibly buy SHOP somewhere in the \$20-\$30 range but no higher than that.

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