



Up 52% in 30 Days, Is This the Next Shopify (TSX:SHOP)?

Description

Unicorns (private companies or startups worth over US\$1 billion) are rare in Canada. According to industry data, there's currently only one unicorn in the country (Kik Interactive). Even rarer is a unicorn that lists on a public exchange.

However, investors had a chance to witness this rare occurrence last month when payment solutions software maker **Lightspeed POS** ([TSX:LSPD](#)) listed in Toronto.

Montreal-based Lightspeed is, in many ways, comparable to another major Canadian technology unicorn that listed on a public exchange — **Shopify**. Like Shopify, Lightspeed helps small- and medium-sized retailers process payments from their customers. However, Lightspeed's solutions go one step beyond the limited e-commerce strategy its larger rival has focused on.

The company's software can be integrated with iPads, smartphones, and commercial point-of-sale devices shop owners and restaurateurs operate across their physical locations. The software solution can help businesses process payments, track loyalty points, create reports, manage inventory, and control employee workflows seamlessly.

A range of back-end features and integration with the cloud streamlines the process for businesses with limited resources.

According to the company's prospectus, more than 47,000 customers spread across 100 countries rely on this platform to process more than \$13 billion in gross transaction volume.

Over the past 12 months, the company has generated \$72 million in revenue, 90% of which is recurring. Sales and gross transaction volume have both compounded at a rate of 36% and 48% respectively. There's no denying the fact that this is a robust and quickly expanding business with great potential.

But the company's core product was, until recently, powered by what the company calls "legacy payment processors." In other words, Lightspeed was simply an intermediary with razor-thin margins. This model meant that the company took only \$0.25 on every \$100 purchase processed on its platform.

Management decided to change the game with vertical integration by launching its own payment-processing platform this year. Now the company can take \$2.6 from every \$100 transaction and keep \$0.65 in net profit (nearly triple the previous amount).

Assuming most of the customers on the platform are switched over to this in-house payments processing system, Lightspeed's sales could expand by a factor of 10 this year. Factoring in another 36% organic growth in sales, revenue could come close to \$1 billion within the next 12 months.

At its current market capitalization of \$2 billion, the stock price is roughly double the estimated forward sales. That's a severely low valuation for a growth stock with proprietary technology and a robust base of recurring income.

It is, however, worth noting that this is a [highly competitive industry](#) with some well-established players across the world. Bigger rivals could undercut Lightspeed and place a cap on its profitability and growth in the near future.

But with the stock up more than 50% since listing, investors seem optimistic this is the next Shopify. They could be right.

Bottom line

Building a unicorn in Canada's startup ecosystem isn't easy, but Lightspeed's team seems to have pulled it off. They've even achieved a historic exit for early investors. Now, if they can execute the vertical integration plan and achieve their target margins, the stock could be prove to be an excellent long-term buy.

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