



## Why Lightspeed (TSX:LSPD) Is Not a “Mini” Shopify (TSX:SHOP)

### Description

Let's face it, with the exception of **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)), Canadian investors have had to look to the United States and elsewhere for their tech exposure. So when **Lightspeed POS Inc** ([TSX:LSPD](#)) shares hit the market, many hopped on the train right out of the gate hoping for an early seat [aboard the next Shopify](#).

However, basing an investment thesis on a Lightspeed/[Shopify](#) comparison might prove to be problematic, as these two companies operate in entirely different verticals. Further, a more apt comparison to Lightspeed would be **Square Inc**, which is currently the largest SaaS-based payment processing app in the independent small business market.

At the same time, once we compare Square to Lightspeed it becomes apparent that the latter's IPO was priced fairly, and the stock should trade closer to \$20 per share than where it is now.

## Lightspeed and Shopify have entirely different models

Lightspeed is a point of sales system (POS) solutions provider to small- and medium-business enterprises, unlike Shopify, which provides eCommerce solutions for web-based merchants. Lightspeed makes revenues by signing up merchants in actual physical locations, installing their branded POS hardware (or installing their software on the user's existing hardware), and then charging a recurring monthly bill for use of their services.

In January of this year, Lightspeed also launched Lightspeed Payments, a payment facilitator that will charge users based on a per dollar amount of merchandise volumes that go through the system (though it is only available to retailers in the United States).

While Shopify does offer a similar cloud-based POS system, it is more geared toward its current eCommerce users who wish to integrate a storefront presence for a more omni-channel experience. Therefore, Lightspeed's business model cannot be compared to Shopify's, but rather should be viewed against that of Square, which targets a similar user base.

## How does Lightspeed stack up?

Lightspeed operates in an extremely competitive arena, and will have to fight for market share against other cloud-based POS providers, legacy incumbents who can leverage their existing channels to roll out cloud-based solutions, as well as up and coming start-ups that specialize in POS systems for niche markets (for example restaurant-focused solutions providers such as **TouchBistro**).

In other words, while the pie may be large, there will be many little hands trying to claw at one another for a slice of it. Furthermore, Lightspeed's closest public comparable, Square has been on a hyper-growth trajectory, with revenues growing at an average rate of 40 percent annualized from 2014 to 2018.

Lightspeed, on the other hand, has not been able to grow as quickly in these early innings, with revenues expected to climb ~30 percent this year compared to last. Of course, Lightspeed is hoping this number will increase with further adoption of Payments, which will allow it to charge merchants based on transactional volumes, as opposed to a subscription-based model.

However, in doing, Lightspeed will enter Square's domain, and could face therefore a tough battle for market share as the latter leverages its scale and pricing power to penetrate upwards from the smaller-sized businesses where it is currently focused to the medium-sized enterprises that Lightspeed targets.

## What is Lightspeed worth?

Because of the slower growth rate and possible execution risks that come with rolling out Lightspeed Payments, rising competition, and the susceptibility of Lightspeed's model to underlying business cycle conditions, I would personally not be willing to pay the same dollar per dollar of forward revenues for Lightspeed as I would Square.

The latter company currently trades on average 12 times its forward revenues, and I believe Lightspeed warrants a discounted enterprise value to revenue multiple of 10 times its forward revenues. Based on my estimate of \$103 million in revenues for the upcoming 2020 fiscal year (implying a 45 percent growth rate compared to 2019 and successful adoption of Lightspeed Payments), I would not pay more than \$20 per share for Lightspeed, or a \$4 premium to its IPO price, especially as you could be faced with a large wave of selling once the lock up on the pre-IPO shares expires.

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