



Up 21.7% in 2 Months, Is Lightspeed POS (TSX:LSPD) a Millionaire Maker?

Description

Two months after its initial public offering, point-of-sale (POS) terminal software provider **Lightspeed POS Inc.** ([TSX:LSPD](#)) has already [delivered a stellar return](#). If you bought the stock shortly after the opening bell, your return would be 21.7% over the past two months. If you managed to get shares pre-IPO, your return would be a jaw-dropping 43.8%.

Early venture capital and institutional investors in the company probably made multiple times their initial investment. But does the stock still have room left to grow? A potential millionaire maker needs to deliver 10-fold return at least. Here's a closer look at Lightspeed's potential target market and its current financial fundamentals.

Potential market

According to Grand View Research, the global demand for POS terminals and inventory management software is rapidly expanding. The company estimates that the market is growing at a rate of 7.8% compounded every year and could be worth as much as US\$108.46 billion by 2025.

However, if Lightspeed decides to expand its service range and enter the same markets as its closest competitor, **Square**, the potential market size for payments processing in the U. S. alone is worth US\$3 trillion. In fact, Lightspeed recently announced that it would enter the American market, which seems like an obvious step for the company's next leg of growth.

The company's focus on retailers and restaurateurs could limit its potential market, however. According to the Lightspeed website, there are only 47 million small- and medium-sized businesses in its potential global market. Lightspeed can serve only a fraction of this number, and extract only a fraction of their revenue in processing fees.

Fundamentals

Lightspeed's solutions have been deployed in over 47,000 locations across 100 countries around the world. Gross Transaction Volume (GTV) was US\$13.6 billion for the 12 months ended December 31, 2018, while revenue was US\$71.9 million over the same period. These key indicators have been

compounding at a rate of 48% and 36%, respectively over the past three years.

Customer locations have grown at a compounded annual rate of 21% over the same period.

Unsurprisingly, the company loses money and is cash flow negative. However, its free cash flow loss has gradually reduced over the past three years. While the company lost C\$17.3 million in fiscal 2016, it lost only C\$10.9 million in fiscal 2018. The company also raised C\$240 million from the recent IPO to fund growth and secure its balance sheet for the foreseeable future.

Valuation

With a market capitalization of C\$1.93 billion, LSPD trades at 20 times annual revenue and 7.6 times cash on book. Given the company's narrowing losses over the years and aggressive double-digit growth rate in customers and revenue, the valuation may be justified.

However, Lightspeed's ambitious growth plans may crash up against the aggressive competitive forces and the razor-thin margins in the global payments industry. After all, technology heavyweights and Chinese giants are the dominant force in the financial technology space at the moment

Bottom line

When you consider its track record of growth and the successful fundraising in its recent IPO, Lightspeed's valuation may indeed be justified. However, the stock is currently priced to perfection in a market that isn't easy to crack. In short, Lightspeed is probably a millionaire maker, but the ride to a million will be anything but easy.

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