



Trillions: The Insane Market Potential of This Tech Stock

Description

Cash is no longer king. In fact, it's a dying form of payment across the world. I grew up in India and saw cash being rapidly replaced by mobile payments and plastic cards over the past decade.

A similar story is unfolding in other emerging markets. Meanwhile, cashless payments are already the default in most developed economies like Canada.

This creates an opportunity for technical innovations. Better payment technologies, quicker ways to process transactions, lower fees driven by automation, and comprehensive reports for business owners to improve operational efficiency are all within the realm of possibility now.

At the forefront of this paradigm shift are companies like **Lightspeed POS** ([TSX:LSPD](#)), which provide point-of-sale (POS) terminals and software payment solutions to small and medium-sized businesses.

In other words, the company helps your local mom-and-pop barber shop accept your credit card through an app on their iPad.

According to Lightspeed's website, there are an estimated 226 million small and medium size businesses (SMBs) around the world, which have collectively generated \$59 trillion in sales over the course of 2018. Lightspeed targets 47 million restaurants and retailers that are included in that pool.

It's no surprise that small scale businesses generate trillions of dollars. After all, there are far more SMBs in the world than there are major corporations. However, processing these trillions of dollars in payments isn't as lucrative as it might seem.

Despite the growth in online payments and paperless transactions, the market for POS terminals is only expected to be worth \$108 billion by 2027.

This market is highly fragmented and intensely competitive. Some of the largest players include VeriFone Systems and **Oracle**. Lightspeed's software and POS offerings have direct competitors that are also much larger. **Square** is Lightspeed's most comparable peer.

Square, much like Lightspeed, currently operates on negative net margins. Eventually, I believe both companies will undoubtedly become profitable, but not by much.

Transaction fees are always going to be low enough to accommodate SMBs and that will keep net margins in the low-single digits by my estimate.

So even if Lightspeed can multiply its currently annual revenue by 20 times, leading to sales of \$1.5 billion, I wouldn't expect the annual profits to exceed \$150 million. That means its [current market value of \\$2.2 billion](#) is somewhat overdone.

Bear in mind that Lightspeed has been expanding earnings by 36% annually over the past few years. At that pace, investors might have to wait roughly 10 years before sales reach that lofty \$1.5 billion mark.

Bottom line

Lightspeed is a rapidly growing business in a massive global market. However, the intense competition in this industry will always keep net margins low.

So, even if the company succeeds in sustaining its current growth rate for the next decade, the best-case scenario is already priced into the stock.

I would look for a correction in the stock price to enter.

CATEGORY

1. Investing
2. Tech Stocks

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2. NYSE:XYZ (Block)
3. TSX:LSPD (Lightspeed Commerce)

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Date

2025/07/03

Date Created

2019/08/17

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