



Is Lightspeed's (TSX:LSPD) Post-IPO Success Waning?

Description

Lightspeed POS Inc ([TSX:LSPD](#)) had one of the most successful IPOs of 2019. [Rising over 100% from its IPO price](#) in just a few months, it handily beat the likes of **Uber** and **Lyft**—both massive disappointments that left investors reeling.

Not only was LSPD's offering a success, closing at \$2.9 higher than its offering price on its first day, but it went on a tear in the markets afterward. It was a rare glimmer of light in an otherwise disappointing 2019 IPO scene.

Since then, however, Lightspeed has gone on to become something of a disappointment. In August, the stock started tanking, falling 39% from its peak closing price in under two months.

Although LSPD is still way up from its offering price, it's certainly been under-performing lately. The question is whether this stock will ever get its legs back. To answer that question, we need to look at why Lightspeed took off in the first place.

Why it took off in the first place

To my mind, Lightspeed's IPO succeeded for one obvious reason: **Shopify**.

Shopify was Canada's most successful IPO before Lightspeed came on the scene, and LSPD's similarities to SHOP lead many to think it could become the next big thing. Chasing "the next X" is a common mindset among tech investors, who are always eager to get in on the ground floor.

In the 2000-2001 dotcom bubble, many investors piled money into random start-ups hoping they'd catch the next **Amazon**. In the end, they'd have been better off sticking with Amazon itself, but that experience hasn't stopped investors from seeking the next big thing.

Supporting the next big thing thesis is the fact that Lightspeed does have much in common with Shopify. Both companies are involved in payment processing. Both are involved in e-commerce. Both offer novel high tech solutions.

And finally, both are recent IPOs. However, there are as many differences as there are similarities between the two companies, and Shopify's success isn't a reason to believe that Lightspeed has comparable long-term prospects.

Why it's struggling now

Just as Shopify likely lifted Lightspeed with it, so too did the former likely take the latter down. In August, [Shopify started tanking](#), and Lightspeed's post-IPO run started faltering around the exact same time.

Stocks tend to move together with each other, and this tendency is even stronger within sectors than among stocks as a whole. So it's no surprise that a Shopify sell-off could send Lightspeed tanking.

Another problem for Lightspeed is its valuation. Trading at 30 times sales, it's mighty expensive, and it's still not profitable despite being 14 years old. Although investors expect new IPOs to run losses, Lightspeed has a long pre-IPO history, so these losses might be hard to justify.

Additionally, the company's revenue growth rate (36% year-over-year) is fairly strong, but it's not the kind of growth that usually supports a valuation of 30 times sales.

So what we're looking at here is a stock that's almost as expensive as Shopify with much weaker growth. Perhaps this plane could still fly, but I'm staying away for now.

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Date

2025/09/17

Date Created

2019/10/08

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