



Lightspeed's (TSX:LSPD) Stock Crash: Is it a Buy at Today's Price?

Description

After a hot start to the year in which it was one of the top-performing stocks of 2020, **Lightspeed POS (TSX:LSPD)** crashed and burned [post earnings](#). The company fell by more than 12% on the day of earnings and closed last week down 16%. Although it started to recover at the beginning of this week, Lightspeed still presents a great opportunity for investors.

What caused the double-digit drop? Let's take a look.

Mixed third-quarter results

One would think that due to the significant correction, the company posted disastrous third-quarter results. Outside of a miss on the bottom line, the company performed quite well. The markets seems to focus in on the bigger-than-expected loss of \$0.18 per share — analysts expected a net loss of \$0.09 per share.

It is important to note that this is a small-cap that is in hyper-growth phase. It is making acquisitions, and as such, net income will be difficult to predict. A miss on estimates in one quarter is not disastrous. In fact, I would not be surprised to see several more earnings misses and beats over the next few quarters.

Another issue was that the company's outlook did not match expectations. The company expects to generate \$33 million in revenue versus expectations for \$35 million (excluding the Gastrolix acquisition) and net loss of \$7 million versus \$5 million. Guidance appeared to be a little soft, and several analysts referred to the outlook as being conservative.

Lost in the chaos, Lightspeed actually narrowed its net loss from US\$71.1 million in the third quarter of 2018 to US\$15.8 million this year. That is a significant improvement. Likewise, revenue of US\$32.3 million beat by US\$3 million and represented 60.7% growth year over year. Recurring revenue, a key indicator for ongoing success jumped by 58% and accounted for 88% of total revenue.

The company now serves more than 74,000 customers globally, up from 47,000 a year ago.

Strong growth prospects

Despite the mixed results and outlook, this is still a company that is growing at a significant pace. The expectation is still for Lightspeed to grow earnings by an average of 50% annually over the next few years. Not many companies can lay claim to this type of upside.

Since reporting earnings, the company has seen one price-revision upwards and no change in ratings. The company remains a unanimous “buy” according to analysts. They have a one-year price target of \$47.48 per share, which implies 25% upside from today’s price of \$38.01 per share.

One company Lightspeed is most often compared to is **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)). If you are a Shopify investor, you’d be familiar with sudden double-digit drops. Each time, these mini-corrections represent [buying opportunities](#).

Expect no different from Lightspeed. The company will be highly volatile, as it is expands the business. Thus far, there is no reason to expect that growth will slow in any meaningful way. In fact, the company has exceeded its own revenue guidance in every quarter since it went public. Likewise, the company continues to narrow losses on its way to profitability.

Patient investors will recognize these sudden mini-corrections as good entry points for the long term.

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Date

2025/08/24

Date Created

2020/02/14

Author

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