



Growth Investors: Is This Stock the Next Shopify (TSX:SHOP)?

Description

[Shopify](#) has historically been a Canadian superstar when it comes to providing share appreciation to its shareholders. While I regret not following through with my investment decision to buy at \$68 a share in 2017, I vowed never to make the same mistake again. I have been hunting for what I believe to be the next technology superstar on the TSX, and I believe I may have found it.

Finding a solution to a common problem

Lightspeed POS ([TSX:LSPD](#)) is a point-of-sale technology company that has developed an omni-channel commerce-enabling platform for small- to medium-sized businesses. This software is designed to assist with growth and scalability by packaging all of the software services into one service. This allows the small- and medium-sized business owners to manage inventory, service, data, staff, and customer relationships with one service provider. Lightspeed targets restaurants and retail stores and has seen a strong degree of growth. Let's take a look at its prospects.

Unique financial model

Lightspeed's financial model is targeting recurring subscriptions and recurring payments. This model enables Lightspeed to generate 90% of revenue as recurring. This model facilitates Lightspeed to be able to upsell new modules when released. But does this model correlate to financial metrics?

Growth metrics

Lightspeed has a strong track record of customer growth. From 2017 to 2020, Lightspeed has grown from 35,000 customers to 74,000 customers. Therefore, increasing revenues from \$42.6 million in 2017 to \$77.5 million in 2020. With these revenues, Lightspeed generates a stellar gross margin of 70% in 2019 and has continuously improved the gross margin since 2017. Lightspeed has also reduced EBITDA losses from \$24.4 million in 2017 to \$13.1 million in 2019.

Outlook and COVID-19 update

Lightspeed projected before the virus that total revenue would reach \$120 million, representing total revenue growth of 55% year over year. I believe due to the coronavirus, this projection will take a hit. With retail stores closed and restaurants only able for takeout, it puts Lightspeed into a tough situation for generating revenue. I would not be surprised if we saw revenues decrease in the next few quarters after Lightspeed has provided details on how [COVID-19 has affected operations](#).

Lightspeed has put into place an action plan to retain customers through subscription discounts, deferred payment arrangements, and cost-containment measures. This plan will hopefully retain customers to secure recurring revenue but will most likely be a discounted revenue until the virus situation is under control. When business returns to normal, I believe Lightspeed will gain loyalty from the short-term support given to customers, increasing revenue long term.

Foolish take

The market has priced in COVID-19 into the stock price. Before the virus, Lightspeed was priced at approximately \$40 per share. Since the virus, Lightspeed crashed to \$12 per share and has been on the upswing ever since. I believe the company has strong potential to recover by having approximately \$300 million in cash to weather the storm and will be able to return to the business model that Lightspeed has proved to be successful.

The question is, can Lightspeed continue to post stellar revenue growth? If Lightspeed can, then there should be no problem in growing similarly to Shopify. As of writing at \$21 per share, I believe this is an amazing entry point to get in before Lightspeed takes off. Buy before share prices go up!

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