This Recent Tech Stock IPO Could Still Soar in 2020

Description

Lightspeed POS (TSX:LSPD)(NYSE:LSPD) completed a momentous listing and initial public offering on the **New York Stock Exchange** on Monday. The company was able to issue more than 13 million shares at a price of US$30.50 per share, or approximately CAD$40.22 per share. Lightspeed raised gross proceeds of around US$332 million.

I am never a huge fan of companies issuing equity, especially those that are not yet profitable. In the pursuit of quick revenue growth, tech stocks often issue equity on a regular occasion with no consideration for turning those proceeds into actual accretive *earnings* growth. Fortunately, I do not think this is the case for Lightspeed.

Lightspeed's new IPO could be a strong catalyst for future growth

Firstly, like its e-commerce peers (like **Shopify**), a U.S. listing has been hugely beneficial in terms of fund raising and stock promotion. There are certain U.S. investment funds and ETF's that are not permitted exposure to non-U.S.-listed or dollar-denominated stocks. This allows Lightspeed to access a far broader investor base.

Secondly, it also enables Lightspeed to cost efficiently access U.S.-denominated capital. The COVID-19 crisis has accelerated retail trends such as e-commerce, cashless payments, and omni-channel sales strategies and operations. Consequently, legacy, on-premise point-of-sales systems are ripe for disruption by cloud-based, omni-channel sales systems.

Lightspeed has a huge opportunity

Lightspeed's CFO, Brandon Nussey recently noted on *BNN Bloomberg* that "80% of this market is legacy and we have a long runway still ahead … a good opportunity for us to continue to gain share." Literally millions of retailers and restaurateurs will need to transition to cloud-based sales software at some point. Lightspeed has the software to integrate everything from bookkeeping to inventory management to e-commerce to delivery optionality. Frankly, in a digitized world, retailers and restaurateurs can no longer afford to operate without an omni-channel sales and operational system.

Acquisitions and internal growth potential

Presently, about half of Lightspeed's customers are in the U.S.; however a U.S. IPO should expand its investor and customer profile even more. Prior to the IPO, it had about $200 million of net cash. The recent IPO proceeds should meaningfully accelerate Lightspeed's capacity to develop new products and execute its acquisition strategy.

The proceeds will also provide base capital for Lightspeed's growing merchant loans and capital business. TD Securities analyst Daniel Chan believes Lightspeed Capital could accrete more than $50 million of annual revenues once that business has matured. This capital segment could perform with even better margins if it completely self-funded.

A solid business model at a fair price

Over 90% of Lightspeed's revenues are actually recurring through subscription services. Accordingly, its business model has proved quite resilient through the COVID-19 crisis. While Lightspeed's stock has had a strong recovery since March, it is only up 12% year to date. The stock is certainly not cheap. However, compared to competitors like Shopify, Lightspeed's stock is a much better deal. Shopify has an enterprise value-to-revenue ratio of 41 times and a price-to-sales ratio of 71 times. Lightspeed's stock comparatively trades at 29 times and 15 times.

The Foolish bottom line

Lightspeed's stock is newly listed in the U.S. stock market. Yet, it is a tech stock many Canadian investors are already familiar with. This stock has a long way up this year and long into the future, so act fast and use that familiarity to your best advantage!

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robbybrown