Lightspeed Stock (TSX:LSPD) Is Hitting New Highs: What Should You Do?

Description

This week, **Lightspeed POS** (TSX:LSPD)(NYSE:LSPD) stock just made a new high and then dropped slightly. The stock gained its glory in the pandemic. After falling more than 65% in March, it has surged more than 300%. And the best part is, the stock has maintained this momentum. Generally, when a new stock makes such highs, it raises many eyebrows as the stock has no growth history. Is it one-time glory? Can the company sustain the new highs? Such is the case with Lightspeed.

Lightspeed POS was founded in 2005, and it was only last year that the company started trading on the **Toronto Stock Exchange**. Since its initial public offering (IPO) in March 2019, the stock has surged over 160%. Last month, it launched a U.S. initial public offering, and its stock has surged over 20% there as well. Where is all this growth coming from, and is it sustainable? To answer this, you need to look at ts business model and its potential to scale up.

Lightspeed's business model

Lightspeed provides cloud-based point-of-sale (POS) solutions on an omnichannel platform to the retail and hospitality industry. The company wants to replace the traditional licensed software these industries are using with its flexible and scalable software. The Lightspeed platform allows retailers and restaurants to manage payments, orders, marketing, and inventory of multiple locations. It also helps them manage multiple locations efficiently by providing data analytics.

Lightspeed's main source of revenue is subscriptions. The subscription amount depends on the size of the client, the number of locations, and the types of services they use. Then its secondary source of revenue is commission on every transaction and sale of hardware POS device.

Lightspeed's growth strategy

In its business model, Lightspeed plans to grow its revenue in three ways:

First, expand the customer base by acquiring new customers in retail and hospitality and broadening its offerings to new verticals. The company has recently expanded its offerings to golf clubs with the acquisition of Chronogolf. Landscapes Golf Management is using Lightspeed's platform. It also plans to expand its reach beyond North America by deploying its solutions in as many customer locations as possible.

Second, retain existing customers and cross-sell products. Before the pandemic, 40% of its customers were using more than one Lightspeed module. In fiscal 2020, its ARPU (average revenue per user) surged 15% to $230. There's plenty of room for the company to increase ARPU through cross-selling.

Finally, it's expanding its offerings by adding new services. For instance, in the light of the pandemic, Lightspeed expanded its e-commerce platform to include curbside pickup, appointment booking, online store themes, and Lightspeed Capital. The first glimpse of the new services would be visible in its fiscal 2021 second-quarter earnings, which will release next month.

Lightspeed has raised US$397.7 million from its US IPO, which it will use for future growth. The fastest way to achieve growth is through acquisitions. Since March 2019, it has acquired four companies: one to expand product offering and the other three to expand geographically. These acquisitions and organic growth have boosted customer locations and gross transaction volumes by 56% and 54%, respectively, in fiscal 2020. This increased its revenue by 56% and justified its stock's 95% growth in 2019.

The post-pandemic growth story

Heading into the post-pandemic economy Lightspeed stock has surged 35% year-to-date and is trading at 37.9 times its sales per share. Is this growth sustainable? There are many factors in play for Lightspeed in the post-pandemic world. In the fiscal 2021 first quarter, its revenue surged 51% year over year, even when revenue from hospitality was down and the new features were not live.

Lightspeed is seeing a recovery in hospitality and initial revenue from gold clubs. Moreover, many retailers who were reluctant to adopt cloud solutions are opening up to this technology. Its curbside pickups and omni-channel solutions provide a seamless online and physical shopping experience. This could accelerate its revenue growth in the coming few months. Higher revenue will reduce its price to sales ratio and drive its stock price.

While Lightspeed has growth potential, it remains to be seen how well it can tap this growth. High-growth stocks bring this risk.

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