



Lightspeed (TSX:LSPD) Stock: Why it Could Explode Higher in 2021

Description

Lightspeed Pos ([TSX:LSPD](#))([NYSE:LSPD](#)) stock is soaring! Since the start of November, [the stock has gained](#) a whopping 78%! Year to date, it has earned investors a nice 98% return! Despite demonstrating many similar business and operational trends to peers like **Shopify**, Lightspeed stock has largely underperformed comparatively.

Lightspeed stock defied the odds over the year

Especially during the March market crash, many investors were concerned about Lightspeed's retail- and restaurant-orientated merchant base. The severe lockdowns were forcing retail businesses and restaurants to temporarily board up. Many investors (including me) were worried that Lightspeed would be crushed from customer churn.

In the media, I heard of many small- to medium-sized merchants either facing bankruptcy or severe financial disruption. Could they continue to pay their point-of-sales (POS) subscription fees to commerce providers like Lightspeed?

Consequently, Lightspeed stock collapsed almost 75% from January to March. Fortunately, for investors who stuck with it (or just saw incredible value), the stock has confounded/challenged my every concern. Rather than experiencing a massive decline in merchants, Lightspeed has seen the opposite. Since late 2019 to November 2020, Lightspeed increased its merchant locations by 40% to 80,000.

Lightspeed's commerce solutions have rescued retailers

Its omni-channel, cloud-based commerce solutions have become a beacon of help for merchants across the world during the pandemic. Through its software, retail and restaurant merchants can incorporate in-store sales/operations with e-commerce, online/mobile ordering, product delivery, customer support, and loyalty. All these options provide merchants with flexible alternatives to broaden and diversify their sales verticals.

As the pandemic wanes, this optionality should continue to be attractive to merchants. Consumption trends towards e-commerce have only accelerated during 2020 and are not likely to slow any time soon. Cloud-based point-of-sales (POS) systems have only saturated around 20% of the total addressable market. A majority of global retailers still use hardware-based, legacy POS solutions. Stocks like Lightspeed still have a massive runway to capture market share by subscribing out their superior commerce solutions.

Acquisitions could provide a meaningful boost

In November, Lightspeed acquired a key U.S. competitor, ShopKeep, for \$440 million. This will bring its location count to over 100,000, expand its gross transaction volumes (GTV) to \$33 billion annually and increase annual revenues by +\$50 million. This gives Lightspeed broader exposure to one of the largest consumption markets in the world: the U.S.

Lightspeed has been working to rapidly expand its merchant loans business as well. This deal provides a great platform to do that in the United States. Likewise, it creates various operational synergies and opportunities for up-selling and value-adding services to ShopKeep's customers. This acquisition has also put Lightspeed's stock on many U.S. investor's radar. Since the announcement, the stock has climbed 39%.

Yesterday, Lightspeed [announced](#) another attractive acquisition. For \$430 million, it will acquire Upserve, a leading commerce platform for restaurants. It will add an additional 7,000 locations, \$6 billion in GTV, and +\$40 million of annual revenue. At approximately 10 times sales, the purchase appears to be a reasonable price. Restaurants have undoubtedly struggled in 2020. Yet the possibility for COVID-19 vaccines and a pandemic recovery should unlock pent-up demand for high-end eating-out. Upserve positions Lightspeed stock to further benefit from this recovery.

The sky is the limit for Lightspeed stock

Despite these acquisitions, analysts still expect Lightspeed to have +\$200 million of cash on the balance sheet. Many smaller POS businesses are trading at lower-than-normal valuations, so Lightspeed still has opportunities to capitalize growth through acquisitions.

Despite stronger anticipated growth in 2021 and beyond, Lightspeed still trades at a large discount to peers like Shopify and **Square**. Combine all this with the fact that Lightspeed stock has a growing bid from U.S. investors, and I think the sky is still the limit for this stock going into 2021!

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