Latest Lightspeed POS Acquisition Comes at Significant Loss to the CEO

Description

Investors in fast-growing companies that rely on new equity funding to finance growth projects often dislike the pain which comes with shareholder dilution. In **Lightspeed POS** (TSX:LSPD)(NYSE:LSPD) stock investors' case, the dilution was magnified for the founder and Chief Executive when he lost both interest and significant voting influence in a recent deal.

Lightspeed POS diluting stockholders' equity

Lightspeed POS acquired U.S.-based Upserve on December 1, 2020. The $430 million deal was settled through a cash payment of $123 million and the issuance of shares. LSPD issued a total of 5,895,365 shares out of the company's treasury to pay Upserve shareholders in partial fulfillment of the acquisition consideration for the restaurant commerce platform vendor.

The dilutive effect from the recent stock issuance at Lightspeed will be felt by all investors in the rising powerhouse. However, retail investors most likely won't care much as individual positions could be viewed as too small to matter.

That said, major investors have lost a great deal of interest in the company this year. In another acquisition deal in November, the company issued 7,437,397 shares to ShopKeep investors and assumed the target company's stock option plan which could result in an additional 1,254,534 LSPD shares being issued.

Including the 10,000,000 new shares issued upon a recent U.S. initial public offering (IPO), Lightspeed has cumulatively issued 23,332,762 new shares during the past four months. The company had 92,970,339 total shares outstanding by midyear. It has grown its total diluted share count by more than a quarter (or 26.7%) since then. That's some dilution there.

How LSPD founder and CEO lost more than any other stock investor

Upon the acquisition of Upserve in December, Lightspeed POS's founder and CEO Dax Dasilva recently endured an amplified loss due to dilution. Arguably, his loss was much more than any other investor in the tech firm.

Before the Upserve transaction, the CEO indirectly held 14,429,466 multiple voting shares in the company which accorded him a 37.16% voting power in the affairs of the company. Whenever a shareholder vote was called for, Mr. Dasilva could influence the outcome by a significant margin.

Unfortunately, the issuance of shares to Upserve investors this month triggered a clause that automatically converted the founder's multiple voting shares into "ordinary" subordinate voting shares. That transaction caused all outstanding multiple voting shares to be replaced with subordinate voting shares. Thus, Dax Dasilva now has just 12.24% voting power in LSPD.

Although the CEO still has significant power, he has lost two-thirds of his prior influence. Actually, his vote now carries much less power than that of Caisse de dépôt et placement du Québec (CDPQ) which has a 21.7% interest in the company. He has lost more influence in the company by the largest margin, more than any other stock investor in the omnichannel commerce platforms company.

Investor takeaway

Growth comes at a significant cost. The cost is higher when growth transactions aren't funded from internally generated cash flows. Fortunately for Lightspeed POS investors, recent dilutive transactions came with significant financial compensation through a rising stock price. LSPD stock has rallied by 85% since announcing its IPO on the **New York Stock** Exchange in September.

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