



This Canadian Tech Gem Is Taking the Sector by Storm!

Description

Growth seems to be everything these days. A lower-for-much-longer interest rate environment has ensured this. With the cost of borrowing so cheap, finding stocks that are able to grow top-line earnings at lightspeed paces (excuse the pun) has become a very profitable strategy in recent years. This pandemic has increased investor demand to unexpected levels. In this article, I'm going to discuss how investors ought to think about high-growth options like **Lightspeed POS** ([NYSE:LSPD](#))(TSX:LSPD) today.

The bull case

Lightspeed's ability to grow its top-line revenue at such an incredible clip can be largely attributed to the company's business model. Lightspeed is a small but quickly growing player in the point of service hardware and software business. This is also a company that has continued to grow its market share largely due to its solid and low-cost system.

Users have continued to stick with Lightspeed's platform through the pandemic, with significantly less churn than many investors or analysts expected. As a relatively tiny fraction of a business/ overhead expenses, Lightspeed's ability to fly under the radar is important.

Lightspeed and become viewed as essential by various customers (mostly small- to medium-sized enterprises). In the same way as its customers might view a heating or electricity bill, the essential nature of this business has been extremely beneficial in providing stability to Lightspeed's cash flows.

The market is still fragmented

Similarly, the POS business remains highly fragmented, with a plethora of options for SMEs to choose from. Lightspeed's position in the market as a high-quality, reliable, yet low-cost option has been extremely beneficial over the past year. This is a year many investors and analysts, me included, did not think would be a positive one in terms of revenue growth and ballooning losses. However, luckily for investors, such a scenario has not materialized. Lightspeed's ability to grow even in what many believe could be the deepest recession of this generation has spurred continued investment in this stock, which now boasts a valuation around \$7 billion.

The bear case

Of course, growth sometimes comes at cost. Many bears on Lightspeed have noted that net income, or the lack thereof, is likely to provide headwinds in the near term. No company can lose money forever. Being one of the lowest-cost options on the market is beneficial from a top-line growth perspective. However, some fundamental investors simply won't invest in such businesses until a profit is earned. With growth investors pushing many value-conscious investors concerns to the wayside at least for now, this may not become an issue immediately. However, [valuation concerns](#) among companies that have yet to turn a meaningful profit are real.

The fact that so much of Lightspeed's growth comes from SMEs typically in the service sector is also potential headwind for investors over the medium term. We do not yet know how bad the second wave of this pandemic will be. Additional mandated closures and government regulations around capacity restrictions are continuing. Lightspeed's core customer base could therefore face solvency concerns that could materially impact Lightspeed's growth.

Bottom line

Lightspeed is a stock that, I think, represents the polarized investing landscape of today. Those bullish on growth have vastly outperformed those defensive bears since the onset of the pandemic. Whether this investing landscape changes or remains status quo is yet to be determined. Thus, this is a stock investors will simply need to pick a side on for now.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:LSPD (Lightspeed Commerce)
2. TSX:LSPD (Lightspeed Commerce)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
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