



A 26% Jump: 3 Key Investor Takeaways From Lightspeed POS's (TSX:LSPD) Q3 Earnings

Description

This was the earnings week of **Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)), and the stock didn't disappoint its investors. It soared past \$100, made a new 52-week high of \$104.98, and then corrected to \$93, as short-term traders cashed out some profits on strong earnings. What did the earnings reveal that sent the stock up 26% in a week?

Lightspeed reports its strongest quarter in three years

Lightspeed is a high-growth tech stock that focuses on [revenue growth](#) instead of profit. The company provides omnichannel point-of-sale (POS) solutions to small- and mid-sized (SMB) specialty retailers and hospitality services. Its strategy is to consolidate the fragmented retailers and restaurants worldwide under a global Lightspeed platform.

The company has been growing its quarterly revenue at an average annual rate of 55% in the last two years. This revenue growth has driven the stock fivefold since its IPO in March 2019. If you'd invested \$1,000 in Lightspeed IPO, you would now have around \$5,000. Does the stock have more room to grow?

In the fiscal [third quarter](#), Lightspeed reported its highest year over year (YoY) revenue growth of 79% in three years, driven by acquisitions and organic elements. It integrated ShopKeep and Upserve that added US\$8.3 billion in revenue, thereby increasing the combined company's revenue to US\$57.6 million.

Three key takeaways from Lightspeed earnings

In the third quarter, Lightspeed saw a three-pronged growth in revenue, even when the second wave of the pandemic reinstated lockdowns.

Lightspeed Payments

Lightspeed's consumer base was the hardest hit by the lockdown. Hence, the brick-and-mortar store traffic moved to online stores, and Lightspeed saw its retail e-commerce transactions double. Moreover, it saw a fourfold increase in the uptake of Lightspeed Payments, from which it earns a 2.6% commission on the gross transaction volume (GTV).

At present, less than 10% of the platform's GTV happens using Lightspeed Payments. The company will expand its Payments offering beyond North America and integrate it in ShopKeep and Upserve in 2021. This will drive its average revenue per transaction (ARPU), which will accelerate its revenue growth and mitigate its revenue decline.

Hospitality sector

The lockdown in North America and Europe was not a good sign for the hospitality sector. Here, Lightspeed saw a high churn rate, a 19% decline in GTV, and a reduced number of new customers. The acquisition of Upserve and Shopkeep has increased Lightspeed's exposure to hospitality. The company now earns 46% of its revenue from hospitality.

But there is a silver lining. Lightspeed's Australian operations saw a significant recovery as the pandemic eased there. Its hospitality GTV rose double digits. As the pandemic eases, the company could see a recovery in hospitality GTV in other regions of the world. At that point, its high exposure to the restaurant industry will become a growth driver than a growth stopper.

Guidance

Even though the fourth quarter is seasonally weak for Lightspeed in terms of transactions, it has guided a 90% YoY revenue growth to US\$70 million, beating the consensus estimate of US\$65 million. In an interview with Motley Fool Canada, Lightspeed CEO Dax Dasilva stated that this growth will come from the growing adoption of Lightspeed Payments, growing customer base, and the resulting GTV.

The post COVID economy could work both ways for Lightspeed. At present, the government fiscal stimulus for SMBs and individuals is keeping the specialty retailers and restaurants afloat. When the stimulus package ends, SMBs could be the first to take a hit. This will lead to a high churn rate.

While there is the risk of SMB failures, there is an opportunity for growing digitization of SMBs and pent-up demand, as it saw in Australia. When the economy reopens, people will go out for dining and return to shopping in stores. And Lightspeed being the platform of choice will benefit from high GTV.

Should you buy Lightspeed stock?

Lightspeed stock is currently trading at 70 times its sales per share. The stock could see some correction and fall to \$85-\$86 as the Santa Clause rally fades and retail GTV slows. That is a good buy point for the stock, as it could grow further when the second wave of pandemic eases and the

hospitality sector recovers.

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