



Top Stock for February: Why Lightspeed Could Be the Next Constellation Software

Description

One of the most discussed growth stocks on the **TSX**, **Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)) has been on a tear of late. This stock has more than doubled its pre-pandemic levels. It's rebounded from March lows to the tune of nearly 900% at the time of writing.

Here's one reason why this party might not be over for this growth gem.

Acquisitions likely the key to long-term growth

Lightspeed's core product portfolio is great. The company has gained a lot of traction with a customer base that appears to be sticky. Organic growth is there, and provides a meaningful amount of growth to Lightspeed's business.

However, in recent months, acquisitions have been where it's at for this company.

In November, the company purchased point of sale system **ShopKeep** for US\$145 million. In December, the acquisition of **Upserve** for US\$430 million bolstered the company's restaurant management business. Lightspeed has made it clear it's targeting retail point of sale and the restaurant POS businesses primarily to grow its market share. Lightspeed appears to want to mimic the growth by acquisition business models of other successful Canadian players such as **Constellation Software**.

Could Lightspeed be the next Constellation Software?

In some respects, Lightspeed's business model has some overlap with that of Constellation. There is a hardware component which tends to be trickier to compare, but on a software basis, these companies are somewhat similar. The market remains extremely fragmented in the POS space in North America. Acquiring good companies with strong regional market share and integrating these companies well into the portfolio – that's a more difficult task.

In this regard, Lightspeed remains unproven. Constellation's track record is stellar, and its management team is world-class. Lightspeed's may indeed be taking a "Constellation-like" sniper-rifle approach to picking the best "fits" for its portfolio. These companies could be the best options after considering hundreds or thousands of options. However, Lightspeed's future growth rate will likely require continued acquisitions. Additionally, the pace of acquisitions the market will expect from Lightspeed is likely to accelerate.

This puts the company at risk of throwing darts at a board and taking a "shotgun" approach to acquisitions. Growth for growth's sake is an unprofitable long-term endeavor. There's a tremendous amount of pressure on Lightspeed to continue to impress in its [top-line growth numbers](#) each quarter. Accordingly, the extent to which this company can display prudence and patience with its acquisition strategy will be paramount to its long-term success in its growth via acquisition strategy.

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2. TSX:CSU (Constellation Software Inc.)
3. TSX:LSPD (Lightspeed Commerce)

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Date

2025/08/13

Date Created

2021/02/12

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