



## Lightspeed POS (TSX:LSPD): Brace for Another Rally

### Description

**Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)) stock recently saw a sharp correction, falling 13% so far this week to below \$90. The stock could see a further correction to around \$80-\$85 in the coming weeks as investors cash out some profits. But this correction is temporary, and the stock could see another round of rally in 2021. Hence, keep a watch on the stock and buy when it falls below the \$86 price.

### Why is Lightspeed stock falling?

Lightspeed is relatively new in the stock market. It started trading on the **Toronto Stock Exchange** in March 2019 and will complete two years of trading this March. In these two years, it has grown fourfold. Even if I exclude the pandemic impact, the stock surged 97% between March and December 2019.

The stock is seeing a temporary correction because the company announced an equity offering for the second time in six months. On February 12, it [raised](#) US\$676.2 million in a public offering, which it will use to pursue growth strategies. It is common for stocks to correct, as new share issue dilutes the interest of existing shareholders.

But the math works differently for high-growth stocks like Lightspeed. The pullback acts like a catapult and drives the stock price momentum.

### What will drive Lightspeed stock price in 2021?

To understand the catapult effect, let's go back to September 2020, when Lightspeed started trading on the **New York Stock Exchange**, raising US\$397.7 million in an initial public offering (IPO). It used US\$268 million of the new capital to buy ShopKeep and Upserve, which nearly doubled its revenue.

If you look at Lightspeed's stock price momentum, the stock fell 16% in September and hovered around that price till October. The stock jumped in November when it announced the ShopKeep

acquisition. The stock more than doubled since then, even when the second wave of the pandemic reduced hospitality revenue.

It is no doubt that Lightspeed will use the \$676 million in new equity capital to acquire more companies as it aims to become the global omnichannel platform for the retail and hospitality sector.

## Lightspeed: “The acquirer of choice”

When I [interviewed](#) Lightspeed CEO Dax Dasilva after the fiscal 2021 third-quarter earnings, he hinted that they were in ongoing acquisition talks with many companies. He even said that Lightspeed has now become “the acquirer of choice.” Now, what does it mean?

Lightspeed is targeting small and mid-size businesses (SMBs) and new entrants in the retail and hospitality industry. It is looking to push its platform that can give enterprise-level solutions to mom-and-pop stores. Dax Dasilva stated that the company is not targeting large enterprises, which demand custom platforms. SMBs is a fragmented market, and the only way to capture it is through acquisitions.

Lightspeed has a three-pronged acquisition strategy:

- Geographic expansion like Gastrofix and Upserve
- Vertical expansion like Chronogolf, and
- Technology expansion.

Lightspeed generally eyes well-performing cloud-based point of sale (POS) companies whose business model is in sync with Lightspeed. Once it acquires the company, it gradually pushes the Lightspeed platform and cross-sells other products to increase its average revenue per user.

## What should you do?

So far, Lightspeed has managed to accelerate its growth organically and through acquisitions, while maintaining a healthy balance sheet. The company is yet to make any profit. But even **Shopify** didn't make any profit until last year.

Lightspeed still has many feats to achieve until it gains the market share and scale to generate profits. It has just recently become a sticky platform that retailers want. It is yet to become sticky among restaurants as it saw a high churn rate in that sector last year. Churn rate refers to the number of merchants who discontinue subscriptions.

It is at the growth stage where Shopify was five years back. Shopify converted \$10,000 to \$330,000 in 2015-2019, excluding the effect of the pandemic. If Lightspeed succeeds in replicating Shopify's growth rate, you could be a millionaire in the next seven to 10 years.

Lightspeed has already rewarded those who invested in its March 2019 initial public offering by converting \$10,000 to \$48,000 in two years. If it makes bigger acquisitions this year, it could double in 2021 — so buy the stock at the dip.

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