



Why Did Lightspeed POS (TSX:LSPD) Stock Jump 7% After a 33% Dip?

Description

On March 12, **Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)) stock surged almost 7% after falling 33% in the last two weeks. This surge came after Lightspeed POS announced that it is [acquiring](#) New Zealand-based retail management software Vend. What does this acquisition mean to Lightspeed investors and why you should care?

Vend is another feather in the cap in Lightspeed's acquisition strategy

For those who don't know, Lightspeed is an omnichannel platform that caters to small- and mid-sized businesses (SMBs) in the retail and hospitality sectors. This is a fragmented market and faces strong competition from enterprises. The company aims to create a global platform that brings together all SMB retailers and restaurants on a level-playing field with enterprises. Growing organically will take ages, as the way SMBs work differs from country to country. An effective way to create a global presence is through acquisitions.

Last month, I interviewed Lightspeed CEO Dax Dasilva; he talked in length about his [acquisition strategy](#). He noted that he is in ongoing talks with many companies that are in sync with Lightspeed's business. The company selects an acquisition target using a three-pronged strategy:

- The target company should help it expand its geographic outreach;
- The target company should help it broaden its verticals (retail, hospitality, recreation); and
- The target company should have a technology benefit.

Vend fits perfectly in Lightspeed's global expansion strategy. Asia-Pacific is the largest retail market for SMBs, and Lightspeed had little presence here. Vend gives Lightspeed a strong foothold in the most lucrative market with its \$7 billion-plus gross transaction volume (GTV) and \$34 million revenue. Lightspeed will benefit from Vend's complementary modern technology stack and user experience capabilities. It will also offer its commerce solutions, such as Payments, eCommerce, and Loyalty to Vend's customer base.

Organic growth for Lightspeed

Lightspeed has been growing through acquisitions. In December 2020, it completed two major acquisitions — ShopKe and Upserve — in the United States. And now it is acquiring Vend for \$350 million. It will pay \$192.5 million in cash and the rest through Lightspeed shares. All these acquisitions are cash-stock purchases that give the acquired companies a share in the future profits.

When Lightspeed acquires a company, it gets access to its customer base and is free from all the efforts that go into setting up a branch in another country. It gives the acquired company its platform and commerce solutions, which the latter promotes in its area. For instance, Vend has expertise in the Asia-Pacific market; it knows what customers need and what will work what won't work.

With the cash component of the acquisition, Lightspeed will pull all Vend's customers to its platform. It will use the stock component to encourage Vend to promote its platform and grow organically in the market. Moreover, Lightspeed will cross-sell its merchant solutions, like Payments and shipping, where it earns a commission per transaction. This will help it grow its average revenue per user, thereby increasing profits.

When Lightspeed's revenue and GTV surges, the growth will reflect in its stock price and compensate Vend investors as well as Lightspeed investors.

Why should you care about Vend acquisition?

On February 12, Lightspeed raised US\$676.2 million in a public offering. The stock saw a correction as a new share issue dilutes existing shareholders' interest. Now that the company is using this cash to increase its revenue cost efficiently, the stock is returning to its rally.

However, too much acquisition is also harmful as the company should be able to leverage the synergies. So far, Lightspeed acquisitions are bearing fruits, and that is reflected in revenue. The stock will rally further, as the retail and hospitality market recovers from the seasonal weakness.

Even if you look at the technicals, the stock was oversold last week. When a strong stock hits the bottom, it has no other way but to go up. At the start of March, I asked you to put Lightspeed on your watch list, as the stock was set to bottom out. Now is the time to buy the stock, as it will start rallying from here and make a new high by December.

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