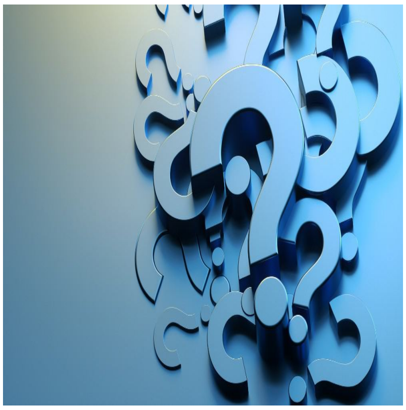

Why Is Lightspeed (TSX:LSPD) Stock Falling Today?

Description

Fast-growing Canadian tech firm **Lightspeed** (TSX:LSPD)(NYSE:LSPD) saw its stock price decline from all-time highs on Monday. The company's latest new equity raise is in focus, and so is its growth strategy.

Lightspeed announced a massive stock offering

Lightspeed announced on Monday morning its plan to offer a total of 7,000,000 new common shares to the public. Underwritten by Morgan Stanley and Barclays, the latest equity offering could increase the number of issued and outstanding common shares by 8,050,000 shares if the underwriters fully exercise their over-allotment option.

It's highly likely that shares could be oversubscribed, and more so given the bullish sentiment on the stock triggered by last week's great quarterly earnings results. At today's prices, the company could raise over $930 million in gross proceeds.

The company intends to use the proceeds of the offering to strengthen its financial position and to "…allow it to pursue its growth strategies," Monday's press release indicates.

Why is LSPD falling today?

Lightspeed stock last closed at a price of $122.12 per share on Friday last week. By mid-morning, shares had declined by 5.3% to $115.65. Shares were supposed to naturally fall due to the dilutive effects of the new equity raise.

There were 133,734,333 LSPD common shares before the latest offering. Given an expected revenue of US$573.33 million over the next four quarters, common shares were valued at 22.67 times the next 12 months' revenue per share.

Now that the company could increase its share count, Lightspeed's stock price was supposed to drop by 6% to about $115.19 per share post the announcement just to maintain the bullish price multiple at 22.67 times.

Given that shares declined by less than 6%, LSPD stock has expanded its valuation multiple. The market remains bullish on the business's prospects.

A successful tech growth play

Lightspeed is a fast-growing TSX tech stock. Its revenue growth rate continues to surprise the market. Actually, shares rallied to reach new all-time highs after a wide revenue beat last week.

A revenue growth rate of 220% during the most recent quarter was something no one expected given a slow return to normalcy after COVID-19 ravaged retailers and restaurants globally.

However, demonstrated strength in the company's business model and consistent efforts to fortify moats through strategic acquisitions are paying off handsomely. The vision to create a one-stop commerce platform where retailers and restaurants can even place orders with merchants, have their payments processed, and yet grow e-commerce sales within the Lightspeed ecosystem should create tangible and defendable competitive advantages.

The tech company is proving to be a successful growth play with each new set of quarterly financial results.

Is the TSX tech stock a buy today?

At one point I was concerned if **Shopify**'s new point-of-sale (POS) and its payments platform could eat into Lightspeed's retail niche. However, those concerns are being watered down as the company's founder and CEO Dax Dasilva and his team's vision is realized through strategic acquisitions. The results have been wonderful so far.

Most noteworthy, the company had over US$600 million in cash and cash equivalents on its US$2.3 billion balance sheet exit June this year. It used just US$14.6 million in operating activities during the last quarter. If I were to speculate today, the company is in no hurry to strengthen its balance sheet right now, which could only mean one thing: another acquisition?

Lightspeed's past acquisitions have been accretive to its growth strategy. Its payments platform is growing at a blazingly fast pace. A 203% year-over-year growth in quarterly gross transaction volumes (GTV) reported last week was just awesome.

The high margin payments segment could be a source of strong earnings growth over the next 12 months, and revenue per customer is growing at rates above 40% annually. The company is growing its recurring revenue while reporting improving adjusted EBITDA margins over the past few quarters. Growth-oriented investors would gladly want to own a piece of such an emerging potential cash-flow powerhouse.

That said, shares remain very expensive after last week's rally. However, the business has strong international growth prospects over the next five to 10 years. One could use any potential pullbacks to load up more shares.

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