



## Could Lightspeed Commerce Be a Millionaire-Maker Stock?

### Description

**Lightspeed Commerce** ([TSX:LSPD](#))([NYSE:LSPD](#)) stock has been a growth investor's favourite since its initial public offering (IPO) in March 2019. Shares in the omni-channel commerce-enabling firm have returned over 890% from their IPO price of \$16 per share to a closing price of \$158.93 on Wednesday.

If you had invested \$100,000 in LSPD stock at its IPO price, the position would have grown to over \$993,000 today. Given [current price growth momentum](#), the same position may grow into a million bucks in under a week.

Clearly, the company has done great for early investors, some of whom could soon be made millionaires. That said, can new investors buy LSPD stock today and anticipate the same millionaire-maker returns in the future?

## Can Lightspeed Commerce stock make new millionaires?

A millionaire-maker stock is usually one that can provide 900% gains or grow its value by 10 times over a 20-year holding period. However, I wouldn't put the 20-year period in stone; many high-growth stocks can do wonders within much shorter periods.

Lightspeed Commerce is soon to achieve the prestigious millionaire-maker status, and there is still some growth potential for new long-term-oriented investors who scoop shares today to enjoy.

Here's what I think should happen for the omni-channel commerce enabler to maintain its millionaire-maker status for new stock investors.

## Quick valuation math for reaching a millionaire-maker status

Lightspeed Commerce stock should produce a 10 times return in the future for the company to be a millionaire maker for new investors buying its shares today. This implies a market capitalization of over US\$178 billion for LSPD, without any further dilution.

Investors may check valuation metrics for larger industry peers like **Shopify**, **Square**, and the broader software (application) industry to gauge whether it's reasonable to project LSPD as a multi-bagger stock today.

|                                   | SHOPIFY    | SQUARE INC. | INDUSTRY     | LI  |
|-----------------------------------|------------|-------------|--------------|-----|
| Market Cap (USD)                  | \$ 166.5 B | \$103.7 B   |              | \$1 |
| Price-to-Sales Multiple           | 47.8x      | 8.6x        | <b>10.5x</b> | 47  |
| Recent Revenue Growth Rate (YoY)  | 53.7%      | 143.3%      | -9.3%        | 22  |
| Next Year Expected Revenue Growth | 34%        | 13%         | 16.5%        | 43  |
| 3Yr Growth in Share count         | 12.79%     | 9.03%       |              | 75  |

(Source: 10Qs)

The price-to-sales multiple seems to be a meaningful valuation metric, as the company reports negative earnings and cash flows.

As the business matures, growth rates normalize, and valuation multiples may shrink towards industry averages. Assuming a bullish 20 times sales multiple (twice the industry's current multiple), Lightspeed Commerce would have to grow its revenue to US\$7.1 billion in 2041 for today's new investor to see a 10 times return on the stock.

The company generated US\$301 million in revenue over the last 12 months. It has to grow sales at a compound annual growth rate (CAGR) of over 31.4% per annum to reach a US\$7.1 billion revenue target over the next 20 years (or 13% of estimated industry market size.). That's doable.

The company's implied market capitalization of US\$178 billion by 2041 would make it bigger than Shopify's current market value. Shopify generated just 55% of the revenue target (US\$3.9 billion) over the past 12 months. However, the larger competitor reported a higher 54% annual growth rate in quarterly revenue recently — faster than our projected growth for LSPD of 31.4% annually in 2040.

## Challenges and opportunities towards a millionaire-maker status

There is a limit to how big the company can grow, and its industry's size is a critical factor. The company operates in a *highly fragmented* and *extremely competitive* industry, which was valued at around \$542 billion in 2019.

Sustained revenue growth rates above 30% over 20 years seem overly ambitious. Red-eyed competitors won't let that happen so easily. They will defend their market share to the death (slowing growth down) or LSPD could acquire them.

The company's growth strategy deserves some critical appraisal too. Lightspeed has grown primarily through dilutive acquisitions. Its share count has increased by 75% since going public in 2019. Existing shareholders' interest in the firm has been significantly diluted. Benefits from revenue and earnings growth will be shared with new shareholders — a drag to potential share price growth.

That said, Lightspeed Commerce has created a walled garden of a commerce ecosystem for merchants. The company may maintain [high double-digit revenue growth](#) rates over some extended periods, as a global migration from legacy systems gains momentum this decade.

## Investor takeaway

The opportunity for sizeable returns remains. Perhaps it isn't big enough to make new millionaires. That said, 20-year projections are a preserve for proven prophets. If you're confident enough, BUY!

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