



Why Lightspeed (TSX:LSPD) Stock Crashed Over 10% Today

Description

What happened?

The shares of Canadian commerce software firm **Lightspeed Commerce** ([TSX:LSPD](#))([NYSE:LSPD](#)) tanked by well more than 10% Wednesday morning. At the time of writing, the stock was trading at \$126.61 per share and still falling further, despite the [broader market optimism](#). Today's sharp declines extended LSPD stock's week-to-date losses to nearly 20%, as its stock also fell by nearly 5% yesterday. A recent research report badly slammed the Canadian tech firm, triggering these massive losses in its stock. Let's take a closer look.

So what?

Lightspeed's massive losses today came after the New York-based investment research firm Spruce Point Capital Management slammed the company in its latest research report. The research firm also recommended a "strong sell" on LSPD stock, which took a big toll on investors' sentiments. In its latest research report, Spruce Point alleged that "Lightspeed has engaged in a pattern of materially inflating the size, quality, and growth prospects of its business."

Here are some of the key allegations that the report made:

- Lightspeed inflated its business metrics even before its IPO and "overstated its customer count by 85% and gross transaction volume by 10%."
- Spruce Point said it has evidence of Lightspeed's "declining organic growth and business deterioration through Lightspeed's IPO, despite management's claims that Average Revenue Per User (ARPU) is increasing."
- The report claims that the recent acquisitions made by LSPD "come at escalating costs" while the company has "no clear path to profitability."
- Spruce Point also makes several allegations on Lightspeed's management for pursuing "aggressive revenue reporting practices."

- Apart from these serious allegations, the report also highlights how Lightspeed continues to enjoy lofty valuations, despite failing to achieve a positive EBITDA margin or cash flow, even after 16 years since it was founded.

Now what?

As you can guess, these serious allegations — if true — are enough to crash Lightspeed stock (or any stock, for that matter). And that's exactly what's happening in the market today. For a brief little recap, Lightspeed reported a massive 220% year-over-year sales growth in the June quarter, while its gross transaction volume jumped by 203% from a year ago. I still find it difficult to imagine that all these outstanding numbers are cooked up.

While Lightspeed is yet to respond to the allegations made against it, its stock is very likely to remain extremely volatile in the next few sessions. That's why I would recommend investors to stay away from it till the time this market noise fades away.

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