Why Lightspeed (TSX:LSPD) Stock Plummeted on Wednesday

Description

A new report had shares of **Lightspeed Commerce** (TSX:LSPD)(NYSE:LSPD) plunging on Wednesday morning. The report by Spruce Point Capital Management stated that it believes not only is the stock overpriced but that management is hiding key information from investors. We'll go over what Motley Fool investors can do with this information and whether Lightspeed stock is still a growth stock to consider for your portfolio as it pulls back.

What happened?

Shares of Lightspeed stock dropped by 13% by Wednesday morning due to the Spruce Point report and are still dropping. The report stated it believes the company covered up "massive inflation of its Total Addressable Market (TAM), customer counts, and Gross Transaction Volume (GTV)." Furthermore, it sought to cover all this up through its "flurry of acquisitions" amid organic declines. Spruce Point, therefore, severely questions its revenue quality.

The company interview employees and found that not all of these major acquisitions have even been successful. Since January 2020, Lightspeed stock has made over $2 billion in acquisitions. This was to help guide it on its mission towards becoming the world leader in e-commerce — not by size, necessarily, but by footprint.

It's now a $18.7 billion company, and that's getting closer and closer to its major competitors **Shopify** and **Amazon**. That means it will have to compete head to head with these companies, and Spruce Point is fairly confident it will lose that battle.

So what?

So, why do Motley Fool investors care about this report? The obvious is that it seems to be hiding its true value from its investors. This has led Spruce Point to see Lightspeed stock with a downside risk of 60-80%. That would bring shares down to between $22.50 and $45 per share!

What’s even worse is that Spruce Point seemed to find evidence that Lightspeed stock management has been inflating numbers since the very beginning. According to the report, Lightspeed stock overstated customer count by an incredible 85%! In fact, even pre-IPO, the report states the company was already stalling. That’s before it became the largest IPO in the tech sector on the **TSX**, beating Shopify stock in the process.

A scary phrase drawn from one employee is that the GTV metric was all “smoke and mirrors,” being overstated by at least 10%. In fact, the report states that hardware sales, before a revenue stream, is not a cost centre as competitors give it away for free. Upfront payments for long-term contracts is now monthly payments, and revenue has declined as a result. And while Lightspeed stock says average revenue per user is climbing, an employee actually stated that’s an outright lie, and that it’s indeed declining.

Now what?

Who knows? It’s hard to tell what investors will think of Lightspeed stock after this. But honestly, it looks bad. There are straight-up lies being told by management that they simply cannot come back from. It looks like the competition it’s going to have with Shopify and Amazon is really no competition at all. And all that revenue it’s reported before and since its IPO is far worse than it’s stated.

Those looking to buy up Lightspeed stock in a pullback should absolutely wait. The acquisitions have shown no growth thus far. The company has made poor spending decisions and doesn’t have the cash to back up such major moves. While the original goal of becoming a far-reaching e-commerce company puts it in a unique position compared to competitors, it won’t do any good if it doesn’t have any cash to see it through.

So, for now, investors may want to avoid Lightspeed stock for quite some time.

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