



Lightspeed (TSX:LSPD) Stock: Is an Accounting Scandal Brewing?

Description

As you may have heard by now, a major short-seller has come out swinging against **Lightspeed Commerce** ([TSX:LSPD](#))([NYSE:LSPD](#)). Accusing the company of various accounting shenanigans, **Spruce Point Capital Management** believes that LSPD is set to fall up to 80%. The scathing short report is a full 125 pages long and is full of points pertaining to inflated asset prices, aggressive revenue recognition, and poor corporate governance.

The entire report is much too long and detailed to summarize here, but if all of its claims are correct, we could be looking at a corporate accounting scandal the likes of which hasn't been seen since Enron. In this article, I'll explore some of Spruce Point Capital's main points to help you decide for yourself whether a major accounting scandal is in the works. I'll start by doing an overview of the famous short-seller's main points and then move on to analysis.

Short-seller alleges shady accounting

In its 125-page report, Spruce Point Capital makes [a number of bold claims](#) about Lightspeed's accounting practices. These include claims that Lightspeed:

- Overstates customers, total addressable market (TAM), and locations.
- Posts numbers that are "...too good to be true."
- Overpays for poor quality businesses.
- Has a number of board members who have poor track records on governance.

These claims vary in topic, ranging from subjective valuation concerns to very concrete accounting problems. To leave the subjective stuff out of it as much as possible, I'll focus on the claims about Lightspeed's accounting.

To support its claim that Lightspeed's accounting numbers are too good to be true, Spruce Point Capital uses the following arguments:

- The company ceased reporting a number of metrics it used to report, like ARPU and cash flow

guidance.

- Lightspeed experienced no revenue decline amid COVID-19 when its closest competitors did.
- Lightspeed made numerous revisions to revenue figures without disclosure.

None of the points raised here would count as a “smoking gun.” Companies are free to stop reporting non-GAAP measures like ARPU whenever they want. The claim about Lightspeed’s revenue not declining during COVID-19 is interesting though. The pandemic was bad for both retail and hospitality—Spruce Point Capital claims that 45% of Lightspeed’s revenue comes from the hospitality industry.

It would indeed be weird if Lightspeed never saw any revenue decline given those facts. However, the company’s press releases state that the strong growth in 2020 came mainly from increased sales on its e-commerce platform. So at a glance, it looks like LSPD has a rebuttal ready right out of the gate.

Foolish takeaway

Lightspeed stock fell dramatically this week after Spruce Point Capital’s short report, and perhaps with good reason. The company has been posting incredible growth numbers despite the broader industry it’s in (retail POS) experiencing weakness. These results are definitely a little out of the ordinary. However, at casual glance, I do not personally see a smoking gun in Spruce Point Capital’s report.

It highlights some irregularities but for the most part, it’s an attempt to connect the dots, not concrete evidence of anything.

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