



Why Lightspeed Commerce Fell 19% Last Week

Description

The equity markets have remained volatile in the last week, which has adversely impacted high-growth tech stocks. While the S&P 500 Index fell 2% in the last five trading sessions, Canada's tech giant **Shopify** has lost more than 6% in the past week. Comparatively, **Lightspeed Commerce** ([TSX:LSPD](#))([NYSE:LSPD](#)) has grossly underperformed the market and has lost 19% in this period.

Investors are currently worried about the slower-than-expected pace of economic recovery, rising inflation, the possibility of higher bond rates, and the financial crisis surrounding **Evergrande**. However, in addition to these factors, Lightspeed stock was also the victim of [a short-seller report](#) by Spruce Point, which accused the company of misleading investors.

Spruce Point claimed Lightspeed Commerce has [inflated multiple figures](#) that include its total addressable market, gross transaction volume, and customer base. The noted short-seller also believes the Canadian fintech giant has covered its rising competitive pressures and double-digit organic declines with a slew of recent acquisitions. Further, according to the report, Spruce Capital alleged that not all of Lightspeed's acquisitions have been successful, and the latter is also grappling with a decline in its average revenue per user.

Given these issues, Spruce Capital expects LSPD stock to fall between 60% and 80% from its current levels.

Focus on Lightspeed's acquisitions

Spruce Capital explained that Lightspeed's early acquisitions were inexpensive, but recent buyouts have come at escalating costs. Lightspeed has earlier stated it won't buy old platforms, but its acquisition of ShopKeep might raise a few eyebrows, as the latter was close to bankruptcy and also had limited growth potential. Further, Upserve's business was experiencing a decline, while Vend has fallen short of financial expectations.

Lightspeed has been accused of loosening its revenue recognition disclosure after its IPO, and Spruce Capital confirmed there is evidence of a revenue restatement as well as a revision in COGS (cost of

goods sold) without explanation. While Lightspeed's revenue was largely unaffected amid the COVID-19 pandemic, sales for peers with exposure to retail and hospitality sectors saw a 20% decline in the top line. The report also indicated that Lightspeed's bad debts as a percentage of gross receivables are close to 21% compared to just between 3% and 4% for peers.

Is LSPD stock on the cusp of a massive pullback?

According to Spruce Capital, Lightspeed's stock price target by analysts is based on inflated financials on the back of its sequence of acquisitions. Spruce Capital reported, "LSPD is positioned by its bullish stock promoters as a best-of-breed commerce technology solution provider. However, we believe the promoters have taken management's story at face value without conducting a rigorous forensic review of its financial claims, accounting policies, and acquisition history."

Spruce Capital informed it has evidence that recent acquisitions were overvalued and have been afflicted by growth issues. It stated that LSPD stock commands a premium valuation, despite the company's substandard financial reporting quality and inability to generate positive cash flow or adjusted EBITDA margins.

These allegations may result in a selloff in Lightspeed stock, especially if they are true. But investors should take the report with a pinch of salt, as Spruce Capital has a short position on the stock and will benefit from a decline in Lightspeed's valuation.

CATEGORY

1. Investing
2. Tech Stocks

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1. Editor's Choice

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