



Lightspeed Commerce (TSX:LSPD): What to Do Now?

Description

Lightspeed Commerce ([TSX:LSPD](#))([NYSE:LSPD](#)) was on the receiving end of an attack last week, after short-seller Spruce Point Capital Management accused it of misleading investors. In a 125-page report, Spruce Point accused the company of a variety of misdeeds, ranging from dodgy accounting to poor corporate governance.

In an article last week, I [covered the basic arguments](#) raised by Spruce Point in its short report. In this article, I will review both Spruce Point's arguments and Lightspeed's response to help investors decide who is in the right here. I'll start by looking at Spruce Point's arguments and then move on to Lightspeed's response.

Short-seller attacks

Spruce Point Capital accused Lightspeed of a number of misdeeds:

- Aggressive revenue recognition
- Paying too much for companies it acquired
- Overstating customer numbers, total addressable market (TAM), and other key metrics
- Making revisions to revenue figures without disclosure
- Having inexplicable revenue growth amid the COVID-19 pandemic when competitors saw revenue decline

As I wrote last week, that last point appears to be addressed by the fact that Lightspeed's e-commerce platform saw growth last year. The other ones may hold some weight, though. In the next section, I'll take a look at how Lightspeed handled the criticism.

Lightspeed responds

Shortly after Spruce Point Capital released its short report on LSPD, [the company fired back](#) with a brief press release. In it, the company said:

- Spruce Point Capital had a vested interest in seeing Lightspeed's stock go down
- Lightspeed delivered revenue of \$115 million in its most recent quarter, up 220% year over year
- Organic revenue growth was 78%

"Organic" revenue growth in this context refers to revenue growth without the impact of acquisitions. Lightspeed spent a lot of money in the past 12 months buying up companies like Ecwid and NuOrder, both of which already had revenue before the acquisitions. What Lightspeed is saying here is seemingly that the "surprisingly" high revenue growth was due to these acquisitions and that organic growth was much lower (though still high). Overall, this is far from a point-by-point refutation of Spruce Point's arguments, but it does help to explain why LSPD's revenue growth has been so much stronger than that of its competitors.

The final verdict?

Having reviewed both Spruce Point's arguments and LSPD's brief rebuttal, can we draw any conclusions about Lightspeed's alleged misdeeds?

Yes and no.

On the one hand, Lightspeed does have a perfectly good explanation for why its revenue growth is so much higher than its competitors. On the other hand, its brief rebuttal doesn't even begin to touch on all of the points Spruce Point Capital raised. It does have a ready argument for the "core" point but not for the details. The investing takeaway from all of this would simply be that you should read Spruce Point Capital's arguments and Lightspeed's rebuttal before you choose to buy LSPD stock. At the end of the day, both parties raise some good points.

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