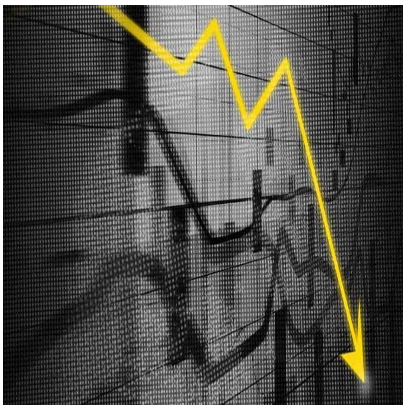

Why Lightspeed Commerce Stock Fell 5% Last Week

Description

Shares of Canada's fintech heavyweight **Lightspeed Commerce** (TSX:LSPD)(NYSE:LSPD) continued to underperform the broader markets, as it fell close to 5% in the last week. The stock is now down 32% from all-time highs while the **S&P 500** has pulled back marginally in recent trading sessions.

Lightspeed has also trailed other growth stocks in the technology space that have lost steam due to concerns over valuations and a sluggish global economy. One key reason for LSPD's recent selloff is the report published by short-seller Spruce Point which accuses the fintech company of misleading investors.

According to Spruce Point Capital, Lightspeed has inflated data regarding its gross transaction volume, customer base, and total addressable market. Further, Lightspeed has allegedly overpaid for acquisitions and is hurt by a decline in average revenue per user, raising several questions of the company's governance standards.

Spruce Capital also explained that on the back of insider selling and stock dilutions attributed to acquisitions, IPO insiders now own 26% of LSPD stock, which is down from 54% during the IPO.

Spruce Capital tears into Lightspeed Commerce

Spruce Capital also stated that analysts are not accounting for Lightspeed's tepid gross margins and are just viewing the company's top-line growth as a catalyst for stock prices. In the last few quarters, LSPD's reported gross margins were significantly lower compared to analyst forecasts.

A rapidly declining gross margin should make investors and analysts nervous, as it isn't a sign of a healthy business, said Spruce Capital. The short-seller emphasized that investors bullish on Lightspeed, despite its price-to-2022 sales multiple of 23 times and price-to-gross profit ratio of 47 times are unable to account for the "titanic competitive shifts happening in its business and industry."

Spruce Capital disclosed, "Given its changing market dynamics towards greater e-commerce, we believe it will increasingly compete against industry stalwart **Shopify** and new entrants such as **Amazon**

. We expect LSPD to fail as its e-commerce and omnichannel capabilities greatly lag peers."

What's next for LSPD stock?

Spruce Capital expects LSPD stock to decline significantly, as it appears grossly overvalued on revenue and gross margin metrics. In fact, it expects Lightspeed to trade at a discount to peers, given the evidence it has published outlining the latter's inferior business. Lightspeed is expected to be impacted by existing and future growth challenges from new entrants in this space such as Amazon. Lightspeed is also lagging behind industry leaders including **Square** and Shopify, and its stock price is forecasted by Spruce Point Capital Management to fall by 70% from current levels.

Despite the recent pullback, Lightspeed stock has returned 472% to investors since its IPO in early 2019. It has been one of the fastest-growing tech stocks on the TSX, and analysts remain bullish on the long-term prospects of the company.

Bay Street analysts, in fact, have a 12-month average price target of $139 for LSPD stock, which is almost 30% higher than its current trading price. Investors should expect the tech stock to underperform the TSX and peers in case market sentiment turns bearish.

CATEGORY

1. Investing
2. Tech Stocks

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