Investors Shouldn’t Give Up on Lightspeed Despite Short Reports

Description

In late September, Spruce Point Management released a lengthy, 125-page slide deck, explaining why investors should sell out of bullish positions in **Lightspeed** (TSX:LSPD)(NYSE:LSPD). For those that aren’t familiar with the company, Lightspeed provides POS and other services that can help small- and medium-sized merchants optimize their businesses. Some of its other offerings include Lightspeed Payments, Lightspeed Loyalty, and Lightspeed Ecommerce. Here, I’ll discuss why investors shouldn’t let this short report shake their faith in the company.

What’s the big deal?

In the short report, Spruce Point claimed that Lightspeed massively inflated its pre-IPO business figures. This would have a significant effect on the company, because it brings into question Lightspeed’s position in the market when entering its IPO. If Lightspeed’s market presence isn’t what it claims to be, then the company would have a much harder time securing the market share it needs to be successful. With massive competitors like **Shopify** and **Square** in the POS space as well, that could cause investors to second guess their investments in Lightspeed.

Spruce Point goes into further detail on many other issues that it believes are present in Lightspeed. At the end of the report, Spruce Point states that it believes there is a 60-80% downside risk in Lightspeed stock. After the short report was released, Lightspeed stock fell more than 31%. That’s an astounding drop, considering it all happened in a span of two weeks.

Since then, Lightspeed has released comments on the short report. As you may have guessed, the company strongly opposes the claims and believes that the report “contains numerous important inaccuracies and mischaracterizations which Lightspeed believes are misleading and clearly intend to benefit Spruce Point, which itself has disclosed that it stands to profit in the event that the stock price of Lightspeed declines.”

What should investors do?

It’s important to note that in every long and short report, there are two sides of the equation. Investors should understand which side of the topic the writer is coming from. With the case of short reports, many of the firms issuing those reports often have short positions. Thus, by creating fear, uncertainty, and doubt, those firms can see massive returns.

In recent years, another popular growth stock has seen its fair share of short reports. Shopify, a previously mentioned Lightspeed competitor, has had several short reports written about it. In one, Citron Research stated that “[Shopify] is a completely illegal get-rich-quick scheme.” In another short report, it was predicted that Shopify stock would fall to $100 in the next 12 months. At the time, the stock was trading around $250, which implies more than a 50% downside risk.

In my opinion, investors shouldn’t let the Lightspeed short report shake their confidence in the company. Much like the Shopify short reports, the firm releasing the report could be completely wrong. Lightspeed is a great company with outstanding growth. In its latest earnings presentation, the company reported a 220% year over year increase in its Q2 revenue. In addition, it announced the addition of amazing new customers, including SpaceX.

Lightspeed may have a tough road ahead, given the competition it faces. However, there’s no denying that the company is one of the best growth stocks available on the **TSX** today.

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