



## 1 Growth Stock Near a 52-Week Low to Watch in November

### Description

- A report from short-seller Spruce Point Capital has pulled **Lightspeed Commerce** ([TSX:LSPD](#))([NYSE:LSPD](#)) stock to its 52-week low.
- Lightspeed denies Spruce Point's claims and continues to report strong revenue growth.
- Focus has shifted from Lightspeed revenue to losses that are only expanding, hinting it has no foolproof plan to generate profits.

### What's all the hype about Lightspeed?

I have been bullish on Lightspeed for over 15 months because of its potential to grow revenue. But Spruce Point Capital [alleged](#) that the cloud company gave inflated customer count and faulty average revenue per user (ARPU) numbers. Three major performance metrics that made Lightspeed one of the best-performing stocks of 2021 came under question:

- Number of customers
- ARPU
- Gross Transaction Volume (GTV)

In one [article](#), I'd stated that for a growth stock like Lightspeed, the above three metrics count. In volume-based businesses, profit margins are low, and they only show up when the business achieves economies of scale. Lightspeed was expanding its scale, no doubt. The company's CEO Dax Dasilva used the opportunity to raise equity capital to fund his acquisition plans.

However, the acquisitions became costlier, and that raised the eyebrows of analysts. Lightspeed's strategy was to acquire companies that could help it expand geographically, technically, and across verticals.

Every acquisition brought in more customer locations, creating an opportunity for Lightspeed to cross-sell most of its products and increase ARPU. When Lightspeed acquires a company, it transfers customers to its omnichannel platform. In an acquisition, it is natural to lose customers. The Lightspeed platform is not mission-critical software and operates in a highly competitive environment. Hence, the

churn rate was high.

Lightspeed stock grew on the back of revenue and GTV figures. Now Spruce Point's report says that the calculation doesn't add up. I checked the detailed report where it has submitted evidence that GTV, ARPU, and customer numbers of pre-IPO don't add up.

## Lightspeed's business and the stock has growth potential

I did a little digging. If you divide the fiscal 2022 second-quarter revenue with the ARPU (\$133.2 million/\$270), you get the customer count (493,333). Lightspeed's customers grew 84% year over year but fell 2% sequentially. Maybe Lightspeed made reporting mistakes in the past, but the reporting seems to be fine now. After the Spruce Point report, Lightspeed will be extra careful and ensure complete and transparent disclosure.

Even if Spruce Point is correct, Lightspeed stock has dipped 45% and is trading at 22.6 times its sales per share. The company is still in a growth phase and has a strong balance sheet with a net cash balance of \$1.15 billion. This cash shows that Lightspeed can fund its losses for several years. Its primary focus at present is achieving market share and reducing churn rate. Hence, it is making strategic acquisitions to scale up and adding new offerings like Payments and Capital to make its platform sticky.

Once the market share comes, profits will flow. **Shopify** was not profitable until the pandemic brought 10-year growth in a year. Even **Amazon** has a mid-single-digit net margin, because such is the nature of this business.

Spruce Point report did not say there was something wrong with Lightspeed's growth strategy or its product. Because that would have impacted its future growth. Lightspeed has to be vigilant and make acquisitions that give better returns. Most software-as-a-service companies fail during the [high-growth](#) phase by splurging money on irrelevant acquisitions or products. So far, Lightspeed is on track, and its acquisitions are bringing relevant synergies.

## Should you invest in Lightspeed stock?

Lightspeed has a strong business model and a good technology platform. It is holding out well with competition and making its mark among small- and mid-sized retailers and restaurants. If it continues to grow, the stock can deliver average annual growth of 20-30% in the next 10 years.

These are tough times, and the stock is oversold. Even a ray of hope could send Lightspeed stock soaring.

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