



## Lightspeed (TSX:LSPD) Is Sinking Fast: Time to Let Go?

### Description

Canada's [technology sector](#) has advanced 8% in five days, but one of its prominent constituents is moving in the opposite direction. **Lightspeed Commerce** ([TSX:LSPD](#))([NYSE:LSPD](#)) might even [sink further](#) following a 29% drop in the last seven trading sessions.

As of November 12, 2021, the tech stock trades at \$87.40 per share. It has gained 66.16% in 12 months but is down 2.72% year to date. Besides a potential class-action lawsuit, the soft earnings outlook isn't doing any good. Thus, further underperformance is a strong possibility. If you own shares of Lightspeed, it might be time to let go.

### Lightspeed's defence

Lightspeed seems to measure performance on its acquisition strategy. The pace has been rapid in that the company wants to scale faster and attract more significant partners, including Google. However, the report of Spruce Point Capital Management insinuating that Lightspeed has been exaggerating its growth prospects is starting to hurt the stock.

Dax Dasilva, Lightspeed's CEO, addressed the contents of the [short-seller](#) firm's report. He said the company has been consistent in how it accounts for revenue. Also, there's transparency regarding the business metrics management uses. Dasilva contends that any claim that the company lacks organic growth "is categorically false."

Lightspeed is on the defensive, saying the report is misleading and only the proponent will benefit from it. Dasilva further countered, "We firmly believe that our key performance indicators allow investors to measure our operating performance and identify trends in our core business that may not otherwise be apparent" with international accounting standards."

### Investigations

A class-action lawsuit could be damaging for Lightspeed. On behalf of investors, several law firms are

investigating the e-commerce firm for possible violation of the securities law and misrepresentation. A prominent antitrust class litigation firm, Pomeranz LLP, is the latest to join the fray.

The investigations of the law firms stem from Spruce Point's allegations that Lightspeed massively inflated its pre-IPO customer count (85%) and gross transaction volume (10%). The report noted the acquisition spree where costs are escalating, yet the path to profitability is unclear. A former employee described it as smokes and mirrors.

## Weak outlook

The allegations of the short-seller firm aren't the only reasons for Lightspeed's tailspin. Management's weak business outlook or financial guidance didn't sit well with investors. In Q2 fiscal 2022 (quarter ended September 30, 2021), total revenue increased 139% compared to Q2 fiscal 2021.

Moreover, subscription and transaction-based revenues climbed 132% and 320%, respectively. Lightspeed's net loss expanded by 203% to US\$59.1 million. At the quarter's end, the one-stop commerce platform had US\$1.2 billion in unrestricted cash and cash equivalent.

Lightspeed CFO Brandon Nussey, however, said the pandemic's lingering impact and ongoing supply-chain disruptions are the immediate threats to the business. Both may prevent retailers from meeting customer demands. Also, it would be harder for Lightspeed to secure hardware for its clients, says Nussey.

## Show of support

Thanos Moschopoulos, an analyst at **BMO** Capital Markets, said Lightspeed's Q3 fiscal 2022 guidance is slightly below consensus. He added that it also implies a more meaningful miss in Q4. Nevertheless, Moschopoulos believes the stock is overreacting to the guidance miss.

**National Bank of Canada** analyst Richard Tse advised investors to look past the noise. He said you could benefit from Lightspeed meaningfully if you can look through the short overhang.

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