



Lightspeed Commerce (TSX:LSPD): Buy the Dip?

Description

Lightspeed Commerce ([TSX:LSPD](#))([NYSE:LSPD](#)) stock is in the midst of a substantial dip. Down 53% from its September high of \$159, it is tumbling like never before. Lightspeed went on a major rally after its IPO, rising 740% in a few short years. But a short-seller report sent the stock tumbling right after it hit an all-time high. Later, the company released disappointing quarterly earnings, which sent it tumbling further. In this article, I will explore the incredible tank job in LSPD stock, and whether the stock is worth buying at its new low price.

Earnings disappoint

The biggest single contributor to LSPD's recent selloff was disappointing Q3 earnings. While the company delivered exceptional revenue growth in the quarter, it missed on earnings, as analysts [expected a \\$46 million loss](#) (a \$59 million loss actually materialized).

Some select metrics from the earnings release included the following:

- Revenue: \$133 million, up 193%
- Subscription revenue: \$59 million, up 132%
- Transaction based revenue: \$65 million, up 320%
- Net loss: \$59 million

Some of these figures were pretty encouraging. The revenue, for example, was a significant beat. However, the net loss grew just as fast as revenue did, indicating a company that is burning through wealth rather than creating it. Additionally, the revenue growth, while impressive, came mostly from acquisitions; the company's organic growth was much lower. So, the earnings release seemed to confirm that LSPD is growing mostly through very costly M&A.

That's not to say that the report was all bad, though. For one thing, the increased costs are producing revenue, and the newly acquired companies are at least making sales. Earlier, I'd noted that the net loss grew faster than revenue did. The "growth" (or, if you prefer, "decline") in the net loss was 203%. So, the loss did widen faster than revenue. However, operating costs grew at 189%, slightly slower

than revenue. The substantial increase in the net loss in the third quarter reflected non-operating charges that may not recur in the future. Therefore, LSPD may eventually walk this off.

The short-seller report

Another factor contributing to Lightspeed's recent tank job was Spruce Point Capital's short report. In the report, Spruce Point (which is short LSPD shares) claimed that the company

- Was aggressively recognizing revenue;
- Was selectively omitting non-GAAP metrics it used to use when they creased to be flattering; and
- Was growing suspiciously fast compared to competitors.

Basically, Spruce Point was vaguely implying that Lightspeed was using shoddy accounting to puff up its numbers. The company's report was pretty meticulous and well documented, but some of its claims were pretty easily rebutted. The "suspiciously strong" earnings growth in 2020, for example, was due to a pivot to e-commerce. That's not something every Lightspeed competitor did, so it shouldn't raise eyebrows that it worked — particularly when most major e-commerce companies [saw strong growth in the COVID-19 era](#).

Foolish takeaway

Having looked at all the factors that caused Lightspeed stock to dip, can we conclude that it should be bought?

All I will say is that if you liked LSPD at \$159, you should like it even more now. I personally have never invested in the stock, but nothing happened recently that made the company worth less than it was before. I personally think LSPD will start rising again eventually. No, I'm not betting my own money on it, but it seems more likely than not. To each their own.

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