



Lightspeed (TSX:LSPD) Stock Lost 53% Value: Where Is the End to This Dip?

Description

It all started at a \$153 price point in September. Short-seller Spruce Point Capital Management released an evidence-backed [report](#). It stated that **Lightspeed Commerce's** ([TSX:LSPD](#))([NYSE:LSPD](#)) key performance metrics were flawed. The report created panic among investors, and they started to book profits. The stock was already overvalued, given the e-commerce wave during the pandemic. Hence, any negative news had a cascading effect on Lightspeed stock.

Lightspeed loses 53% value in two months

Lightspeed stock lost 53% of its value in three stages.

- Stage #1: Lightspeed stock lost 30% of its value after the Spruce Point report was out (September 22 – October 8).
- Stage #2: The stock lost another 30%, as the company's net loss widened in the latest quarterly earnings (November 3-10).
- Stage #3: Panic struck, and even the long-term investors started doubting the stock. Some sold it in panic, as the stock went close to its [52-week low](#).

Surprisingly, while investors are selling, the Wall Street analysts are bullish, with 13 out of 19 analysts monitoring the stock having a buy recommendation. So, is this perception-based reality or blindly following the market?

Short-seller's view of Lightspeed

According to the short-seller's report, Lightspeed's customer count, average revenue per share (ARPU), Gross Transaction Volume (GTV), and Total Addressable Market (TAM) didn't match. All these figures were inflated in past years. The company has reduced its TAM, changed the definition of ARPU multiple times, stopped reporting customer count to hide the churn rate, and only shown the glossy side of the earnings.

Spruce Point also noted that Lightspeed losses have widened, and the company has no concrete plan to turn profitable, even after 16 years of operations. Moreover, the costly \$2.5 billion worth of acquisition spree is too aggressive and may not deliver the kind of growth it expects. It pointed at the \$16 billion TAM, which was 85% lower than the TAM Lightspeed reported at the time of the initial public offering.

Long-term value investor's view of Lightspeed

If you notice, Spruce Point attacked every single point basis on which the stock was surging to sky-high valuations. Lightspeed is a software-as-a-service (SaaS) company that is all about scaling through a land-and-expand strategy, both organically and through acquisitions.

Spruce Point is looking at the pre-IPO data and stating irregularities. But the stock price is about future growth potential. Every acquisition added to the company's scalability and revenue growth, pushing the stock upwards. Spruce Point said nothing about any discrepancies in the revenue-growth rate.

The short-seller did not highlight Lightspeed's \$1.15 billion net cash balance that is sufficient to fund more acquisitions and also handle multiple years of losses. If you notice, even **Shopify** was posting losses before the pandemic. Every company has a different pace of growth. Lightspeed did many trials and errors and suffered losses too. But that's the way business works. Its platform has finally got recognition, and with every passing year, the company is making its TAM estimates more practical and realistic.

One point where Spruce Point hits the dart is Lightspeed's accelerated mergers and acquisitions (M&A). Most SaaS companies go overboard with M&A during the high-growth stage and end up making irrelevant acquisitions that give dissatisfactory returns. But so far, Lightspeed's M&As have been in line with its strategy to grow by geography, technology, and across verticals.

Food for thought

Some bullish investors regretted booking profits on Lightspeed at the \$153 price point. Had it not been for the Spruce Point report that targeted Lightspeed, the stock would be riding the Santa Claus rally just like Shopify in the run-up to Black Friday and Cyber Monday.

Don't beat yourself up for not selling the stock at its peak. Instead, think of it as a once-in-a-lifetime sale here you are getting a high-growth stock at a 50% discount. Even analysts are bullish on the stock. This is the kind of opportunity [value investors](#) seek.

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