



Stock Market Selloff: Is Lightspeed a Buy?

Description

Lightspeed ([TSX:LSPD](#)) was among the [top TSX stocks](#) that went through the roof amid the pandemic. The demand for its digital products and omnichannel payment solutions spiked, driving its stock price higher. However, market selloff triggered by high inflation, rising interest rates, valuation concerns, and lack of profitability weighed on [technology stocks](#), including Lightspeed.

While Lightspeed stock eroded shareholders' wealth in 2022, this sharp pullback is an opportunity to buy its shares at a significantly discounted price. Lightspeed's fundamentals remain strong, which is reflected through its recent financial performance, wherein its organic sales continued to increase by over 30%.

Further, the stock is trading cheap at current levels. For example, Lightspeed's next-12-month enterprise value-to-sales multiple of 2.1 is near its all-time low. Its low valuation reduces the downside risk, making it an attractive long-term investment to generate market-beating returns in the next three to five years.

Reasons to buy Lightspeed stock now

Besides its attractive valuation, there are multiple reasons to buy Lightspeed stock now. Lightspeed is focusing on integrating all its acquisitions into one brand and will sell only two core products (Lightspeed Retail and Lightspeed Restaurant). This will result in streamlining of its operations and improve its go-to market approach and, in turn, position the company to reach profitability.

While Lightspeed is focusing on only two main offerings, it is also prioritizing higher value, higher GTV (gross transaction value) customer locations. This will reduce customer churn rate and drive higher ARPU (average revenue per user). During the last quarter's conference call, Lightspeed's management stated that the new customers coming on board have higher subscription ARPU than existing customers.

Thanks to its focus on higher-value customers, the number of customer locations processing over \$500K in annual GTV increased by about 25% year over year. Further, the number of customer

locations processing more than \$1 million in annual GTV increased by 30% from the prior year. The company's mix shift towards larger and more established customers (who can use more of its software modules) is a positive and will support its profitability.

While the company's efforts to drive ARPU should support the recovery in its stock price, the shift in selling models towards the omnichannel platforms provides a multi-year growth opportunity. Further, the improvement in the economy will push retailers and restaurateurs to spend more on technology and drive demand for Lightspeed's offerings.

Lightspeed could also benefit from the increased penetration of its Payments solutions. Though Lightspeed's Payments adoption is growing and is present in all of its markets, it remains low, and only a small portion of its gross transaction volumes are processed through it. The increase in its Payments penetration will support transaction-based revenues and margins.

Bottom line

Lightspeed stock is trading cheap on the valuation front. Meanwhile, the company's focus shift towards high-value customers, increase in the number of customers adopting multiple software modules, streamlining of its offerings, and accretive acquisitions will likely accelerate its growth and support its margins.

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