Why Lightspeed Stock Fell 56.5% in 2022

Description

Lightspeed Commerce (TSX:LSPD) stock fell 56.5% in 2022. It was a big selloff but, strangely enough, not all that bad for a tech stock that year. In the same period, **Shopify** (TSX:SHOP) fell 78%, as rising interest rates and a few disappointing earnings releases took a bite out of its growth. Overall, the NASDAQ-100 — the index of U.S. tech stocks — fell 33% for the year. So, Lightspeed was far from 2022's worst tech name.

With that said, the reason for LSPD's relatively tame 2022 losses is less flattering: unlike other tech stocks, which hit their highest levels in November 2021, LSPD peaked in September of that year. The stock's all-time high to 52-week low sell off was 86% — worse than Shopify's.

That brings us to today. Lightspeed is still putting out pretty good growth numbers, and it still isn't profitable. What should investors make of these mixed signals, as they try to determine whether LSPD is a buy at today's prices?

Decelerating growth

One reason why Lightspeed stock fell last year is because its growth rate declined. At the very height of the 2021 tech bubble, LSPD was posting revenue-growth rates well above 100%. In its most recent quarter, it delivered

- $183.7 million in revenue, up 38%;
- $74.5 million in subscription revenue, up 25%;
- $101 million in transaction revenue, up 56%; and
- A $0.53-per-share loss, worsened from $0.45 per share.

As you can see, the revenue growth was pretty strong, but not as strong as it used to be. Lightspeed reached its all-time high at a time when the company was growing its revenue at more than 100% year over year. 38% growth looks good at a glance, but if your stock is priced on 100% revenue growth, that "high" growth demands a lower stock price.

A short report

Another reason why Lightspeed stock fell in 2022 is because Spruce Point Capital released a short report about the stock near its all-time high. The report accused LSPD of quite a number of misdeeds, including

- Aggressive revenue recognition;
- Achieving high growth mainly through acquisitions, the prices of which were too high;
- Low organic growth (i.e., growth minus the effects of acquisitions); and
- Selectively removing certain metrics from earnings releases when they stopped being flattering to the company.

It was a pretty scathing series of accusations — scathing enough that the report triggered a big selloff when it came out. At least some of the selloff was deserved, but today, with Lightspeed down 86%, the worst may be behind it.

Interesting point: Spruce Point Capital's target has been hit

An interesting point about Spruce Point Capital's report is that the target price the short-seller aimed for has been hit. Spruce Point saw 80% downside, and LSPD stock is down more than 80%. So, potentially, Lightspeed has a chance to recover from these levels. As for getting back to all-time highs: that's probably not happening anytime soon.

For me personally, Lightspeed is not a buy. Basically, its losses are getting bigger and bigger. I don't like buying stocks like that. If you demand that your investments be profitable, LSPD isn't for you. But if you feel like rolling the dice, Lightspeed is a better bet now than it was last year.

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