



Is Lightspeed Stock a Buy on the Dip?

Description

Lightspeed Commerce ([TSX:LSPD](#)) is among the most severely beaten down of Canada's tech stocks. Down 85% from its all-time high set in September 2021, it has really tumbled. Most tech stocks declined in 2022, but LSPD's sell-off was worse than most. The NASDAQ-100 index – which contains most big U.S. tech companies – fell 33% in the last year. So LSPD underperformed by an order of magnitude.

The question is whether it could perform better going forward. Today, Lightspeed is much cheaper than it was two years ago, yet its revenue is higher than it was in its glory days. Potentially, there could be an opportunity here, but we need to look at the stock in more detail to know whether that's really the case.

How Lightspeed's valuation looks now

At today's prices, Lightspeed stock is much cheaper than it was back when it was rallying in 2020 and 2021. Its current valuation ratios include:

- Price/sales: 3.7.
- Price/book: 0.75.
- EV/sales: 2.72 ("EV" means enterprise value).

These ratios are all much lower than they were two years ago. In fact, the price/book ratio looks especially low! But if Lightspeed is chronically losing money, then it doesn't matter how cheap it is compared to book value, because it is going to have to pile up debt to stay afloat. So, let's see how Lightspeed is doing on the profitability front.

Losses as a percentage of revenue

In its [most recent quarter](#), LSPD delivered:

- \$183.7 million in revenue, up 38%.
- \$81 million in gross profit, up 25%.
- A -\$79 million net loss, worsened by \$20 million.

In the same quarter a year before, it delivered:

- \$133 million in revenue, up 193%.
- \$64 million in gross profit.
- A -\$59 million net loss.

So, we're seeing significant (if decelerating) growth here. However, the profitability actually deteriorated. Most obviously, net income declined. In addition to that, gross profit shrank as a percentage of revenue. In the third quarter of 2021, Lightspeed's gross profit ratio (gross profit divided by revenue) was 48%. By the third quarter of 2022, the ratio had declined to 44%. So Lightspeed's gross profit is getting smaller compared to revenue and bottom-line losses are getting worse. This looks like a dicey proposition.

Foolish takeaway

Having looked at all relevant factors, it's time to ask whether Lightspeed is a buy at today's prices.

For me personally, the answer is 'no.' I am not buying Lightspeed stock. The company's growth is slowing down while costs are going up, resulting in shrinking margins. Not the kind of situation any company wants to find itself in.

However, my own lack of desire to buy Lightspeed shouldn't deter investors who have other reasons for liking it. If you really like to roll the dice on [growth stocks](#), LSPD may provide you with the kind of experience you enjoy. Given that profitability seems to be a ways off, there isn't much of a fundamental case for a long-term holding, but a person could perhaps make money off short-term directional bets on Lightspeed at the right times. It's not the kind of game I play, but others have succeeded at it.

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