



# STOCKTRADES PREMIUM COMPANY SUMMARY

**LIGHTSPEED COMMERCE INC.**

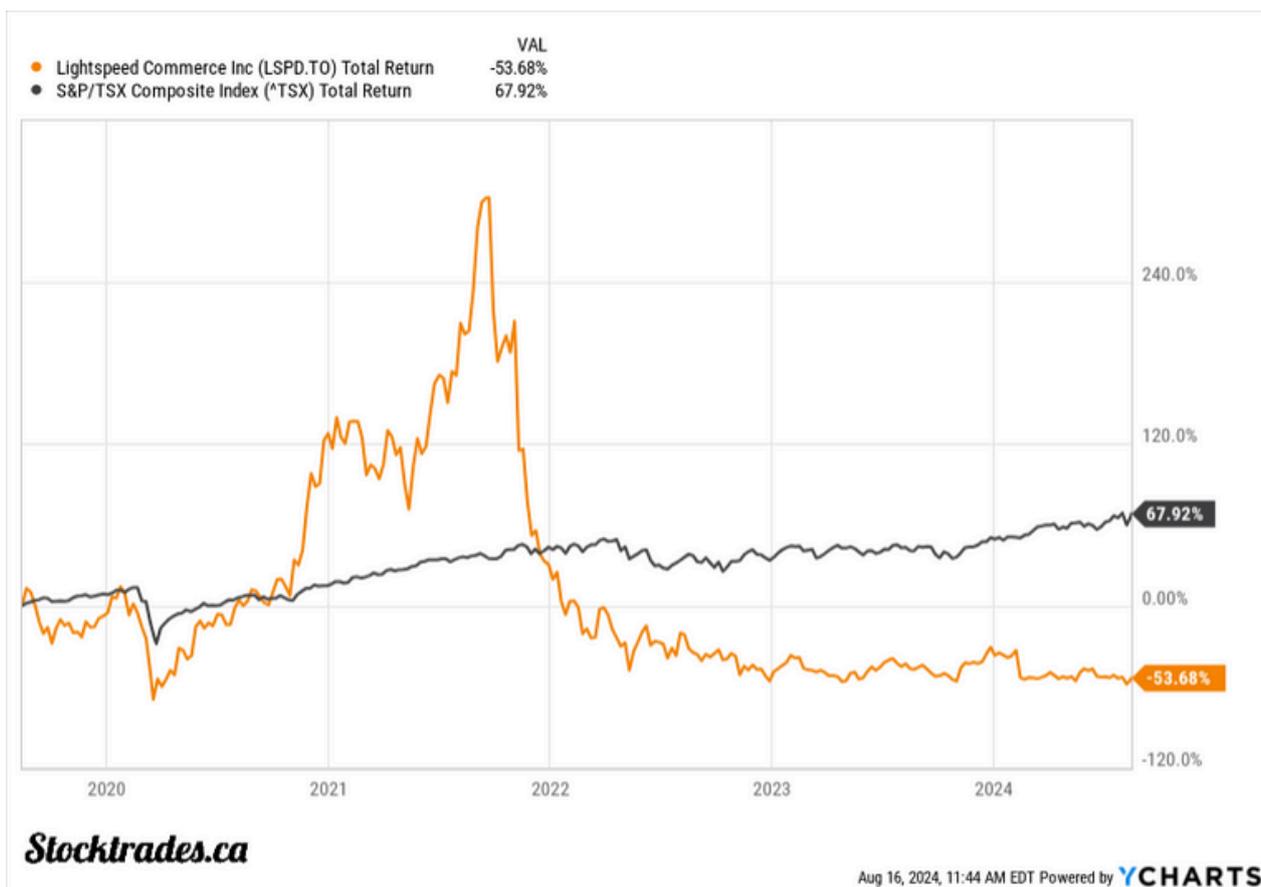
**LSPD.TO**

**UPDATED AUGUST 16, 2024**

**NOTE: DAN IS LONG LSPD.TO**

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Lightspeed Commerce Inc provides an omni-channel commerce-enabling SaaS platform. Its software platform provides customers with the functionality it needs to engage with consumers, manage their operations, accept payments, and grow their business. The company sells its platform through a direct sales force in United States, Canada, Netherlands, Australia, and other countries. It derives a majority of its revenue from the United States.

**OUR GROWTH SCORE: 3.1/5**

**OUR DIVIDEND SAFETY SCORE: N/A**

**Sector:** Technology

**Stock Type:** Growth

**Industry:** Software - Application

**Our Risk Rating\*:** Aggressive

**Current Price:** \$18.08

**1 Year Price Target:** \$27.30

\*Our Risk Rating: Our opinion of the overall risk an investment presents. Can be shown as Defensive (DEF), Moderate (MOD), or Aggressive (AGG). By no means is this an indication of future potential gains or lower volatility.

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## PROS

- Company's profitability objectives are happening sooner than expected
- Gaining traction in the US
- Well capitalized, over \$720M in cash and no debt
- Continues to post strong quarterly results
- Company hit its target of being profitable on an adjusted EBITDA basis in 2024
- Valuations have come down considerably
- The company's dependence on small businesses is reducing, and it's acquiring larger clients

## CONS

- Although slowing, company is facing scrutiny about losses on an earnings basis
- Increased competition in the e-payment and e-commerce segment
- Although valuations have come down, so has growth from the company
- Rising interest rates will likely lower valuation multiples for the foreseeable future
- The company is uneasy about future macro outlook
- Gross Transaction Volume has flatlined due to harsh economic conditions. Although temporary, this will have an impact on the stock price

## OVERALL THESIS

If you're a stickler for profitability when investing, Lightspeed may not be for you (however, profitability seems to be well on its way.) Alternatively, suppose you are a patient investor and are willing to wait for a company to flourish. In that case, we believe Lightspeed will be one of Canada's top growth stocks for the foreseeable future. However, keeping in mind that the company will be volatile along its growth path is vital.

In 2021, the company utilized cheap cash to fuel growth via acquisition. Investors quickly turned sour on these acquisitions as Lightspeed likely overpaid for them. However, we still feel it has added some strong assets to the company, and over the long term, integrations will no doubt fuel growth. In 2023 and beyond, especially considering the company's focus on profitability now, acquisitions are expected to slow. But if this company can grow organically at the 20% clip it has claimed, it is a company we have no problem holding long term.

Lightspeed has always been a company that has traded at relatively rich valuations. This isn't the case anymore. If the company can hit its expected revenue numbers in Fiscal 2025, it is currently trading at less than 2 times forward EV/Sales. We'll speak to this additionally in the valuation section of this summary.

Overall, the central thesis behind an investment in Lightspeed is the company's current penetration into the SMB (small and medium business) market for the foreseeable future. Revenue will compound if it can continue to grow at a 20-25% clip.

## POTENTIAL RISKS

Lightspeed is a young company, one that is trading right now solely based on future potential. As such, it presents a considerable risk of increased volatility if the company stumbles on growth estimates and guidance. It is also susceptible to a reset in sector valuations - a trend we've witnessed in high-valuation companies for nearly 2 years now.

The company is also at the mercy of larger companies that can develop technology at a faster pace and capture market share away from Lightspeed. The management team will need to be diligent in maintaining the best software possible, as this is the backbone of the business.

<b>Beta</b>	<b>3.08</b>
<b>Alpha</b>	<b>-36</b>
<b>Our Risk Rating</b>	<b>Agg*</b>
<b>Max Drawdown</b>	<b>87%</b>

Given that it has engaged in several M&A (mergers and acquisitions), there is also a risk of overpaying for assets in the industry. In 2020 and 2021, these acquisitions were welcomed by the market. But the environment has certainly changed. As a result, it is likely that the company will scale back acquisitions and attempts to grow the business organically. This will ultimately lead to lower growth overall.

COVID-19 was a significant headwind for Lightspeed and its customers. Fast forward to 2024, and that headwind has, for the most part, subsided. However, we are now left with an additional headwind: high interest rates and a potential recession. Lightspeed carries no debt, so rising interest rates won't impact it in that regard outside of valuation multiples to its share price.

It will impact its merchants, however, in the event policymakers maintain higher rates for longer and consumer spending slows. In fact, Lightspeed has warned of this numerous times, and it will be something we need to keep an eye on.

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## VALUATION

	TTM	3 Year Average	Industry Average
P/E (Fwd)	23.3	N/A	N/A
P/S	2.13	8.2	6.23
P/B	0.85	0.95	6.89
P/FCF	N/A	N/A	29.81
PEG Ratio (FWD)	N/A	N/A	N/A

There has been a significant reset in the valuation of high-profile tech companies, and it is unlikely that Lightspeed ever returns to its highs in late 2021. Remember that we mean this from a valuation perspective, not a share price perspective, as there is a difference.

Because the company is not profitable, the EV/Sales metric is the best benchmark. This represents the company's enterprise value compared to its revenue. Currently, the industry average EV/Sales multiple is 4.5. Not many companies in the industry are growing at the pace of Lightspeed, so if the company continues to perform, the market will likely reward it with a premium compared to this industry average when sentiment returns. If we make a relatively conservative assumption that Lightspeed trades at a discount to this multiple because of its widened exposure to small and medium sized businesses, we can make some estimates about future price levels. Remember that we think in the right environment LSPD can trade at a premium, but let's take a less optimistic view.

First, let's run some scenarios based on the company's top-line (revenue) growth over the next 5 years.

At 25% annual growth = \$2.99B

At 20% annual growth = \$2.44B

At 15% annual growth = \$1.97B

Now, we can take these revenue numbers and apply the 4x EV/Sales multiple to get an Enterprise Value:

At 25% annual growth = EV of \$12B

At 20% annual growth = EV of \$9.76B

At 15% annual growth = EV of \$7.8B

When we look at this on a share price level, we get the following:

At 25% annual growth = Share price of \$79.24

At 20% annual growth = Share price of \$65

At 15% annual growth = Share price of \$53

As you can see, Lightspeed's share price moving forward depends on the company's growth rate. It's also important to note that this does not include dilution. How much the company will dilute moving forward is unknown. We expect some future dilution, but not as much as it has done in the past, as the company has stated it will not aggressively pursue significant acquisitions anymore. There are a lot of assumptions made here and plenty more variables we should consider than what is listed above. But what you should take from the above analysis is that at the price levels we're witnessing right now, Lightspeed is certainly cheap if it can maintain its growth trajectory and if industry averages continue to hover around these levels.

It is also important to note that you will see many price targets for Lightspeed that are much lower than this. It's important to understand we are attempting to project share prices 5+ years down the line. Most target estimates are 12-18 months.

## COMPETITOR ANALYSIS

	LSPD	SHOP	TOST
EV/SALES	1.41	12	2.9
P/S	2.13	12.7	3.09
P/B	0.85	10.5	10.7
P/FCF	N/A	76	69

Lightspeed has plenty of competitors in the space. That is one of the main focal points driving valuations down. Many investors feel the company does not have a large enough moat to justify premium valuations. When we look at the company's primary competition, however, including Toast (TOST) and Shopify (SHOP), we can see that Lightspeed is trading at a steep discount to these companies.

Although Shopify and Lightspeed are not direct competitors, they have overlapping business segments. So, the comparison in valuation is relevant. And when we look at growth estimates, Lightspeed does have the highest expected growth trajectory out of the 3. The downside is that it likely has the smallest moat out of the 3. So, this is probably where the skepticism lies.

Nuvei used to be a more relevant competitor, however it was acquired recently for around 4.5x EV/Revenue. Right now, Lightspeed trades at 1.43x. Shopify should trade at a premium simply because of its larger moat and broader customer base. However, we feel a nearly 4-5x premium in almost every valuation metric is a bit overdone. Of the three, we see Lightspeed as the cheapest and most attractive relative to its potential upside.

## RECENT EARNINGS

Earnings Estimates	2025	2026	2027
EPS	\$0.546	\$0.776	\$1.19
Revenue	\$1.51B	\$1.8B	\$2.09B
EBITDA	\$63M	\$108M	\$154M
EBITDA Margin	4.2%	6%	7.3%

Lightspeed kicked off Fiscal 2025 on a high note. The company reported revenue of \$367M, ahead of expectations for \$358M, and earnings per share of \$0.138 came in well ahead of estimates for \$0.099.

The company reported a 27% increase in year-over-year revenue, transaction volume increased by 44%, and subscription revenue by 6%. One of the main things dragging Lightspeed's price down at this point in time is the lack of subscription revenue. As the economy weakens, the company's reliance on SMB (Small and Medium Businesses) is starting to show.

Larger businesses that have incorporated Lightspeed's infrastructure are unlikely to churn. In contrast, SMBs with tighter budgets and struggling profitability may be forced to. This is one of the lowest rates of subscription growth we've seen from Lightspeed since its IPO, and it is due mainly to the current economy, not company operations.

Adjusted EBITDA came in at \$10.2M USD, compared to an Adjusted EBITDA loss of \$7M in Q1 of Fiscal 2024. The company's path to profitability is becoming clearer on an Adjusted EBITDA basis and an earnings basis.

The company bought back over 2.6 million shares on the quarter, as management clearly feels the stock is currently discounted. This is a significant change from pandemic conditions, where share issuances were a popular activity.

The company's Average Revenue Per User jumped by 31% year-over-year, primarily driven by the acquisition of larger clients. The company uses gross transaction volume to compare the sizes of its clients. As of right now, clients with GTV of \$500k and \$1M increased by 4% year-over-year. These larger volume clients are no doubt a higher quality client than a smaller business which is susceptible to churn.

The company issued its Fiscal 2025 guidance in which it expects to grow revenue at a minimum rate of 20% and produce an Adjusted EBITDA of \$45M minimum. Considering the current economic climate, 20% top-line growth is strong, and once the economy improves and there is some relief to business owners, we should start to see this revenue growth rate accelerate.

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