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Lightspeed POS, Inc. (LSPD.CA)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and we'd like to welcome you to the Lightspeed Fiscal Third Quarter 2020 Earnings Call. At this time, all participants are in a listen-only mode, and after the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions] I'd now like to turn the conference over to Chris Mammone, Investor Relations. Please go ahead.

Christopher Mammone

Managing Director, The Blueshirt Group

Thank you operator, and good morning everyone. Welcome to Lightspeed's fiscal third quarter conference call. Joining me today are Dax Dasilva, Lightspeed's Founder and CEO; Brandon Nussey, Chief Financial Officer; and JP Chauvet, President of Lightspeed. After prepared remarks, we will open it up to your questions.

We will make forward-looking statements on our call today that are based on assumptions, and therefore subject to risks and uncertainties that could cause actual results to differ materially from those projected. We undertake no obligation to update these statements except as required by law. You can read about these risks and uncertainties in our earnings press release issued earlier today, as well as in our filings with Canadian securities regulatory authorities. Also, our commentary today will include adjusted financial measures, which are non-IFRS measures. These should be considered as a supplement to and not a substitute for IFRS financial measures. Reconciliation between the two can be found on our earnings press release, which is available on our website.

And finally, note that because we report in US dollars, all amounts discussed today are in US dollars unless otherwise indicated.

With that, I will now turn the call over to Dax.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

Thanks, Chris, and thank you everyone for joining us today. We're pleased to announce another quarter of progress and solid execution as we continue our journey of building a global leading cloud-based omnichannel commerce platform for complex SMBs in retail and hospitality.

Highlighting our top line growth during the third quarter, total revenue grew by 61% versus last year and topped \$32 million to exceed the high end of our guidance range. Just under 90% of this base consists of recurring software and payments revenue which grew 58% during the third quarter. We believe the complex SMB is seeking a recognized global market leader for the solutions we provide.

As we approach the one-year mark, since we became a public company, we're extremely proud of how far we've come in our journey to be known as that go-to player. Highlighting some of our most compelling proof points to underscore that success, at IPO we served around 47,000 customer locations. Through strong organic growth and select M&A including the recent additions from Gastrofix in Europe, we're now at over 74,000 customer locations globally. A year ago, our business was heavily weighted to retail in North America. Today, our customer mix is much more balanced with hospitality comprising approximately 45% of total locations and international customers making up roughly half of our overall footprint.

At IPO, our customers were processing approximately \$13.6 billion in GTV for the 12 months ended December 2018. That LTM figure has grown to almost \$20 billion a year later, an effective gauge of a healthy growing customer base that is finding increased success through partnering with Lightspeed. As further emphasis to this point, results from our 2019 year-end review revealed that retailers in the US powered by Lightspeed grew their GTV more than 4 times faster year-over-year than the industry average retail GTV during the first 10 months of the year. A year ago, loyalty and payments for brand new module offerings from Lightspeed. Today, thousands of Lightspeed customers leverage both solutions as a mission critical component to their business operations.

When we set out to do our IPO we did so with the ambition of creating a category leader for the highly fragmented complex SMB space. Our thesis was that the additional exposure afforded us by the public markets would yield tremendous opportunities to further our brand, extend our reach and facilitate some terrific M&A opportunities we saw at that time. Just one year later we believe we are demonstratively further down that road, our brand recognition has never been stronger, our technology stack never more advanced and our geographic reach never further and we're still just scratching the surface of our overall growth potential.

We took a calculated risk a year ago when we rolled out a sophisticated payments offering to our US retail customers in the public eye. The Lightspeed Payments has continued to be the notable new product success story for us in 2019. It has gained considerable traction with customers. And today we have several exciting updates to share on our progress in payments furthering our position as the leading cloud-based end-to-end solutions platform in our space.

First, attach rates ramped higher during the most recent quarter, nicely exceeding 50% on the back of strong demand and some smart adjustments to our marketing strategy. Overall for the month of December, after we

initiated this new program, we had our most successful month yet in terms of customers signing up for payments. Furthermore, and for the first time since payments went live, monthly payments sign ups from our existing base exceeded what we signed up from net new customers.

We've been deliberate and learned a lot during the past 12 months about our ability to forecast, sell, support and grow the payments business. Drawing upon this experience, we've never been more confident that payments will be an important long-term growth driver for Lightspeed. And we're really excited for the additional payments capabilities we announced today in three main areas. Number one, for our US retail customers, we announced improvements to the overall customer experience, such as an expanded lineup of available acceptance devices, enhanced reporting capabilities and a faster checkout experience. We believe these upgrades will drive further improvements to attach rates. This new customer experience has been in beta with approximately 450 locations for the past two months and we received really positive customer feedback.

Secondly, today we also announced the availability of Lightspeed Payments to Canadian retail customers. This customer segment represented nearly 10% of our GTV for the last 12-month period and we believe is poised to embrace payments in a meaningful way.

And third, we announced the initial availability of Lightspeed Payments for our restaurant customers in the US. We believe this integrated offering greatly facilitates our ability to lead the hospitality segment in North America. We're very pleased to be teaming with Stripe as our new payment processing partner for these additional payments capabilities.

Our aggressive M&A strategy ensures that we move decisively to achieve our vision to create the world's leading cloud-based POS provider to SMBs. M&A augments our strong organic growth foundation by bringing together the best of breed players in the space. Whether these tuck-ins accelerate our progress in specific verticals or via geographic expansion, we're finding that the best companies in the world with the best minds, the best technology and the best customers want to join forces with Lightspeed. Last quarter we talked about our ability to accelerate the growth of these businesses once we folded them into Lightspeed.

For Chronogolf, new business grew by over a 100% in the first six months of the fiscal year versus over 50% a year earlier as those synergies were unlocked. iKentoo was the second acquisition we completed. Our integration has progressed well in the six months since bringing this European cloud-based POS system for hospitality onboard. As pertains to iKentoo's business operations, we successfully rebranded the product as Lightspeed, converged the product roadmap for our developers, fully integrated it into our marketing and sales funnel management and rolled it out into large high priority markets like the UK and France. In conjunction, with all of this heavy lifting, we still achieved growth in recurring revenue of greater than 40%.

Next up was Kounta, a rapidly growing leading cloud-based hospitality point of sale system in Australia and New Zealand, serving over 7,000 customers across that region. We will wait to provide a more thorough integration update on a future quarterly call but I can attest the fact that we're off to a successful start in leveraging Kounta's experience and relationships in the ANZ region and implementing our go-to-market methodologies.

Most recently we announced the acquisition of Gastrofix, the leading cloud-based point of sale provider in Germany and our largest purchase to date. As the premier hospitality system in Europe's largest economy, Gastrofix represented an important chess piece for Lightspeed. This is a timely acquisition helping to solidify a clear leadership position for Lightspeed across Europe as the cloud-based point of sale provider of choice for complex retailers and restaurants.

As Europe undergoes further regulatory changes pertaining to the point of sale system upgrades, we are very well positioned to capitalize on these market tailwinds going forward. We're working diligently to fully integrate Gastrofix and our other acquisitions into Lightspeed and believe there are substantial growth synergies that will stem from these activities. We look forward to sharing our progress with you.

Lightspeed continues to enjoy strong momentum from complex retailers and restaurant owners in North America and around the world, many of whom continue to select Lightspeed given our ability to manage their omnichannel business needs seamlessly.

Customers such as the high-end Danish sound equipment brand, Bang and Olufsen; Spanish gourmet burger brand Goiko Gourmet; and a popular sneaker store in New York called Up NYC, all selected Lightspeed in the quarter.

To sum up, I'm extremely proud of the entire Lightspeed team for their relentless spirit and enthusiasm around our vision. It's gratifying to see their hard work payoff with these quarterly results. We have the team, the vision and the technology to become the clear leader for complex SMBs globally.

I'll now turn it over to Brandon to provide greater detail around the financials for the quarter, as well as to provide our updated outlook for fiscal 2020. Brandon?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

Thanks, Dax. Our third quarter results are a reflection of the solid progress we continue to make across all of the important areas of the business.

Turning first to some of the key metrics we use to track our progress, considering the recent acquisition of Gastrofix, which brought us approximately 8,000 new customer locations, we now have over 74,000 customer locations on Lightspeed around the world. All told, that's an increase from 47,000 locations a year ago. ARPU expansion is an important metric for us and we saw that continue to grow by double-digit percentages in our core business versus a year ago.

Total GTV processed by our customers during the third quarter was \$6.2 billion, up 63% from a year ago and approximately 30% excluding the impact of iKentoo and Kounta's GTV. On an LTM basis, we've processed just under \$20 billion for the year ended December 31, up 45% from the year earlier and 31% when excluding these acquisitions.

With respect to Lightspeed Payments, we saw continued strong overall customer receptivity for this important long-term growth driver to our business. In the quarter, we saw further momentum in new customer adoption of payments with greater than 50% of new US retail customers contracting Lightspeed Payments at the time of purchasing Lightspeed's core software. This continued upward trend is a positive long-term sign for us.

And as Dax mentioned, with today's release of new capabilities for Lightspeed Payments in our existing US retail market, as well as the initial availability for our Canadian retail and US restaurant customer segments, we believe we are well-positioned to see this line of business continuing its rapid growth trajectory.

As we have proven with our US retail rollout over the past year, we'll take a disciplined approach to rolling out these new markets as well, ensuring we deliver on the needs of our customers. Consequently, we will remain

conservative on our near-term revenue outlook from these new markets but maintain full confidence in their mid to long-term growth opportunities.

Turning now to overall financial results for the third quarter, we saw accelerating revenue growth again this quarter. Revenue for the quarter was \$32.3 million, up 61% from the same quarter a year ago and ahead of our guidance of \$31.5 million to \$32.0 million. Software and payments revenue was \$28.4 million, representing just under 90% of total revenue and grew 58% in the quarter.

When excluding approximately \$2.5 million of iKentoo and Kounta revenue during the period, our software and payments growth rate was 45%. Total gross profit was \$20.6 million, up 46% from the prior year's quarter. Overall gross margin was 64% of revenue this quarter.

Adjusted EBITDA loss for the quarter was \$5.3 million as compared to \$3.4 million a year ago and landed within our guidance range. The increased loss from a year ago reflects the incremental costs and G&A of being a public company and the purposeful investments during the year to drive greater brand awareness and greater payments adoption.

Net loss for the quarter was \$15.8 million compared to \$71.1 million a year ago. Last year's loss did include a sizable \$52.5 million accounting-based charge to earnings to adjust our pre-IPO preferred shares to their fair value.

Cash used in operations in Q3 was \$7.9 million, excluding \$1.9 million in transaction-related costs as well as \$1 million of stock-based compensation expense. This compares to \$3.5 million a year ago. As discussed by Dax in light of the continued success we've seen in Lightspeed Payments rollout, we've updated our go-to-market strategy to further encourage payment adoption rates. We've seen good early success [ph] from it (00:15:20). However, it did result in more of our customers electing to take monthly payment plans during their contract term alongside taking Lightspeed Payments.

This affected cash from operations by approximately \$2 million in the quarter. This effect will start to normalize as this transition matures and we believe these short-term implications to our cash flow will have the long-term benefits associated with positioning us even more favorably as a preferred solution provider in the marketplace.

We ended the quarter with \$127 million in cash on the balance sheet. As Dax mentioned, on January 7, we completed the acquisition of Gastrofix, a premier cloud-based omnichannel solutions provider based in Germany. The closing consideration consisted of approximately \$60 million in cash including an amount for the settlement of Gastrofix's liabilities and approximately \$44.5 million worth of Lightspeed shares. An additional amount of \$4 million in cash and \$3 million in shares is payable over the next two years provided key members of the Gastrofix management team meet certain milestones. Gastrofix's 2019 estimated revenue in accordance with IFRS was \$10.6 million.

I'll now conclude my prepared remarks by discussing our financial outlook. As a quick note on currency, our guidance does not consider any potential impact with foreign exchange gains or losses as we do not try to estimate future movements in foreign currency rates. While we are quite bullish on our success over the long-term in the new payments markets we announced today, we are assuming very little impact in this initial rollout quarter. Also, our Q4 revenue range reflects a cautious view of the seasonally slow GTV months of January through March and the impact of that lower purchasing activity on our payments revenue potential.

For the final fiscal quarter ending in March, we expect between \$35.0 million and \$35.7 million of total revenue, bringing our full fiscal year to approximately \$120 million in revenue. This represents annual growth of approximately 55% versus our fiscal 2019 revenue and compares to our preliminary guidance of \$107 million to \$110 million issued last May which represented 40% growth at the midpoint.

Turning to adjusted EBITDA, our recent acquisition of Gastrofix does bring an incremental loss in the current quarter and we expect that to be eliminated on a run rate basis within 12 months. Factoring this in for Q4, we expect an adjusted EBITDA loss of approximately \$7 million, bringing the full year loss to approximately \$22.5 million.

And with that, we are now ready to take questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Josh Beck with KeyBanc. Go ahead please, your line is open.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah. Thank you for taking the question, team. I wanted to understand it sounds like you made some tweaks to the marketing strategy around payments. So could you maybe just give us a little deeper view on some of the changes that you made and what some of the early signs of success are?

Jean Paul Chauvet

Senior Vice-President-Technology & Director, Lightspeed POS, Inc.

Q

Yeah. So I'll take this one. So JP on the phone. As you know, we – about a year ago, we were very new into payments and so we've been – this has been kind of a learning process the entire year. And so we tried to apply a number of marketing strategies. But what we're realizing is that to optimize the attach rates on payments, and we're very pleased with the success we've had here, where we're above 50% now, we've had to have customers sign annually but pay monthly because that's kind of the trend inside of the payments.

And so what we realized is if we want to optimize the attach rates of every customer buying payments and improve as we go forward, we are now going to expect more customers who are going to be paying monthly. But again that's – again, what we're trying to do here is we're trying to ensure that as many customers as possible attach payments. And that's really been one of the big changes in our marketing strategy.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. And it also looks like you've formalized a partnership with Stripe. What are some of the I guess expected customer benefits that you would expect from that? And are there any notable changes to the way that we should be thinking about your unit economics on payments as a result of this new relationship?

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Yeah. Just – this is Dax here. Just – speaking to the Stripe partnership, I think we – we've spoken in the past about use cases which we – we couldn't do even in US retail where we first rolled out payments. The new – the new partnership allows us to expand or upgrade our capability in US retail. So new – new device – new modern device types as well as it has reporting capability and a much faster and more streamlined checkout experience. So that's across – across new customers that are coming on to payments, but we've also been able to add Canada retail as well as US restaurants where – we've been able to sort of expand into all these areas that we've been wanting to get through for a while. The partnership's been – been a fruitful one. We've – we've had about 40 or 50 customers in beta for the last couple of months. Yeah, and we're looking forward to – to continuing to build on that. On the unit economics, I'll pass it on to you guys.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah. Hey, Josh. It's Brandon. Don't expect much change on the unit economics other than as Dax mentioned we really see this partnership as a lever to increase attach rates even further given we think we can satisfy more end markets and more end customer cases. But in terms of kind of the underlying cost we expect from Stripe, they're going to look very comparable to our existing processing relationship.

Jean Paul Chauvet

Senior Vice-President-Technology & Director, Lightspeed POS, Inc.

A

And maybe just to answer, JP here, the question around what can customers expect? As an example, we can now do mobile checkout. And a lot of our story is around mobility and enabling retailers and restaurateurs to be mobile and checkout customers wherever you want in the store. And here with Stripe now we can detach ourselves from just the countertop terminals and we have a lot of mobile capabilities now.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

Very helpful. Thanks, everybody.

Operator: Our next question – our next question comes from the line of Richard Tse with National Bank Financial. Go ahead please, your line is open.

Richard Tse

Analyst, National Bank Financial, Inc.

Q

Yes. Thank you. Looks like you guys had quite a bit of strength on the hardware side of the business. I know that it's not really what you want to focus on going forward but was there a concerted effort here on that side of the business to eventually help the payments side?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah. Hey, Richard it's not hardware as much as it is kind of other one-time fees, some small – some small amounts that came in in the quarter. Really, pretty positive thing actually because these reflect fees that – from some strategic partnerships that big companies that I think are recognizing the asset we're building here at Lightspeed and have come to us to try and find new ways to bring innovation to the market. And as a result, we earned some one-time fees in the quarter [indiscernible] (00:23:16) some of those.

Richard Tse

Analyst, National Bank Financial, Inc.

Q

Okay. That's helpful. Thanks. So, you guys have made a few acquisitions here and no doubt it's helped you diversify the business quite a bit. If we look ahead, where do you think – how we should look at acquisitions here in terms of how it's contribution to growth is going to be? Is it going to be something on the pace that you've had so far or sort of just one-off as they come up over the course of the year?

Jean Paul Chauvet

Senior Vice-President-Technology & Director, Lightspeed POS, Inc.

A

Yeah, so maybe I'll start and Brandon you can maybe jump in on the finances of this. But – so, generally speaking, we have three types of acquisitions we need to do and we're looking at. The first one is really looking at technology enhancements. So, we have a core platform and we're always looking at ways to make this platform more successful. The second type of acquisition we do is really around geographies and penetrating into new markets. And there, I think we've made a lot of strides. And then the – so, as we're moving forward, what I'm here to say is you can expect to see more of these because we believe this is a huge market. I mean there's 47 million potential buyers. We have 74,000 customers. So, there's a lot of whitespace and there's a lot of room for growth. And so, you can expect to continue to see – see these as we move forward.

Now, when we think about the performance of these acquisitions, we are looking for good assets that are high growth assets. And here what we do is we normally implement our methodologies in terms of go-to-market and all of our tools and our ways of being. And so here the expectations is, as we do acquisitions, we should accelerate the growth of these acquisitions because we'll bring in our methodology and our blueprint.

Richard Tse

Analyst, National Bank Financial, Inc.

Q

Okay. Thanks. And the last one for me, you guys had a strong sort of new merchant adds in the quarter as well. Can you maybe give us some color in terms of where those new merchants are coming from, let's say legacy vendors versus sort of brand new companies versus some of the incumbent competitors to you guys who are fairly new?

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Yes and – so, there's been no change. I think when you look at the market, what you have to look at is the majority of the market is on legacy platforms and these platforms are old, antiquated, on-premise. And here there's a kind of a big trend here where people are adopting more and more cloud. So, on that front, we've always had pretty much the same blend and the blend is really net new. So, these are people opening new restaurants or opening new retail stores.

And I think anyone today opening something new would go with a cloud platform. And the other one we have is switchers. And these are people coming from the old legacy. And so, here we haven't seen any change. And what we see actually is an acceleration from the legacy – people who are switching from legacies want to get into cloud more and more. So, here for us that's the – that's really – I mean when you look at the new locations we've signed, it's pretty much the same format.

We're very pleased with – I mean we're in line with what we thought we would be in terms of new adds and new locations. And actually the other thing we look at is close rates. So, we look at how many people come through the pipeline. And here we can see our close rates have improved over the quarter. So, we're feeling good about

this. But I think here what you can expect as we move forward is what we're seeing is that there are more established businesses now who are going towards cloud-based systems. And we feel this is a really strong market for us as we go forward.

Richard Tse

Analyst, National Bank Financial, Inc.

Okay. That's great. Thank you.

Q

Operator: And our next question comes from the line of Daniel Chan with TD Securities. Go ahead please, your line is open.

Daniel Chan

Analyst, TD Securities, Inc.

Oh, hi, another question on M&A. There's less payments opportunity in Germany, so what is the big opportunity here with Gastrofix, because previous acquisitions you made there was a big payments opportunity with them, whereas maybe less of one with Gastrofix, so just your thoughts around the opportunity there?

Q

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

Yeah. Hey Dan. It's true that electronic payments and how much of those happen in Germany versus, say, North America look a lot different. There's still a great opportunity there. Electronic payments continue to be a growing source of payments in that country. So, yes, the opportunity in the near term may not be quite on par with what's in North America, still a great opportunity. And really what's happening in this market, you heard a little bit from Dax and JP, the distinction between kind of the core point of sale software and the traditional processing relationships and capabilities, these markets are merging. They're merging quickly. And the need to have both sides of that is becoming increasingly important to win and be a leader. So – yes, to answer the question just in a nutshell. The ARPU per customer may not be quite the same in Germany as it is here but still a great opportunity and something strategically that's very important for us, yeah.

A

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

To add to that. So, yeah, I think to emphasize Brandon's point, electronic payments is the biggest trending payment type in Germany. There's also a compelling event in Germany as we've detailed before which is government regulation that's coming in this year that will see a big change over in POS systems to comply with new tax regulation. So, we see that as a big opportunity for Lightspeed to be well positioned as that transition happens.

A

Jean Paul Chauvet

Senior Vice-President-Technology & Director, Lightspeed POS, Inc.

Yeah. Maybe just to add to what Dax is saying, just looking at market size – pure market size, when you look at the number of SMBs, Germany is by far the largest market in Europe. And so if you look at it this way we are now the largest cloud-based player in Germany in the largest market in Europe that is undergoing a complete transition in terms of POS because of regulations. So we felt the market was really ripe for us. And then add on top of that transformation of payments and electronic payments that are gaining way more traction in Germany and it's going to be a – we think a very lucrative market for us as we move forward.

A

Daniel Chan

Analyst, TD Securities, Inc.

Q

Okay. That makes sense, very helpful. Thanks. And then just one more follow-on on payments and EU, so we're seeing like significant consolidation of payment processors in the region, as you're thinking about rolling out – internationally for your payment solution, any impact on your pricing power, your negotiations with some of these payment processors as they continue to consolidate?

Jean Paul Chauvet

Senior Vice-President-Technology & Director, Lightspeed POS, Inc.

A

So I think – maybe I'll start on the first then we can – but – generally speaking, the question is why they're consolidating and they're consolidating because software companies like ours that provide real business value are integrating payments. That means if I'm a payment company and all I do is the payment terminal, you're going to see more and more consolidation there because you're going to see more and more companies like ours who are going to actually monetize the payment element and attach the payment element to the software that creates the value. So I think that's what you're seeing and that's what you're seeing globally, you're seeing new players in payments that are coming out like Stripe that are actually taking OEM models with us or with companies that are software companies. And then you'll see [ph] all the (00:30:40), more traditional payment companies who are consolidating together because there's lot of pressure from the vendor who really sees more value in associating payments to software. And so that I think validates our strategy.

Now when you think about payments for us in Europe, there are number of players who provide capability for us. And just we are now the payments company in the eyes of the customer, Lightspeed, and all we do now is we rely on payments companies for the plumbing to ship the money around and deposit the funds. But so here, we will work with the more modern vendors as we move forward in Europe. And there are a number of vendors who are pan-European and actually are taking the same approach we are which is just providing a technology component inside of a software. So I don't think it'll create any issues for us. And again I think maybe the last point which is on the rates, there is a lot of competition going on in the rates for the non-integrated payments companies because again there is less and less value and actually there's way more value in having payments integration with software. And so these, let's say, traditional payment players are now having to compete with the rates but what you're seeing is that the software companies are much more transparent of giving fixed rates. And here, when you actually look at the – the actually revenue portion of payments, you'll have way less competition on that front.

Daniel Chan

Analyst, TD Securities, Inc.

Q

That's very helpful. Thank you very much.

Operator: Our next question comes from the line of Thanos Moschopoulos from BMO Capital Markets. Go ahead please, your line is open.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Hi. Good morning. Can you clarify what the Stripe relationship means for your existing relationship with Worldpay? Will payments be exclusively powered by Stripe for any new merchants going forward or will you still use Worldpay for certain types of customer segments?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Hi, Thanos, yeah – we will have multiple partnerships that we leverage for Lightspeed Payments especially as we start to roll out Lightspeed Payments around the world. So, yeah – I don't think that changes our relationship with Worldpay. We are – we're working with multiple vendors to be able to meet all use cases.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Right. And now that you've been offering payments for a year, how have your economics on payments tracked relative to your initial expectations as far as pricing and margins? Any surprises on that front or has it been consistent with what you'd expected going in?

Jean Paul Chauvet

Senior Vice-President-Technology & Director, Lightspeed POS, Inc.

A

Yeah. No. Actually really – really consistent which has been quite encouraging for us. I think Dax mentioned in his prepared remarks that we've kind of rolled this thing out in the public eye and I think it's been a great success for us. We're seeing attach rates improve every quarter. We're seeing the economics hold and now launching into new markets. We're really optimistic about the future opportunity for it as well, so trending pretty well.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Great. And then finally if we get back to your...

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

And maybe going back to the initial...

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Oh, sorry. Go ahead.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Yeah, sorry, Thanos, but going back to the initial theory is the net ARPU per customer pretty much doubles when they attach payments.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Right. Okay, great. And if we dissect your organic growth across restaurant versus retail in North America versus Europe, can you provide some color on the relative growth across those segments? Are they relatively consistent or any differences you'd call out there?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah, I think – I think relatively consistent, Thanos. I don't – I don't want to peel back that onion too much or dissect it too, too much but I think we're pretty pleased with how we're performing in all of those things. We're continuing to gain share in Europe, North America, hospitality and retail. So nothing – nothing too notable that we'll highlight there.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Great. I'll pass the line. Thanks.

Operator: And our next question comes from the line of Tien-Tsin Huang with JPMorgan. Go ahead please, your line is open.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Hi. Thanks so much. I think you mentioned that your conversion of the existing customers improved. I think I heard that, correct me if I'm wrong and if that's – if that's the case, are you doing something different to replace the incumbent from a pricing perspective? Just curious on the acquisition cost there.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

Absolutely. And – so you'll remember at the beginning I said we adapted more and more monthlies. So here – and actually we – again it's just – it's been a year – a year of learning for us, and how do we do it. And I think we've finally got the groove going on the upsell of customers. But here when you think about it, at the point of renewal, that's the best moment to get the customer and that's what we've realized now.

And here what we tend to do is we tend to attach payments with software and that goes back to what I was saying around they have annual commitment but monthly payments. So we try and help them move to Lightspeed by going monthly with the annual commitment rather than paying the entire renewal and the entire year upfront. So that's one. And the second thing is we've tested a lot of technologies that – to help us do a lot of good upsell within the product, and those are paying off finally.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Okay. Got it. Makes sense. And given the change in the – this beta with Stripe rolling out further, should we assume that the attach rate should improve from 50% from here or any guidance on that in the short and mid-term?

Jean Paul Chauvet

Senior Vice-President-Technology & Director, Lightspeed POS, Inc.

I think that's certainly the goal. We've always highlighted that we're pleased with the progress we're making. We see opportunity to see that continue to improve. I think what Stripe helps us achieve is a greater number of end customer use cases. And – so [indiscernible] (00:36:30) this relationship for sure.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Okay. Last one, I don't want to hog the call. Just interchange adjustments made by Visa recently, they're getting questions about that. Any early thoughts on what that means for your business and then any new update on target breakeven date? Makes sense you guys should keep doing M&A, but just curious if there's a change there? Thanks. Go ahead.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah. Still digesting the interchange news and so trying to see what that means for our customer base. As you know, we price on a fixed fee basis for our customers to remove that complexity from their standpoint. So still trying to understand what that means within our specific customer segment, especially as we're going through into new markets now. So we'll report back in the future quarter on that.

And on the path to profitability I think we've always said we know we're bringing on profitable customer relationships. That's foundational to this business for us. Our unit economics continue to trend in the right direction. We are seeing this market accelerate in terms of the pace of change. We're pretty pleased with our own position and our own execution in that market. So we know we can – that path to profitability is quite clear for us. But what's also very important for us is to make sure we capitalize on that leadership position. So we'll give and a more formal guidance for next year on our next call but that continues to be the way we think about that specific question.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah. Makes sense. Thank you.

Operator: [Operator Instructions] And our next question comes from the line of Gus Papageorgiou from PI Financial. Go ahead please, your line is open.

Gus Papageorgiou

Analyst, PI Financial Corp.

Q

Hi. Thanks. Just on the ARPU. So the two recent acquisitions I think put downward pressure on your ARPU, so couple questions. One, how – what's the probability you think you can get the acquisitions up to your base ARPU, probability of doing that in timeframe? And then second, Brandon, I know you said your – the organic ARPU from your existing customer base was up double digits year-over-year. Just wondering if you could give us a sense of how much of that was increased adoption of software features and how much was payments?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

We'll start with the latter. I think it's – payments is going well for us. It's still a small overall portion of our total business. So, the ARPU expansion in the core is mainly driven from software, though payments is a growing contributor to that as we all know. On the acquisitions, I think when we've – when we talked about those – these are growing businesses, adding locations, doing really well on their own and they really haven't started in on kind of that ARPU expansion journey that Lightspeed's enjoyed. With both Kounta and iKentoo, those additional modules are just now kind of being rolled out inside their customer base and it's early days but we're seeing good success there. Obviously then as we think about how to leverage payments more fully in those markets, that's going to be a big contributor also. So we'll put a timeline on when we bring those things up to our level. It will take some time. But those wheels are low in motion and seeing good early success.

Jean Paul Chauvet

Senior Vice-President-Technology & Director, Lightspeed POS, Inc.

A

Yeah. And maybe just complementing what Brandon is saying, just keep in mind we acquire companies that tend to be single point solutions that are POSs and the real value of Lightspeed is that we are not just a POS, we have a full breadth of capabilities. And so here as part of these acquisitions, the strategy is for all of our modules to become available to these customers one-by-one. And that's what then creates success from the vendor and which also creates ARPU expansion. As you may have heard, we're very pleased to say that the analysis we did on this fiscal year is Lightspeed customers grew between 4 and 6 times more than industry average and it depends on the territories. But that just there reflects what we do is we tend to start them on the POS which is all these acquisitions in our core business. And then over time they expand. They acquire more modules from Lightspeed which makes them more successful. And so we're going to see this probably with time with all the acquisitions we've done.

Gus Papageorgiou

Analyst, PI Financial Corp.

Q

Great. Sorry, just a follow-up question. On Stripe being a new kind of payments vendor, can you discuss, is that going to help you, perhaps, launch new services like a lending service or instant deposit service?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah, that's certainly – certainly one of the attractions of the partnership is the innovation curve that we get to ride of Stripe. And, of course, they do have a capital solution. So that's one of the things that attracted us to the partnership, obviously.

And I think as we've talked about in the past, we do think we've got a merchant base that [ph] Lightspeed Capital Solution (00:42:17) would make sense for. So that continues to be something we explore overall as to the best path forward on that.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Yeah, I think financial services as well as just innovating in terms of device types, form factors. I think we've had great expansion with US retail without having some of these things. We're quite excited about the future roadmap in terms of what we're going to be able to do with a nimble partner.

Gus Papageorgiou

Analyst, PI Financial Corp.

Q

Great. Thanks for answering the questions.

Operator: Our next question comes from the line of Todd Coupland with CIBC. Go ahead please, your line is open.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Q

Yeah. Good morning, everyone. What – now that you have Stripe onboard, what percent of your locations or GTV now can take payments if they choose?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah. I'm trying to figure out the best answer to that, Todd. We did say Canada is about 10% of the GTV [indiscernible] (00:43:22), US retail was always our largest customer segment overall in terms of GTV and now we're starting the rollout hospitality as well in the US. Our hospitality business as we talked about is strongest in Europe. But we really see the payments potential is unlocking greater overall growth for us in terms of new location and new hospitality in North America. So – yeah, no specific number there, Todd, but a lot further along than we were 90 days ago now.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

And I think if you – if you step back why Stripe, because it expands our ability to upsell our base.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Q

Yeah. That's certainly been clear with other software platforms in Stripe. Can you just talk about how we should view hospitality and restaurant rollout over the next few quarters? Maybe put it in context of your approach to retail. Retail was I guess a little bit slower initially and then took off. With those learnings would you expect to have those – that initial slow – slow – slow roll and then pickup in a few quarters or just talk about how we should think about hospitality rollout?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah, I do think we're going to take that same approach, Todd. I think that's the prudent thing to do. Hospitality is very different in terms of the workflows and payments needs. So we know – we now have the benefit of a year of experience in terms of selling, in terms of how we package and how we engage customers, how we operate all those benefits to be able to leverage for sure. But it is very different market in terms of the workflow and payment capabilities and so we will take that planned discipline rollout starting kind of customer subsegment by customer subsegment. And as we gain confidence, open the valve a little further.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Q

Okay. Last question for me. I thought you mentioned the March quarter will have some seasonality. Can you just talk about what that might look like 1% down or at least some qualitative color on the difference quarter to quarter? Thanks a lot.

Jean Paul Chauvet

Senior Vice-President-Technology & Director, Lightspeed POS, Inc.

A

Yeah. I think we're – I think we're overall, hopefully as you can tell, quite pleased with the performance of the business. Certainly with payments, it's been a great – a great overall success story for us as we've built it over the year. Good news we're seeing attach rates improve quarter by quarter. Some of the adjustments in the go-to-market approach this quarter encouraged further adoption rates, led some of the best months ever for the business in terms of payments. And now we get to chase new markets as well.

So all very encouraging for us. We're not factoring any of those new markets into any of our Q4 guidance, so really the payments revenue stream in Q4 that we're planning on is US retail only. And that's a seasonally slow

quarter. We are learning as we go here what seasonality means for this part of our business. It's certainly based on our best guesses here. [indiscernible] (00:47:15) from the holiday season of November and December. But, yeah, that's something that we're trying to just be cautious of, conservative on as usual from us as we think about the outlook for the fourth quarter. And as we look forward we have greater balance in payments. We know that seasonality mix is going to change. And we're excited to start unlocking those new markets. But for now it's mainly a retail payment revenue stream for us.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Great. Appreciate the answers. Thanks a lot.

Operator: And our next question comes from the line of Suthan Sukumar from Eight Capital. Go ahead please, your line is open.

Suthan Sukumar

Analyst, Eight Capital

Good morning, guys. Curious to know what you guys are seeing from an omnichannel perspective? How has adoption look like for your e-commerce offering and what's been some of the feedback you've been getting from your customers? And how do you expect this offering to evolve going ahead especially given the Stripe partnership with enhanced mobile capabilities?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

Yeah, so maybe I'll start with. So omnichannel, those being core to what we do and mobility actually is a good example and selling across channels has always been kind of a key priority of all customers buying from Lightspeed. So on that front, when you think about our segment which is the more sophisticated SMBs, that have multiple locations, that sell online, that need mobility within, I think that's always been the core of Lightspeed and why they buy from us. So on that front we haven't seen any changes. The only change we're seeing is that people want more and more to sell across channel. So we are looking at potentially deploying new kinds of technologies there. As we go into next year, that will support this a bit more.

I think what we're seeing is that we're seeing bigger and bigger customers who are adopting cloud and need also omnichannel and slightly evolving needs which is good – I mean all goodness. So yeah we're feeling good about omnichannel. We're feeling good about this. What we're seeing is that it's all driven by the consumer and the consumer now we know is an omnichannel consumer that might do an initial purchase within a store and then might do the follow-on purchase online. We also see that in the restaurant space where omnichannel is becoming more and more important and the consumer now starts online, gets to the restaurant, eats and then reviews online. So, these are very core to all of our roadmaps and our attention span and we know this is one of the real drivers why our customer should adopt Lightspeed.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

Yeah. We're going to be able to leverage this – this payments partnership to be able to transacted all of those touch points. Definitely when we see a Lightspeed customer come onboard with point of sale, e-commerce is typically one of the initial modules that's adopted and now with all of these new use cases being covered off by our expansion with this partnership, increased mobility with device types is going to be very appealing especially as retailers do innovative new types of formats like pop-ups or temporary stores. So these are – these are all – or

actually just go mobile within the store. So that I think is going to add more dynamism to Lightspeed installations. You're already seeing Lightspeed installations grow at 4 times to 6 times the industry average and we expect these new capabilities to continue to light up these customers.

Suthan Sukumar

Analyst, Eight Capital

Q

Thanks. That's helpful. And second question to you guys is on the sales and marketing front and just given the increasing scale of your business, how should we think about investments in your sales organization going forward with respect to direct sale or using partners?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah, it's a very good question. So, I think maybe just if we step back, the – for us the most important thing inside of our business is to have a CAC to LTV to make sense and to ensure that on a unit economic the customers that we acquire are acquired at the right rate and that we don't have – that we have a sustainable business. And it goes back to everything we just discussed on this call.

So, I think that's the main driver of what we're doing. Now here what we're seeing is that as we deploy payments as an example and as we have attach rates on payments that are increasing, this means that if we want to keep those ratios, we can spend more money on CAC which should ultimately mean as we move forward that we will have increased adoption of Lightspeed.

I think – so here again, just going back to the news of the day, we are now deploying payments into Canada, we're now deploying payments into the US inside of restaurants, this means that we will be able to double down on the CAC because the LTV is going to be higher as these customers adopt payments and we'll do the same as we also over time deploy payments throughout all of the geographies.

So, here – but I think if you just – for us the most important is if you go back to the market, we're really looking at one of – I mean an incredibly large market, 47 million potential buyers. We see that there's a transformation happening. And for us, the most important at this stage is really to be sure that we acquire the customers at the right ratios, but that we continue to accelerate our growth.

Suthan Sukumar

Analyst, Eight Capital

Q

Okay. Great. Thanks for the colors, guys. I'll pass the line.

Operator: And there are no further questions at this time. I'd like to turn the call back over to our presenters.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

Okay. Thanks, everyone for joining us.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

Thank you. Thanks, everyone.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

Look forward to speaking with you all again.

Operator: And this concludes today's conference call. You may now disconnect.

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