

30-May-2019

Lightspeed POS, Inc. (LSPD.CA)

Q4 2019 Earnings Call

CORPORATE PARTICIPANTS

Christopher John Mammone
Managing Director, The Blueshirt Group

Dax Dasilva
Chief Executive Officer & Director, Lightspeed POS, Inc.

Brandon Nussey
Chief Financial Officer, Lightspeed POS, Inc.

Jean-Paul Chauvet
President & Director, Lightspeed POS, Inc.

OTHER PARTICIPANTS

Thanos Moschopoulos
Analyst, BMO Capital Markets (Canada)

Richard Tse
Analyst, National Bank Financial, Inc.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Daniel Chan
Analyst, TD Securities, Inc.

Todd Coupland
Analyst, CIBC World Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Jason, and I will be our conference operator today. At this time, I would like to welcome everyone to the Lightspeed Fourth Quarter and Fiscal 2019 Earnings Conference Call. All lines have been muted to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Mr. Mammone from Investor Relations, you may begin your conference.

Christopher John Mammone
Managing Director, The Blueshirt Group

Thank you, operator, and good afternoon, everyone. Welcome to Lightspeed fiscal fourth quarter and full year ended March 31, 2019 conference call. Joining me today in Montréal 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 for 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 the actual results to differ materially from those projected. We're going to take no obligation to update these statements except as required by law. You can read about the risks and uncertainties in our earnings press release today as well as in our filings with Canadian securities regulatory authority. Also, our commentary today will include adjusted financial measures which are non-IFRS metrics. These should be considered as a supplement to and not a substitute for IFRS financial measures. Reconciliation between the two can be found in our earnings press release, which is available on our website.

And finally, note that because we report in U.S. dollars, all amounts discussed today are in U.S. 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. We are very excited to be hosting our first earnings call as a newly public company. I want to start by sending special thanks to our new investors for their confidence in our team and company. We are pleased with our results for the fourth quarter

and full year 2019. Total revenue grew by 36% to \$77.5 million in fiscal 2019. Approximately 90% of this base consists of recurring software and payments revenue.

While we're extremely pleased with the overall pace of business expansion during our final years of privately held company, we're even more excited for the next phase of this journey for Lightspeed, our employees, our customers and partners around the world.

This transition is an important one for us as we continue to execute on our mission of helping complex SMBs thrive in a world with rapidly changing consumer expectations. Our core belief is that cities and communities are built on the success of local SMBs, and our work as their key technology partner is more important than ever.

Running an SMB is highly complicated, particularly as today's consumer demands the delightful in-store or in-restaurant experience. Consumers expect to engage with SMBs in an omni-channel manner, and they expect personalization and simplicity delivered in a modern way. Most SMBs do not have the IT personnel, financial resources, and in many cases, the required knowledge to piece together multiple solutions to meet these advanced consumer expectations.

Small businesses must engage a trusted vendor to handle the core functionality needed to serve their customers across multiple channels, develop meaningful relationships, run their operations efficiently, and importantly, accept payments via all the various form factors consumers have come to expect.

Before the advent of Lightspeed, legacy-based on-premise point-of-sale systems were the only option for these small merchants. The limitations of these legacy-based systems are glaring when stacked against the needs for SMBs to deploy modern, cloud-based omni-channel solutions into their increasingly complex operating environment. This is exactly what Lightspeed provide for our customers. We offer the industry's most complete suite of functionality that encompasses what complex SMB retailers and restaurants need to engage their customers in an omni-channel experience, managed inventory, run royalty programs, get comprehensive business insights, get paid and ultimately, grow and succeed.

There are millions of SMB retailers and restaurants operating in our core markets spending in the United States, Canada, Europe and Australia with nearly 50,000 locations now using Lightspeed solutions. We're just scratching the surface of our total addressable market. We believe the complex SMB is seeking a recognized global market leader for the solutions we provide. And we're pleased with the progress we're making to be known as that go to player.

Binding and selling for these complex SMB customers in an efficient manner continue to be a core strength of Lightspeed and our execution to-date bears that out. Our data driven sales and marketing teams are world class in what they do.

As we look forward, we will continue to grow organically in three primary ways, attracting new merchants, entering new markets and expanding ARPU. First, continuing to attract new merchants within our existing core markets. Our market is vast and under-served by class technology solutions and we will leverage our growing global brand to attract an increasing number of new merchants to the Lightspeed platform.

In fiscal 2019, approximately 8,000 net new merchant locations joined the Lightspeed ecosystem and we are well-positioned to continue this trend while simultaneously generating solid underlying unit economics. Our second organic growth revenue is to selectively enter new markets. Leveraging our sales and marketing expertise in our core markets, we believe new countries and new end-markets all represent a compelling opportunity for us. Just under 35% of our revenue comes from outside North America today, and we see ample opportunity to continue to grow that overall contribution over time.

And the third way, we grow organically is through ARPU expansion. We have amassed the industry's broadest set of functionality for our customers. Approximately one-third of our customer base is now paying for more than one Lightspeed product. As helpful context, this figure has grown from just 6% of customers by more than one Lightspeed product three years ago. Given our current roadmap, we have a tremendous opportunity to expand our cross-selling efforts further.

In the fourth quarter, we rolled out Lightspeed Payments and Lightspeed Loyalty, and we are already seeing strong adoptions. In addition to these three primary organic growth vectors, we believe a targeted and opportunistic approach to M&A is also important to solidifying our leadership position globally. We are extremely thoughtful and strategic in our M&A approach and adhere to several criteria when evaluating acquisitions.

For example, we look for targets that will accelerate our product roadmap. We also look for targets that will increase our market penetration in a way that doesn't slow us down with complicated integration efforts. And, of course, we look for targets for that significant value for our shareholders.

Today, we announced one such tuck-in deal that checks all of these boxes. Chronogolf is now a part of the Lightspeed family. Chronogolf is a longstanding Lightspeed partner, leveraging Lightspeed retail and restaurants and has built a growing roster of clients with more than 500 golf course operators, primarily in North America.

Chronogolf brings us the ability to continue to expand our retail and restaurant offerings that directly serve a market subsegment that is currently dominated by legacy systems, features a high average GTV customer base and has complex operations with high-value inventory and hospitality requirements. It also ties in well to further our success in the hotels segment as many resorts also run golf courses.

We know that Montréal- based Chronogolf team will fit seamlessly into Lightspeed having been a large software partner of ours for several years. We know their people and their products have been very well and believe they will further accelerate our execution as we gain access to their expertise.

Lastly, I'll share some of our most exciting recent customer adds and product developments that further our position as the leading cloud-based platform in our space. A record number of new customers signed with Lightspeed in the quarter driven by strong customer momentum from complex retailers and restaurateurs in North

America and around the world. New customers signed in the quarter include a large outlet store chain [ph] spanning (00:08:57) several dozen locations.

Continued success in the bike segment with Brompton Bicycle Limited, a significant franchisee of the Five Guys restaurant chain with multiple locations, and several Michelin star restaurants such as Aquavit in London and Restaurant de L'Hotel Imperator in Southern France. In addition, continued momentum was seen with Lightspeed products integrated into hotel operating systems with several five-star and luxury hotels signed in the quarter such as Hacienda Na Xamena in Ibiza, Powerscourt in Ireland, and Fife Arms located in the Scottish Highlands and many others.

I'll now share more detail around our two most recent new product launches, which greatly enhance the value of the Lightspeed ecosystem for our customers. During the fourth quarter, we rolled out Lightspeed Loyalty to both our retail and restaurant clients in North America and Europe. Loyalty was the top reflected functionality from our customers and I'm thrilled we now have this offering available to virtually our entire customer base.

Our new Loyalty offering provides SMBs with a comprehensive suite of customer engagement services that track customer spending habits and create customer rewards and marketing programs. We've seen rapid early adoption in customer locations using Lightspeed Loyalty to engage their consumers more intimately and to grow their businesses further validating our strategy of being the one-stop shop for our customers. As we look forward, Loyalty offers us many new and exciting ways to engage our clients and their consumers. We look forward to providing more details about our new Loyalty offering in future calls.

We also rolled out Lightspeed Payments during Q4 and I can tell you that this is one of the most ambitious undertakings the company has ever done. Lightspeed Payments was made generally available for our U.S. retail client base as of January 30, 2019. Payments is compelling to us for several reasons.

Number one, processing payments to our customers vastly improved their user experience versus dealing with third-party providers which require a separate contract, support line, onboarding procedure, and sales reporting and reconciliation processes. Our Payments offering streamlines and simplifies this entire experience for our SMB customers, thereby allowing them to focus on running and growing their businesses.

Number two, our customers process more than \$14.5 billion in GTV in aggregate last year representing an annual growth rate of 36%. Before Lightspeed Payments, we were shortchanging our ability to fully participate in our customers' success utilizing Lightspeed's platform, handing over much of the economics from each purchase transaction to third parties.

And finally number three, becoming the [indiscernible] (00:11:56) payments processor for our customers, we position ourselves to provide more financial products and other value-added services aimed at helping them further grow their business. Brandon will provide further details during his remarks, but I'm excited to share that Lightspeed Payments is off to a great start in terms of customer sign-ups with the majority of early adopters already processing live transactions successfully by the end of March.

Our early successes this year serve as welcome validation that this is the right strategy to deploy. To that end, our teams are working diligently to now make Payments available to our restaurant clients as well as to customers outside of the U.S. We have other major new product releases and enhancements coming within both the Lightspeed Retail and Lightspeed Restaurant platform throughout the year. And I look forward to sharing with you more of the details around this rapid product velocity, which is an absolute hallmark trade of Lightspeed, in future earnings calls.

To sum up, I've never been more excited about the future for our business and I'm really proud to see the hard work from Lightspeeders translate into stellar results. We have the momentum, the team, the vision, and the technology to be the clear leader for complex SMBs globally.

I'll now turn [ph] the call (00:13:15) over to Brandon to provide greater detail around the financials for the quarter and the year as well as to provide our outlook for 2020. Brandon?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

Thanks, Dax. I'll begin today by providing a brief overview of how our business model works and then I'll discuss our fourth quarter and full year results, and finish by sharing our outlook for the first quarter and full fiscal year ending March 2020. Approximately, 90% of our revenue is earned through recurring subscription and payments revenue streams.

Our subscription revenue is priced on a per location per month basis [indiscernible] (00:13:50) increase as customers adopt incremental functionality offered by Lightspeed. As customers open new locations or adopt new modules, our subscription revenue grows.

We also generate recurring payments revenue, which is earned as a percentage of the underlying transaction value [indiscernible] (00:14:08) mainly from payments referral partners. With the introduction recently of Lightspeed Payments, we now have the ability to earn a much larger portion of the transaction value, and this will become a growing portion of our revenue over time.

Turning to some of the key metrics we used to track our progress. Total customer locations grew to over 49,000 as of March 31, 2019, up from approximately 41,000 a year ago, representing growth of approximately 20%. In addition to the new customer addition, approximately one-third of all of Lightspeed customers have adopted multiple modules of our offering. The accelerated rate of customer additions combined with continued progress on module adoption is a really encouraging sign that our land-and-expand go-to-market strategy is succeeding and is demonstrating our ability to grow our average revenue per customer.

Total GTV processed by our customers for the year ended March 31, 2019 was \$14.5 billion up from \$10.6 billion a year ago. This is an important measure for us as we roll out Lightspeed Payments more broadly. And importantly, we continue to see our product resonate well with our customers and achieved another year of positive net dollar retention across our customer base. We're very pleased with our continued progress across all of the important areas of the business.

Turning now to overall financial results for the fourth quarter and fiscal year ended March 31, 2019, revenue for the quarter was \$21.3 million, up 36% from the prior-year quarter. For the full year, revenue was \$77.5 million, also representing an increase of 36% from a year ago. Software and payments revenue was \$18.7 million or 88% of total revenue, up from \$14 million in the prior year quarter. For the year, software and payments revenue was \$68.6 million, a 34% increase from the prior year.

Gross margin for the quarter was 67% of revenue, down slightly from 69% a year ago. And for the year, gross margin was in line with the prior year's level at 70% of revenue. Adjusted EBITDA for the quarter was negative \$4.1 million and, for the full year, it was negative \$13.1 million.

Net losses for the quarter and the year were \$96.1 million and \$183.5 million, respectively. Note that net income was impacted by \$132 million in the quarter and \$191 million for the year, and we recorded an increase in the fair value of the company's preferred shares to the date of our IPO. Upon IPO, these shares were fully converted on a one-to-one basis into common shares. This expense was non-cash in nature and non-recurring given that the underlying preferred shares are now converted.

As a growing SaaS company, we believe cash flow represents the best indicator to our path to profitability. Cash from operations was negative \$0.2 million for the quarter, which included \$0.5 million of costs incurred as part of our IPO preparation. Excluding this cost, cash from operations was a positive \$0.3 million in the quarter, improved from negative \$0.9 million a year ago.

For the year, our cash from operations was negative \$7.6 million and, when excluding costs incurred for our IPO preparation, it was negative \$6.9 million and improved from a negative \$10 million a year ago. We ended the year with \$207.7 million in cash on the balance sheet and no debt.

I'll now the Lightspeed Payments in greater detail. We view Lightspeed Payments as an important long-term growth driver for our business and our objective is to be transparent with our progress in rolling out this new offering. Lightspeed Payments was rolled into general availability on January 30, 2019 through our U.S. retail customers after an initial pilot phase. So far, the system is working very well with the majority of new customers have signed up for Lightspeed Payments already processing live transactions with us by the end of March.

With respect to our eligible new customers, more than 40% attached Lightspeed Payments in conjunction with purchasing their Lightspeed software subscription. We view this level of uptake as very encouraging, given how early we are into our launch. Our teams are working diligently to extend payments to our restaurant customers as well as retail and restaurant locations in other Lightspeed geographies over the next couple of quarters. We configured the pricing model for Lightspeed Payments such that we receive an average of roughly 2.6% of the gross non-cash transaction volume at a normalized rate of approximately 55 basis points net of direct processing cost.

When you consider that Lightspeed has only been earning around 25 basis points under our previous referral-based program for payments, you can start to see why we're so excited about the potential here. To-date, our actual experience has been largely in line with these estimates, and we believe these are really good planning assumptions for the platform.

So, to summarize, we're pleased with customer receptivity thus far to Lightspeed Payments evidenced by initial attach rates of greater than 40%, and strong early adoption inside our existing customer base. [indiscernible] (00:19:38) we can't stress enough that Lightspeed Payments remains a new endeavor for Lightspeed, and one in which we continue to learn more about each and every day. As a result, we remain cautious with our guidance for Payments during this initial rollout year.

As Dax mentioned, on May 6, we acquired Chronogolf. The purchase price of the company was approximately \$10 million in cash on closing plus a small equity component with some key employees tied to their ongoing employment [indiscernible] (00:20:07). Additionally, \$1.5 million in future consideration was payable of certain financial milestones are achieved by December 31, 2019. We do not expect a material impact to our financials in the current year as a result of this acquisition.

I'll now conclude my prepared remarks by discussing our financial outlook. As a quick note on our currency, our guidance does not consider any potential impact of foreign exchange gains or losses as we do not try to estimate

future movements in foreign currency rates. For the first quarter ending in June, we expect between \$23.0 million and \$23.5 million in total revenue. And for the full fiscal year ending March 2020, we currently anticipate between \$107 million and \$110 million in total revenue. This represents the annual revenue growth between 38% and 42% compared to our fiscal 2019 revenue.

Turning to cash flow. Given the positive customer momentum exhibited by the overall business since our IPO as well as the encouraging early signs we have seen with our new Loyalty and Payments offerings, we believe it is appropriate to lean into some purposeful investments in the upcoming year that will drive greater brand awareness and incremental lead flow. Factoring in these growth-oriented adjustments, we expect operating cash flow to be a total use of approximately \$6 million and an adjusted EBITDA loss in the range of \$6 million to \$7 million for the first quarter. And for the full year, we expect operating cash flow to be a total use of approximately \$7.5 million to \$9 million, and an adjusted EBITDA loss in the range of \$16 million to \$18 million. We are confident this level of investment in the business is prudent, given the many opportunities we see ahead.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Thanos Moschopoulos from BMO Capital Markets. Your line is open.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Hi. Good afternoon. And congrats on your first quarter as a public company. Maybe starting off on the Payments side, you mentioned that you'd be getting some traction with Payments within your installed base. And I think most of us have been conservative in modeling any uptake there. Can you expand a little on the level of pushback that you are seeing or not seeing as you speak to existing customers about adopting Lightspeed Payments?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Hey, Thanos. It's Brandon here. Yeah, no, we're pretty encouraged across the board right now, 40% attach rates on net new customers of Lightspeed, to be that far ahead of where the 35% we saw historically with our referral partners, we're pretty encouraged by that. And existing customer uptake has been decent as well out of the gate here. We've signed a couple of hundred of our existing customers already in the quarter as well. So all told, I think we're off to a good start here with payments. And we'll still remain cautious in our outlook until we get this fully baked, but pretty pleased across the board right now.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

And that 40%, were you hitting that pretty quickly out of the gate or is that beginning to ramp up from that level in more recent weeks?

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

A

Yeah. Hello, Thanos, it's JP. Well, I think we're just – when we look at the customers, there is a need. And as you know, in our business, they want to buy from one vendor. So, obviously, it's getting better as we're going forward and we're getting our people trained and we're starting to understand exactly how to convert the customers. But no, I think the reaction was strong out of the gate and it's going to get better.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

And then, any update in terms of when the launch will be for other geographies and for restaurant or should we just assume sometime later this year?

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

I think that – Thanos, this is Dax here. The goal is to have a rollout in all regions where we operate in the fiscal year. The next step will be for the restaurant products.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Okay. On the EBITDA front, the EBITDA loss for 2020 is a bit larger than some of us were looking for. You alluded to making investments. So, should we assume that the delta primarily goes into the sales and marketing line for customer acquisition?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

A couple of fronts, Thanos. I mean we're seeing good customer traction in the business right now, just in terms of that new location adds, in general. Obviously, we're encouraged by Payments here. We're encouraged by things like Loyalty and how that adoption has gone. So, I think you're going to find the investments in twofold. We think it makes a ton of sense, given the firmness of the initial demand for Payments for us to kind of remove any barriers there for net new customers to join Lightspeed Payments, so that might entail some things in the gross margin line around hardware and things of that nature.

But then, the bulk of it, to your point, is going to be in the sales and marketing line, where, since the IPO, we've just seen a lot of interest in Lightspeed in general. And we just think it's really wise right now to capitalize on that and continue it here for the time being.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Okay. In terms of customer acquisition costs, have those been trending pretty consistent with recent quarters, or has there been any discernible change there aside for the dynamic you highlighted regarding maybe some incentives to switch people off of their existing payment provider?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

No. They've been pretty good and with increased brand recognition brings an improvement in customer acquisition costs. But part of this investment looking forward is with us attaching Payments the way we're attaching it with some of the Loyalty expansion we're seeing, which just gives us more ARPU, gives us a greater

lifetime value. And so, we do not invest in sales and marketing. We do anticipate to kind of eke up [indiscernible] (00:26:24) a little bit, but really in line with the overall ratios, we've historically run the business at, if not better.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Okay. One last one for me. The Chronogolf acquisition, what was the revenue associated with that business?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Pretty small, Thanos. This isn't a large business we're acquiring here. This is – and as you can probably appreciate from our earlier comments, this is a longstanding partner of Lightspeed. They were – they've built some really interesting functionality to help drive Lightspeed products into the sub segment. So, we are capturing some of that revenue already ourselves. And all told, it's not a huge revenue impact in the near-term, but we're pretty excited about some of the potential here with – these are bigger, stickier customers. We've already converted one of them into Lightspeed Payments. And we see lots of potential there with this higher GTV base. And it's a pretty compelling sub-segment that right now just has a lot of legacy, and we think we're going to do pretty well.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Great. Thanks, guys. I'll pass the line.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Thank you.

Operator: Your next question comes from the line of Richard Tse from National Bank Financial. Your line is open.

Richard Tse

Analyst, National Bank Financial, Inc.

Q

Yes. Thank you. So, with respect to Lightspeed Payments, I'm kind of curious to see whether you had any sort of positive or negative surprises since launching it or has it been pretty much dead in line with what you expected here?

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

A

Yeah. Good question. So, JP again. I think it's very much in line with the expectations, if not slightly better. Our assumption when we went in there was to say, okay, well, at least have the same attach rates as our previous partners. And we're already kind of above those attach rates. So, I think it all goes together with the investments we're putting in marketing and kind of our view of having the majority of our customers as we move forward selecting Lightspeed Payments and providing us with a much better lifetime value.

Richard Tse

Analyst, National Bank Financial, Inc.

Q

Yeah. It seems very encouraging that you've been getting some of the legacy base converting to that. Is there sort of a certain tact that you're taking from a marketing perspective to make those conversions?

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

A

Not really. So, it's – again, just look at the segment of our customers, they would want – they would rather buy everything from one vendor. I mean, that's been our strategy and it's paying off. But if I'm a restaurateur or a retailer I'd rather work with Lightspeed for everything than have to deal with multiple vendors. So, here, what we see is that it's just the natural step for them is to attach Lightspeed Payments. And I think as we move forward, we'll see more and more customers to kind of attach Payments with the POS purchase. And we've also – yeah, we've also signed a few hundred customers from our existing base who are now converting to the platform. So, we're...

Richard Tse

Analyst, National Bank Financial, Inc.

Q

Yeah. Pretty clear. So, I've kind of noticed over the few past months that the landscape has certainly become more active even competitively. I'm just kind of curious to see whether you guys have changed the way that you go to market here or potentially go to market over the course of 2019 and 2020 in light of that?

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

A

Yes. I think I'll address this one too. You know this is one of the largest markets. I think 47 million restaurants and retailers across the globe. We are spread out across geographies. And so we haven't seen any change in our close rates. We haven't seen any change in our ability to attract the customers and make them successful.

So, for now, we're just doubling down on our strategy. We'll continue to expand globally. We're actually going to continue doubling down on marketing and spending slightly more now to accelerate hopefully that growth. But we – what we look at is when we look at opportunities and we try and see, do we see a lot of segmentation as always the same vendors and there's not one single vendor that represents more than 5% of our opportunities. So, we're not concerned and we're pretty excited by the offering.

Richard Tse

Analyst, National Bank Financial, Inc.

Q

Okay. And are there certain geographic markets where you're more excited than others?

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

A

Well, I think the other way to maybe look at this is we see similar growth across all geographies across all products. So, I think we're just very excited globally. I think the market is extremely large. There's a lot of destruction going on. People are moving away from legacy platforms and that's really what we see happening is people moving away from legacy platforms into cloud based POS systems. And within our segment again, which is the complex restaurateurs or the complex retailers with deep inventory, yeah, we have a very competitive solution than we're pretty much the only vendor that's global.

Richard Tse

Analyst, National Bank Financial, Inc.

Q

Okay. And just one last one for me. The guidance for next year for revenue seems quite robust certainly ahead of our expectation. Is there any way you can sort of parse out where that growth is coming from particularly payments? Is that really the big driver here of that incremental lift or is it from something else?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah. I think we're firming up our outlook on payments for sure. The initial attach rates are encouraging for us. We still want to remain cautious, still want to remain careful on this. But, you know, and JP just mentioned kind of everything is going pretty well right now. We're seeing good net new adds, we're seeing expansion of other modules, and as we as we've harped on here, payments are off to a good start. So you we – I think just generally speaking, Richard, we're pretty encouraged across the board.

Richard Tse

Analyst, National Bank Financial, Inc.

Q

Okay. Great. Congrats on the first quarter out of the gates here.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Thanks, Richard.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Thanks, Richard.

Operator: Your next question comes from the line of Tien-Tsin Huang from JPMorgan. Your line is open.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Thanks for taking the question. Congrats on the IPO from me as well. Let me ask first on Lightspeed Payments, I know you've taken a lot of questions there already. I'm curious, any surprise in the quality of the merchant that you're bringing on in the payment front, your approval rates, the pace of onboarding, that kind of thing. It sounds like this is tracking well. Just curious if that's been different than what you expect, just the quality side of it.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah. No comment on the quality. I think that's been uneventful I supposed in terms of...

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Okay.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

...no material [audio gap] (00:33:29) nothing in that direction. I think we are learning as we go here. Certainly, the time it takes between signing a merchant and when we see them processing live transactions varies from whether

they're existing customer to when they're – whether they're net new customer. So, there's things like that from the onboarding just being new into this. But we're learning as we go a little bit. And that's what keeps us wanting to remain cautious on our near-term outlook here.

Jean-Paul Chauvet
President & Director, Lightspeed POS, Inc.

A

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay.

Jean-Paul Chauvet
President & Director, Lightspeed POS, Inc.

A

And maybe if I could just add also what we're very excited to see is that when you look at across all of our merchants, we find smaller merchants, medium-sized merchants and larger ones. So, the solution seems to suit. I think it's higher base [ph] pretty much (00:34:21). So, that's very exciting.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay. So, [ph] that's right (00:34:24). That's healthy. So, on the investments for growth and lead flow, is that more about driving branding and awareness to get higher unit growth and higher ARPU or would you consider investments in pricing for example to try and maybe catalyze growth for other unit growth or ARPU as well? Just curious what that would cover.

Brandon Nussey
Chief Financial Officer, Lightspeed POS, Inc.

A

I think it falls under a couple of buckets. First bucket is just [ph] removing (00:34:52) barriers to entry. So, if there's an existing customer, they paid for hardware, you can assume we're going to make that an easy transition for them because we're seeing the demand from the product. We're seeing the uptake is strong. And a few hundred bucks for a device recovers pretty quickly as a pretty simple ROI there for us for a long-term stream of revenue. So, that's bucket one, where it's just, hey, let's just remove the barriers to adoption here everywhere we can.

And then bucket two, maybe I'll flip it over to JP, but it is more around brand awareness. Probably you've already seen just a few online. You might have tripped across more and more Lightspeed things online. But it's – we are broadening our – just some tactics as part of this.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Got you. And then one more for me, just I know, Dax, you mentioned adding targets like Chronogolf makes sense. I'm just curious from a valuation standpoint given that this [indiscernible] (00:36:02) consolidation both small and large, has that changed your appetite or the pipeline of deals you would consider and should we expect more of this kind of model of putting it in earn out and going out to customers where you already have preexisting relationships? I'm just curious to how you're thinking about M&A and how that might have changed since the IPO?

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Yeah. I think M&A does fall into a few buckets for us. There's – this is one where we're going deep into a vertical. It's a vertical – we believe that going vertical by vertical is an important strategy for us. We can have – we can work across the supply chain. We have big payments opportunities in each of these vertical, so that's where this particular acquisition is positioned. There are others where there – where they have regional – where there are regional play or competitive play and some are capabilities. I think this is one where it's capabilities and a vertical. So it checked a few boxes for us.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Understood. Thank you, guys, for the time.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Thanks, Tien-Tsin.

Operator: Your next question comes from the line of Daniel Chan from TD Securities. Your line is open.

Daniel Chan

Analyst, TD Securities, Inc.

Q

Hi, guys. I just want to clarify on the investments on removing barriers to entry for the hardware side. Are you actually just going to subsidize some of the hardwares that people adopt the faster?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yes. You make it sound so much simpler.

Daniel Chan

Analyst, TD Securities, Inc.

Q

No that's good. [indiscernible] (00:37:39)

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

A

Or it could – sorry. It could be also that some customers have a contract where they have a breaking clause where they have to pay money to break their existing contracts, so we would also buy that back. But we're talking about a – always a couple of hundred dollars to get the customers in. When you compare this to a typical cost of acquisition of a customer, it just makes sense.

Daniel Chan

Analyst, TD Securities, Inc.

Q

Okay. And that's not – and you're not doing that right now, this is something that you're going to implement over the coming months?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

Oh, no. We've already started that.

A

Daniel Chan

Analyst, TD Securities, Inc.

Okay.

Q

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

I mean it's not a huge, you don't see it in the Q4 because it's pretty nascent. But no, that's – those are techniques we've picked up for sure.

A

Daniel Chan

Analyst, TD Securities, Inc.

Okay. And then we've also seen some consolidation in the payment processing space this week, so as some of these payment processors start to consolidate, how is that – what's the read-through to you guys, if any?

Q

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

Yeah. I think it just validates some of the things that we've believed in. We think this segment of the market is looking for the one-stop shop. They're looking for the folks that run their business with software to take on more of the commoditized service around payments.

A

We don't expect an impact to our business. In fact, we just see it as tactics of those other folks are undertaking to try and figure out [indiscernible] (00:39:06) strategies going forward. But we think all of those really kind of value the Lightspeeds of the world from the value add we provide to them. But in terms of kind of how that impacts Lightspeed directly, we don't see much of an impact there.

Daniel Chan

Analyst, TD Securities, Inc.

Okay. And then I think in the press release, you said that you guys have about 1,500 loyalty customers now. What's that growing from and what would you say is the biggest driver of that success?

Q

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

Yes. So, it's growing from basically zero, if you think about it. And I think for me, that is also one of the very exciting piece of the new product we've launched and how well this resonates with our customers. But ultimately, Loyalty is a very important piece of the business of our customers, because it's around generating more revenue with existing customers and getting repeat business from these existing customers. And it was the number one request from all of our customers was for us to offer Loyalty. So, very pleased to say that the acceleration of Loyalty is probably the fastest we've ever seen in any product we launched.

A

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

One of the other interesting thing about Loyalty is that it's now available across all our geographies for all of our products. And so, that's why I think we've had a lot of uptick as well.

Daniel Chan

Analyst, TD Securities, Inc.

Q

When you acquired the company that brought you these Loyalty capabilities, do they come with customer base as well and did they also have a large geographic footprint or is that something that you guys had to work on to kind of customize it for these specific markets?

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

A

It was a – they had a few customers but it was I mean it was tech talk and it was a very small company, and we spent basically the first six months ensuring that that component was very well integrated into ours and ensuring that it was ready for a go-to-market. And that's what we did. We launched it with our base and there was incredible reception. So, no, I mean this is all generated by Lightspeed and by our abilities to market it to our customers.

Daniel Chan

Analyst, TD Securities, Inc.

Q

Sounds good. Thank you very much.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Great. Thanks.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Thank you.

Operator: Your next question comes from the line of Todd Coupland from CIBC. Your line is open.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Q

Good evening, everyone. I wanted to know if you were going to be calling out the total number of merchants that are actually on Payments at the end of the quarter?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

It's several hundred, Todd, that we signed in the quarter. It's still pretty early on. So, yeah, less than 1,000.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Q

Okay. Sorry, less than 1,000 new merchants added in the quarter or less than 1,000 on payments?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Added in the quarter.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Q

Okay. Yeah. So, then it would be the U.S. piece and retail would be a subset of that?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Sorry, say that again, Todd. I missed that.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Q

So, the 40% data point you quoted would be on a subset of that less than 1,000 because it's U.S. and it's retail, not restaurant.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah. Sorry, maybe I misinterpreted your first question, Todd. Net new adds from – in aggregate in the quarter?

Todd Coupland

Analyst, CIBC World Markets, Inc.

Q

Yeah. That wasn't – I'm interested in that question, but I was wondering if you were going to disclose the total number of merchants that are actually on Payments at the end of the quarter.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Okay. It's – not just yet, Todd. We added somewhere less than 1,000 in the quarter that represents 40% attach rate in net new. As you heard from JP, about between 200 and 300 existing customers as well took Lightspeed Payments. So, it's off to a good start. We – it's only been a couple of months, and we're watching it closely and we're off to a good start though.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Q

And do you – I know your business is somewhat seasonal, but given you're in a new product area, do you expect it to continue on a sequential basis or will this be impacted by any seasonality as we go through the year here?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

So, there's no seasonality on Payments. I think what the one driver of Payments is the number of new customers we bring onboard. And I think the way we're looking at it is we're currently at 40%. Obviously, we're gunning for much more. As we get into the year, we're going to be deploying Payments into more products. The next one is going to be restaurant in the U.S. And as we move into the year, that will just have an impact on attach rates that are going to grow, which will have an impact on number of Payments customers that are growing. I think we just

want to be very cautious in how we're going into this and being sure that as we get into new markets and get into new customers that they're all successful and happy.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Q

Yeah. Okay. That makes sense. And then, if I could just sort of step back from the two months in the next quarter and all that, has the initial attach rates changed how you're thinking about how deep in your base you could get with Payments over time? Just talk about your thoughts on that.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

No. So, I think we are exactly in line with what we expected to have. So, I don't think it changes in time. And our expectation is, over the years, we're expecting for Payments to represent at least half of our customers. But here, again, we know where we're heading. We don't know how quickly it'll grow. We don't know the trajectory quite yet. But for now, it's exactly in line with what we expected.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Q

Okay. That's great. One last question for me. I don't know if I missed this, but did you disclose the acquisition price?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

[ph] About (00:45:30) \$10 million on closing, Todd. There is a very small earn-out as well financially oriented, hitting certain targets over the next year or so.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Q

That's great. Thanks very much, guys. Appreciate the color.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Thanks, Todd.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Thanks, Todd.

Operator: There are no more questions at this time. I now turn the call back over to Dax Dasilva for closing comments.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

Thanks, everybody, for joining us for our first quarterly earnings call. I'm sure we'll see all of you – look forward to seeing a lot of you as we hit the road and have meetings. And we look forward to sharing more with you. We're

excited about the progress in this first quarter and for the year and look forward to sharing more of you, as we move forward. Thanks, everyone.

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

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2019 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.