

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2019

As used in this management's discussion and analysis ("MD&A"), unless the context indicates or requires otherwise, all references to the "Company", "Lightspeed", "we", "us" or "our" refer to Lightspeed POS Inc. together with our subsidiaries, on a consolidated basis as constituted on September 30, 2019.

This MD&A dated November 7, 2019, for the three and six months ended September 30, 2019, should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and the accompanying notes for the three and six months ended September 30, 2019, as well as with our audited annual consolidated financial statements and the notes related thereto for the year ended March 31, 2019. The financial information presented in this MD&A is derived from the Company's unaudited condensed interim consolidated financial statements for the three and six months ended September 30, 2019, which has been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). All amounts are in U.S. dollars except where otherwise indicated.

## Forward-looking information

This MD&A contains "forward-looking information" and "forward-looking statements" (collectively, "forward-looking information") within the meaning of applicable securities laws. Forward looking information may relate to our financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information.

In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "outlook", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", "will", "will be taken", "occur" or "be achieved", the negative of these terms and similar terminology. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances.

This forward-looking information includes, among other things, statements relating to: expectations regarding industry trends; our growth rates and growth strategies; addressable markets for our solutions; the achievement of advances in and expansion of our platform; expectations regarding our revenue and the revenue generation potential of our payment-related and other solutions; our business plans and strategies; and our competitive position in our industry.

This forward-looking information and other forward-looking information is based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Certain assumptions in respect of our ability to build our market share and enter new markets and industry verticals; our ability to retain key personnel; our ability to maintain and expand geographic scope; our ability to execute on our expansion plans; our ability to continue investing in infrastructure to support our growth; our ability to obtain and maintain existing financing on acceptable terms; currency exchange and interest rates; the impact of competition; the changes and trends in our industry or the global economy; and the changes in laws, rules, regulations, and global standards are material factors made in preparing forward-looking information and management's expectations.

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that we considered appropriate and reasonable as of the date such statements are made, are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to the factors described in the "Summary of Factors Affecting our Performance" section of this MD&A and in the "Risk Factors" section of our Annual Information Form dated May 30, 2019, which is available under our profile on SEDAR at [www.sedar.com](http://www.sedar.com).

If any of these risks or uncertainties materialize, or if the opinions, estimates or assumptions underlying the forward-looking information prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking information. The opinions, estimates or assumptions referred to above and described in greater detail in “Summary of Factors Affecting our Performance” should be considered carefully by prospective investors.

Although we have attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other risk factors not presently known to us or that we presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. No forward-looking statement is a guarantee of future results. Accordingly, you should not place undue reliance on forward-looking information, which speaks only as of the date made. The forward-looking information contained in this MD&A represents our expectations as of the date of hereof (or as of the date they are otherwise stated to be made), and are subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

**All of the forward-looking information contained in this MD&A is expressly qualified by the foregoing cautionary statements.**

This MD&A includes certain trademarks, such as “Lightspeed”, “Flame Design”, “Show & Tell”, “Lightspeed Cloud” and “Lightspeed Pro”, which are protected under applicable intellectual property laws and are our property. Solely for convenience, our trademarks and trade names referred to in this MD&A may appear without the ® or ™ symbol, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trademarks and trade names.

Additional information relating to Lightspeed, including our most recently completed Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Overview**

Lightspeed provides an easy-to-use, omni-channel commerce-enabling SaaS platform. Our software platforms provides our customers with the critical functionality they need to engage with consumers, manage their operations, accept payments, and grow their business. We operate globally in over 100 countries, empowering single- and multi-location small and medium-sized businesses (“SMBs”) to compete successfully in an omni-channel market environment by engaging with consumers across online, mobile, social, and physical channels. We believe that our platforms are essential to our customers’ ability to run and grow their business. As a result, most of our revenue is recurring and we have a strong track-record of growing revenue per customer over time.

Our cloud platforms are designed around three interrelated elements: front-end consumer experience, back-end operations management to improve our customers’ efficiency and insight, and the facilitation of payments. Key functionalities of our platform include full omni-channel capabilities, point of sale (“POS”), product and menu management, inventory management, analytics and reporting, multi-location connectivity, loyalty and customer management. Our position at the point of commerce puts us in a privileged position for payments processing and allows us to collect transaction-related data insights. Lightspeed Payments, our payment processing solution, is currently available to our U.S. retail customers. We believe that the broader rollout of Lightspeed Payments will further align us with our customers’ success and represents a significant growth opportunity for our Company.

We sell our platforms primarily through our direct sales force in North America, Europe and Australia, supplemented by indirect channels in other countries around the world. Our platforms are well-suited for various types of SMBs, particularly single and multi-location retailers with complex operations, such as those with a high product count, diverse inventory needs or a service component, and restaurants ranging from quick service and festivals to fine dining establishments. On average, the customers we serve generate Gross Transaction Volume (as defined herein) in excess of \$500,000 annually, which is reflective of the success of their businesses. Our customers generate monthly ARPU (as defined herein) of approximately \$200 as of the month of September 2019 and collectively represented approximately 57,000 Customer Locations in over 100 countries. The percent of eligible customers that contracted Lightspeed Payments in conjunction with purchasing the Lightspeed software approached 50% in the quarter. For the six months ended September 30, 2019, our cloud-based SaaS platform processed GTV of \$10.0 billion, which represents growth of over 40% relative to GTV of \$7.2 billion processed during the six months ended September 30, 2018.

We generate revenue primarily from the sale of cloud-based software subscription licenses and other recurring revenue sources including payments solutions for both retailers and restaurants. We offer pricing plans designed to meet the needs of our current and prospective customers that enable Lightspeed solutions to scale with SMBs as they grow. Our subscription plans vary from monthly plans to one-year and multi-year terms, with the majority of our Customer Locations contracted for at least 12 months as of September 30, 2019. In addition, our software is integrated with certain third parties that enable electronic payment processing and as part of integrating with these payment processors, we have entered into revenue share agreements with each of them. We have launched Lightspeed Payments, our in-house payment processing solution, which provides our customers with full visibility into the final steps of their sale process. For the three and six months ended September 30, 2019, software and payments revenue accounted for 91% and 90% of our total revenues respectively (90% and 89% for the three and six months ended September 30, 2018).

In addition, we offer a variety of hardware and other services to provide value-added support to our merchants and supplement our software and payments revenue solutions. These revenues are generally one-time revenues associated with the sale of hardware with which our solutions integrate and the sale of professional services in support of the installation and implementation of our solutions. For the three and six months ended September 30, 2019, this revenue accounted for 9% and 10% of our total revenues respectively (10% and 11% for the three and six months ended September 30, 2018).

We believe we have a distinct leadership position in SMB commerce given our scale, breadth of capabilities, and diversity of customers. As a result, our business has grown significantly. Our total revenue has increased to \$28.0 and \$52.1 million, respectively, for the three and six months ended September 30, 2019 from \$18.6 and \$36.1 million, respectively, for the three and six months ended September 30, 2018, representing year-over-year growth of 51% and 44%. No customer represented more than 1% of our revenue for the three and six months ended September 30, 2019 or 2018.

Our business is growing rapidly and we plan to continue making investments to drive future growth. We believe that our future success depends on a number of factors, including our ability to expand our customer base, increase revenue from existing customers, accelerate the adoption of Lightspeed Payments, add more solutions to our platforms, and selectively pursue and integrate acquisitions and new markets. We believe that our continued investments will increase our revenue base, improve the retention of this base and strengthen our ability to increase sales to our customers.

We have not been profitable to date, and if we are unable to successfully implement our growth strategies, we may not be able to achieve profitability. For the three and six months ended September 30, 2019, we incurred an operating loss of \$11.2 and \$21.5 million respectively, compared to an operating loss of \$3.9 and \$8.7 million, respectively, for the three and six months ended September 30, 2018. Our operating cash outflow for the six months ended September 30, 2019 was \$8.9 million compared to \$3.9 for the six months ended September 30, 2018.

## Key Performance Indicators

We monitor the following key performance indicators to help us evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions. Our key performance indicators may be calculated in a manner different than similar key performance indicators used by other companies.

**Average Revenue Per User.** “Average Revenue Per User” or “ARPU” represents the total software and payments revenue of the Company in the period divided by the number of unique customers of the Company in the period.

**Customer Locations.** “Customer Location” means a billing customer location for which the term of services have not ended, or with which we are negotiating a renewal contract. A single unique customer can have multiple Customer Locations including physical and eCommerce sites. We believe that our ability to increase the number of Customer Locations served by our platform is an indicator of our success in terms of market penetration and growth of our business. We have successfully demonstrated a history of growing both the number of our Customer Locations and GTV per Customer Location through the increased use of our platform. As of September 30, 2019 and September 30, 2018, approximately 57,000 and approximately 45,000 Customer Locations, respectively, were utilizing our platforms.

**Gross Transaction Volume.** “Gross Transaction Volume” or “GTV” means the total dollar value of transactions processed through our cloud-based SaaS platform in the period, net of refunds, inclusive of shipping and handling, duty and value-added taxes. We believe GTV is an indicator of the success of our Customer Locations and the strength of our platform. GTV does not represent revenue earned by us. For the six months ended September 30, 2019 and 2018, GTV was \$10.0 billion and \$7.2 billion, respectively.

## Non-IFRS Measures and Reconciliation of Non-IFRS Measures

The information presented within this MD&A includes certain financial measures such as “Adjusted EBITDA.” Such financial measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management’s perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. These non-IFRS measures are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation.

### Adjusted EBITDA

Adjusted EBITDA is defined as net loss excluding interest, taxes, depreciation and amortization, or EBITDA, as adjusted for stock-based compensation and related expenses, fair value loss on Redeemable Preferred Shares, compensation expenses relating to acquisitions completed, foreign exchange gains and losses and transaction-related expenses. The following table reconciles net loss to Adjusted EBITDA for the periods indicated:

(In thousands of US dollars)	Three months ended September 30,		Six months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>Net loss</b>	(10,075)	(8,196)	(19,172)	(16,321)
Fair value loss on Redeemable Preferred Shares <sup>(1)</sup>	—	3,643	—	6,595
Stock-based compensation and related payroll taxes <sup>(2)</sup>	841	(75)	3,720	413
Depreciation and amortization <sup>(3)</sup>	2,832	1,199	4,648	2,451
Foreign exchange loss (gain) <sup>(4)</sup>	(80)	(9)	(410)	110
Interest income net of interest expense <sup>(3)</sup>	(690)	(33)	(1,709)	(91)
Acquisition-related compensation <sup>(5)</sup>	2,055	108	2,762	108
Transaction-related costs <sup>(6)</sup>	500	—	528	—
Income tax expense (recovery)	(464)	662	(596)	1,128
<b>Adjusted EBITDA</b>	<b>(5,081)</b>	<b>(2,701)</b>	<b>(10,229)</b>	<b>(5,607)</b>

<sup>(1)</sup> These costs include costs with respect to the change in valuation of our Redeemable Preferred Shares from period to period, which is a non-cash expense. Prior to the completion of our Initial Public Offering, all of our Redeemable Preferred Shares were converted and the liability was reduced to \$Nil with a corresponding increase in share capital. There will be no further impact on our results of operations from these shares.

<sup>(2)</sup> These expenses represent non-cash expenditures recognized in connection with the issuance of stock options under our stock option plans to our employees and directors as well as related payroll taxes given that they are directly attributable to stock-based compensation, are estimates and therefore subject to change, and don’t reflect a current cash outlay. We do expect future cash outlays with respect to the payroll tax component of stock-based compensation.

<sup>(3)</sup> In connection with the adoption of IFRS 16 - Leases, for the three months ended September 30, 2019, net loss includes depreciation of \$609 related to amortization of right-of-use assets, interest expense of \$210 on lease liabilities, and excludes an amount of \$695 relating to rent expense (\$1,023, \$394, and \$1,181 respectively for the six months ended September 30, 2019). Refer to “Critical Accounting Policies and Estimates” below for more details on the adoption of IFRS 16.

<sup>(4)</sup> These non-cash losses (gains) relate to foreign exchange translation.

<sup>(5)</sup> These costs represent a portion of the purchase price that is associated with the ongoing employment obligations for certain key employees of acquired businesses.

<sup>(6)</sup> These expenses relate to professional, legal, consulting and accounting fees relating to acquisitions as well as our secondary offering that are non-recurring and would otherwise not have been incurred.

## ***Outlook***

A discussion of management's expectations as to the Company's outlook for Fiscal 2020 is contained in the Company's press release dated November 7, 2019 under the heading 'Financial Outlook'. The press release is available on [www.sedar.com](http://www.sedar.com).

## **Summary of Factors Affecting Our Performance**

We believe that the growth and future success of our business depends on many factors, including those described below. While each of these factors presents significant opportunities for our business, they also pose important challenges, some of which are discussed below and in the "Risk Factors" section of our most recent Annual Information Form, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### ***Market adoption of our platform***

We intend to continue to drive adoption of our commerce-enabling platform by scaling our solutions to meet the needs of both new and existing customers of all types and sizes. We believe that there is significant potential to increase penetration of our total addressable market and attract new customers. We plan to do this by further developing our products and services as well as continuing to invest in marketing strategies tailored to attract new businesses to our platform, both in our existing geographies and new markets around the world. We also intend to selectively evaluate opportunities to offer our solutions to businesses operating in industry verticals that we do not currently serve. We plan to continue to invest in our platform to expand our customer base and drive market adoption and our operating cash flows may fluctuate as we make these investments.

### ***Customer adoption of Lightspeed Payments***

In January 2019, we released our payment processing solution, Lightspeed Payments, to our U.S. retail customers, and we believe that Lightspeed Payments will become an increasingly important part of our business as we make it available to our broader customer base and across multiple geographies. Lightspeed Payments is designed to be transparent and easy to understand, and we have priced our solution at market competitive rates based on a percentage of GTV electronically processed through our platforms. As an increasing proportion of our revenue is generated from Lightspeed Payments, we believe that while our total revenues may grow significantly, our gross margins will decrease over time due to the lower gross margin profile of our payments revenue stream relative to the higher gross margin profile of our software subscription revenue stream.

### ***Cross-selling and up-selling with existing customers***

Our existing customers represent a significant opportunity to cross-sell and up-sell products and services with limited incremental sales and marketing expense. We use a "land and expand" approach, with many of our customers initially deploying one of our platforms for a specific use case. Once they realize the benefits and wide functionality of our platform, they can expand the number of use cases including services such as Lightspeed Loyalty, Lightspeed Analytics and Lightspeed Payments. We plan to continually invest in product development, and in sales and marketing, to add more solutions to our platform and to increase the usage and awareness of our solutions. Our future revenue growth and our ability to achieve and maintain profitability is dependent upon our ability to maintain existing customer relationships and to continue to expand our customers' use of our comprehensive suite of our solutions.

### ***Scaling our sales and marketing team***

Our ability to achieve significant growth in future revenue will largely depend upon the effectiveness of our sales and marketing efforts, both domestically and internationally. The majority of our sales and marketing efforts are accomplished in-house, and we believe the strength of our sales and marketing team is critical to our success. We have invested and intend to continue to invest meaningfully in terms of expanding our sales force, and consequently, we anticipate that our headcount will continue to increase as a result of these investments.

### ***International sales***

We believe that global demand for our platform will continue to increase as SMBs seek out end-to-end solutions with omni-channel capabilities to enable their businesses to thrive and succeed in an increasingly complex operating environment. Accordingly, we believe there is a significant opportunity to grow our international business. We have invested, and plan to continue to invest, ahead of this potential demand in personnel and marketing, and to make selective acquisitions outside of North America to support our international growth.

## ***Seasonality***

We believe our transaction-based revenues will begin to represent an increasing proportion of our overall revenue mix over time as a result of the recent introduction of Lightspeed Payments, and we expect seasonality of our quarterly results to increase. While rapid growth in our subscription base and upsells to existing customers has largely mitigated seasonal trends in our revenues to date, we expect our transaction-based revenues will become increasingly correlated with respect to the GTV processed by our customers through our platform.

## ***Foreign currency***

Our presentation and functional currency is the U.S. dollar. We derive the majority of our revenues in U.S. dollars and a smaller proportion of our expenses in U.S. dollars. Our head office and a significant portion of our employees are located in Montréal, Canada, along with additional presence in Europe, and, after our acquisition of Kounta Holdings Pty Ltd ("Kounta") in October 2019, Australia, and as such, a significant amount of our expenses are incurred in Canadian dollars and Euros. As a result, our results of operations will be adversely impacted by a decrease in the value of the U.S. dollar relative to the Canadian dollar or the Euro. See the "Risk Factors" section of our most recent Annual Information Form, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com), for a discussion on exchange rate fluctuations.

## **Key Components of Results of Operations**

### **Revenues**

#### ***Software and payments revenues***

We principally generate subscription-based revenues through the sale of subscription licenses to our retail and restaurant software solutions and transaction-based revenues. We offer pricing plans designed to meet the needs of our current and prospective customers that enable Lightspeed solutions to scale with SMBs as they grow. Our subscription plans are sold as monthly, one-year or multi-year plans, with the majority of our Customer Locations contracted for at least 12 months. A meaningful proportion of our customers elect to pay their full contract upfront, which results in the creation of a deferred revenue balance on our balance sheet. Subscription plans for our cloud-based solutions include maintenance and support. Customers purchase subscription plans directly from us or through our channel partners.

We also generate transaction-based revenues by providing our customers with the functionality to accept payments from consumers. Such revenues come in the form of payment processing fees and transaction fees and represent a percentage of GTV processed by our customers through our offered solutions. We have two sources of transaction-based revenues: our recently launched proprietary payments processing solution, Lightspeed Payments, and revenue sharing agreements with our integrated payment partners.

Lightspeed Payments allows our customers to accept electronic payments in-store, through connected terminals and online. Given its availability thus far has been limited to only our base of U.S. retail customers, Lightspeed Payments represents only a nominal source of revenue to date. We believe it will become an increasingly important part of our business, as it is made available to our broader customer base. Offering a fully integrated payment functionality is highly complementary to the platform we offer our customers today and will allow us to monetize a greater portion of the over \$17.4 billion in GTV, which represents over 37% growth in total GTV over the past 12 months, processed on our cloud-based SaaS platform over the last 12 months.

We also continue to support our legacy on-premise retail solution, which is downloaded by the customer and installed on the customer's server. As we transition this small group of customers to our cloud platform, we expect revenue from our on-premise solution to decline.

In addition, we generate revenues through referral fees and revenue sharing agreements from our partners to whom we direct business or who sell their applications through our apps and themes marketplace. Pursuant to the terms of our agreements with these partners, these revenues can be recurring or non-recurring.

#### ***Hardware and other revenues***

These revenues are generally one-time revenues associated with the sale of hardware with which our solutions integrate and the sale of professional services in support of the installation and implementation of our solutions. We generate revenues through the sale of POS peripheral hardware such as receipt printers, cash drawers, payment terminals, servers, stands, bar-code scanners, and

an assortment of accessories, as well as our Lite Server product that enables restaurant customers to operate on our platform without requiring an active internet connection.

Although our software solutions are intended to be turnkey solutions that can be used by the customer as delivered, we provide professional services to our restaurant customers in some circumstances in the form of on site installations and implementations. These implementation services are typically delivered through our internal integrations team or through a network of certified partners.

## **Direct Cost of Revenues**

### ***Cost of software and payments revenue***

Cost of software and payments revenue primarily includes employee expenses for the support team, direct costs related to our Lightspeed Payments business and costs associated with maintaining hosting infrastructure for our services. Significant expenses include data center capacity costs and other third party direct costs such as cloud infrastructure, including total salaries and benefits, stock-based compensation, customer support and royalties. We expect that cost of software and payments revenue will increase on an absolute dollar basis and as a percentage of total revenues due to the lower gross margin profile of Lightspeed Payments relative to the higher gross margin profile of our software subscription revenue stream.

### ***Cost of hardware and other revenue***

Cost of these revenues primarily includes costs associated with our hardware solutions, such as the cost of acquiring the hardware inventory, including hardware purchase price, expenses associated with a third-party fulfillment company, shipping and handling and inventory adjustments.

## **Operating Expenses**

### ***General and administrative***

General and administrative expenses comprise employee expenses, including stock-based compensation and related expenses, for finance, accounting, legal, administrative, human resources, information technology as well as payment operations. These costs also include other professional fees, internal systems and general corporate expenses. We expect that general and administrative expenses will increase on an absolute dollar basis as we incur the costs of compliance associated with being a public company, including increased accounting and legal expenses. In the longer term, however, we expect general and administrative expenses to decrease as a percentage of total revenues as we focus on processes, systems and controls to enable our internal support functions to scale with the growth of our business.

### ***Research and development***

Research and development expenses consist primarily of employee expenses, including stock-based compensation and related expenses, for product-related expenses including product management, product design and development and other corporate overhead allocations. We continue to invest our research and development efforts on developing added features and solutions, as well as increasing the functionality and enhancing the ease of use of our platform. Historically, these expenses have been reduced by the Canadian Federal Scientific Research and Experimental Development Program and Tax Credit for the Development of e-business, or “SR&ED” and “e-business” tax credits respectively. As a public company, we are no longer eligible for federal refundable SR&ED tax credits, while e-business tax credits remain available. However, we remain eligible for non-refundable SR&ED credits under this program, which are eligible to reduce future income taxes payable. Given the Company’s recent losses in Canada, these credits have not been recognized. Upon recognition, they will reduce research and development expenses. Although not immediately, given that we are still scaling our technology group in line with anticipated growth, we expect research and development expenses to decline in proportion to total revenue as we achieve additional economies of scale from our expansion.

### ***Sales and marketing***

Sales and marketing expenses consist primarily of selling and marketing costs and employee expenses, including stock-based compensation and related expenses, for sales and business development, marketing as well as a small portion of on-boarding for new customers. Other costs within sales and marketing include costs of acquisition of new customers, travel-related expenses and corporate overhead allocations. We plan to continue to expand sales and marketing efforts to attract new customers, retain existing

customers and increase revenues from both new and existing customers. Over time, we expect sales and marketing expenses will decline as a percentage of total revenues as we achieve additional economies of scale from our expansion.

### ***Acquisition-related compensation***

Acquisition-related compensation expenses represent the portion of the purchase price from acquisitions which is payable contingent upon ongoing employment obligations of certain key employees of the acquired businesses. This portion of the purchase price is amortized over the required service period for those key employees.

### **Other Expenses**

#### ***Fair value loss on Redeemable Preferred Shares***

These costs include costs with respect to the change in valuation of the Redeemable Preferred Shares from period to period. Immediately prior to the completion of the Initial Public Offering of our shares on the Toronto Stock Exchange in March 2019, all of our Redeemable Preferred Shares were converted and the liability was reduced to \$Nil with a corresponding increase in share capital. Following their conversion, the Redeemable Preferred Shares ceased to impact our results of operations.



## Results of Operations

The following table outlines our consolidated statements of loss and comprehensive loss for the three and six months ended September 30, 2019 and 2018:

(In thousands of US dollars, except per share data)	Three months ended September 30,		Six months ended September 30,	
	2019 \$	2018 \$	2019 \$	2018 \$
<b>Revenues</b>				
Software and payments	25,399	16,747	46,733	31,933
Hardware and other	2,627	1,851	5,358	4,136
	<u>28,026</u>	<u>18,598</u>	<u>52,091</u>	<u>36,069</u>
<b>Direct cost of revenues</b>				
Software and payments	7,066	3,592	12,879	7,102
Hardware and other	2,456	1,659	5,009	3,539
	<u>9,522</u>	<u>5,251</u>	<u>17,888</u>	<u>10,641</u>
<b>Gross profit</b>	<u>18,504</u>	<u>13,347</u>	<u>34,203</u>	<u>25,428</u>
<b>Operating expenses</b>				
General and administrative	5,527	2,910	9,938	5,554
Research and development	7,339	4,024	13,642	8,208
Sales and marketing	12,060	9,039	25,100	17,686
Depreciation of property and equipment	423	324	813	596
Depreciation of right-of-use assets	609	—	1,023	—
Foreign exchange loss (gain)	(80)	(9)	(410)	110
Acquisition-related compensation	2,055	108	2,762	108
Amortization of intangible assets	1,800	875	2,812	1,855
<b>Total operating expenses</b>	<u>29,733</u>	<u>17,271</u>	<u>55,680</u>	<u>34,117</u>
<b>Operating loss</b>	(11,229)	(3,924)	(21,477)	(8,689)
Fair value loss on Redeemable Preferred Shares	—	(3,643)	—	(6,595)
Interest income net of interest expense	690	33	1,709	91
<b>Loss before income taxes</b>	<u>(10,539)</u>	<u>(7,534)</u>	<u>(19,768)</u>	<u>(15,193)</u>
<b>Income tax expense (recovery)</b>				
Current	19	—	39	(5)
Deferred	(483)	662	(635)	1,133
<b>Total income tax expense (recovery)</b>	<u>(464)</u>	<u>662</u>	<u>(596)</u>	<u>1,128</u>
<b>Net loss and comprehensive loss</b>	<u>(10,075)</u>	<u>(8,196)</u>	<u>(19,172)</u>	<u>(16,321)</u>
<b>Loss per share – basic and diluted</b>	<u>(0.12)</u>	<u>(0.27)</u>	<u>(0.23)</u>	<u>(0.55)</u>

The following table outlines stock-based compensation and the related payroll taxes associated with these expenses included in the results of operations for the three and six months ended September 30, 2019 and 2018:

(In thousands of US dollars)	Three months ended September 30,		Six months ended September 30,	
	2019 \$	2018 \$	2019 \$	2018 \$
Direct cost of revenues	48	28	288	51
General and administrative	414	143	1,376	161
Research and development <sup>(1)</sup>	346	(464)	923	(257)
Sales and marketing	33	218	1,133	458
<b>Total stock-based compensation</b>	<b>841</b>	<b>(75)</b>	<b>3,720</b>	<b>413</b>

<sup>(1)</sup> The balance in R&D for the three and six month ended September 30, 2018 arises from cancelled options of departed employees in that department.

### ***Results of Operations for the Three and Six Months Ended September 30, 2019 and 2018***

#### *Revenues*

(In thousands of US dollars, except percentages)	Three months ended September 30,				Six months ended September 30,			
	2019 \$	2018 \$	Change \$	Change %	2019 \$	2018 \$	Change \$	Change %
<b>Revenues</b>								
Software and payments	25,399	16,747	8,652	51.7	46,733	31,933	14,800	46.3
Hardware and other	2,627	1,851	776	41.9	5,358	4,136	1,222	29.5
<b>Total revenues</b>	<b>28,026</b>	<b>18,598</b>	<b>9,428</b>	<b>50.7</b>	<b>52,091</b>	<b>36,069</b>	<b>16,022</b>	<b>44.4</b>
<b>Percentage of total revenues</b>								
Software and payments	90.6 %	90.0 %			89.7 %	88.5 %		
Hardware and other	9.4 %	10.0 %			10.3 %	11.5 %		
<b>Total</b>	<b>100 %</b>	<b>100 %</b>			<b>100 %</b>	<b>100 %</b>		

#### *Software and Payments Revenue*

Software and payments revenue for the three months ended September 30, 2019 increased by \$8.7 million or 52% as compared to the three months ended September 30, 2018. The increase was primarily due to growth in our subscription customer base including customers from the acquisition of iKentoo S.A. ("iKentoo"), which accounted for \$0.9 million of software and payments revenue in the quarter, and increased payments revenue from continued adoption of Lightspeed Payments and payment referral fees earned through our partners. The number of new Customer Locations using our platform increased and the GTV processed through our platforms grew from \$3.7 billion for the three months ended September 30, 2018 to \$5.4 billion for the three months ended September 30, 2019, evidencing increased use of our platform. Customers adopting additional modules of our platform also contributed to the increase in subscription license revenue in the period.

Software and payments revenue for the six months ended September 30, 2019 increased by \$14.8 million or 46.3% as compared to the six months ended September 30, 2018. The increase was primarily due to growth in our subscription customer base including from the acquisition of iKentoo, which accounted for \$0.9 million of software and payments revenue for the six months ended September 30, 2019, and increased payments revenue from continued adoption of Lightspeed Payments and payment referral fees earned through our partners. The number of new Customer Locations using our platform increased and the GTV processed through our platforms grew from \$7.2 billion for the six months ended September 30, 2018 to \$10.0 billion for the six months ended September 30, 2019.

## Hardware & Other Revenue

Hardware and other revenue for the three months ended September 30, 2019 increased by \$0.8 million or 42% as compared to the three months ended September 30, 2018 due to the increase in sales of our hardware to new customers during the period and the acquisition of iKentoo in the quarter.

Hardware and other revenue for the six months ended September 30, 2019 increased by \$1.2 million or 30% as compared to the six months ended September 30, 2018 primarily due to the increase in sales of our hardware to new customers during the period and the addition of iKentoo hardware revenue since its acquisition on July 2, 2019.

## Direct Cost of Revenues

(In thousands of US dollars, except percentages)	Three months ended September 30,				Six months ended September 30,			
	2019	2018	Change	Change	2019	2018	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
<b>Direct cost of revenues</b>								
Software and payments	7,066	3,592	3,474	96.7	12,879	7,102	5,777	81.3
Hardware and other	2,456	1,659	797	48.0	5,009	3,539	1,470	41.5
<b>Total costs of revenues</b>	<b>9,522</b>	<b>5,251</b>	<b>4,271</b>	<b>81.3</b>	<b>17,888</b>	<b>10,641</b>	<b>7,247</b>	<b>68.1</b>
<b>Percentage of revenue</b>								
Software and payments	27.8%	21.4%			27.6%	22.2%		
Hardware and other	93.5%	89.6%			93.5%	85.6%		
<b>Total</b>	<b>34.0%</b>	<b>28.2%</b>			<b>34.3%</b>	<b>29.5%</b>		

## Direct Cost of Software and Payments Revenue

Direct cost of software and payments revenue for the three months ended September 30, 2019 increased by \$3.5 million or 97% as compared to the three months ended September 30, 2018. The increase was primarily due to increased costs associated with supporting a greater number of Customer Locations utilizing our platform, as well as an increase in our Payments customers which carry higher direct costs than our subscription business. Overall, direct cost of software and payments revenue as a percentage of revenue increased from 21% to 28% for the three months ended September 30, 2019 compared to the three months ended September 30, 2018.

Direct cost of software and payments revenue for the six months ended September 30, 2019 increased by \$5.8 million or 81% as compared to the six months ended September 30, 2018. The increase was primarily due to increased costs associated with supporting a greater number of Customer Locations utilizing our platform, as well as an increase in our Payments customers which carry higher direct costs than our subscription business. Overall, direct cost of software and payments revenue as a percentage of revenue increased from 22% to 28% for the six months ended September 30, 2019 compared to the six months ended September 30, 2018.

## Direct Cost of Hardware and Other Revenue

Direct cost of hardware and other revenue for the three months ended September 30, 2019 increased by \$0.8 million or 48% as compared to the three months ended September 30, 2018. The increase was due to the increase in revenue for the period but also due to free payment terminals given to Payments customers on the initial adoption of Lightspeed Payments.

Direct cost of hardware and other revenue for the six months ended September 30, 2019 increased by \$1.5 million or 42% as compared to the six months ended September 30, 2018. The increase was slightly higher than the increase in revenue for the period due to free payment terminals given to Payments customers on the initial adoption of Lightspeed Payments.

## Gross Profit

(In thousands of US dollars, except percentages)	Three months ended September 30,				Six months ended September 30,			
	2019	2018	Change	Change	2019	2018	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
<b>Gross profit</b>	18,504	13,347	5,157	38.6	34,203	25,428	8,775	34.5
<b>Percentage of total revenues</b>	66.0%	71.8%			65.7%	70.5%		

Gross profit for the three months ended September 30, 2019 increased by \$5.2 million or 39% compared to the three months ended September 30, 2018. The increase was primarily due to growth in our software and payments revenue as a result of increased Customer Locations using our platform and increased GTV processed through our platforms. Increased adoption of Lightspeed Payments reduced gross profit as a percentage of revenue.

Gross profit for the six months ended September 30, 2019 increased by \$8.8 million or 35% compared to the six months ended September 30, 2018. The increase was primarily due to growth in our software and payments revenue as a result of increased Customer Locations using our platform and increased GTV processed through our platforms. Increased adoption of Lightspeed Payments, as well as an increase in stock-based compensation and related payroll taxes reduced gross profit as a percentage of revenue.

## Operating Expenses

### General and Administrative

(In thousands of US dollars, except percentages)	Three months ended September 30,				Six months ended September 30,			
	2019	2018	Change	Change	2019	2018	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
<b>General and administrative</b>	5,527	2,910	2,617	89.9	9,938	5,554	4,384	78.9
<b>Percentage of total revenues</b>	19.7%	15.6%			19.1%	15.4%		

General and administrative expenses for the three months ended September 30, 2019 increased by \$2.6 million compared to the three months ended September 30, 2018. Of this increase, \$0.3 million was due to higher stock-based compensation and related payroll tax costs and \$0.9 million was due to an increase in professional fees incurred as a result of our secondary offering and acquisitions made in the quarter as compared to the prior year as well as certain professional costs related to being a public company. The remainder of the increase was due to higher salary costs as we continued to scale our back-office operations with additional headcount in our finance, human resources, information technology, internal systems and data departments and other public company costs. As a result of the above, our general and administrative expenses as a percentage of revenue increased to 20% from 16% between the three months ended September 30, 2019 and the three months ended September 30, 2018.

General and administrative expenses for the six months ended September 30, 2019 increased by \$4.4 million compared to the six months ended September 30, 2018. Of this increase, \$1.2 million was due to higher stock-based compensation and related payroll tax costs as compared to the prior year, and \$1.4 million related to an increase in professional fees incurred as a result of our secondary offering and acquisitions made in the quarter as compared to the prior year as well as certain professional costs related to being a public company. The remainder of the increase was due to higher salary costs and other employee related costs as we continued to scale our back-office operations with additional headcount in our finance, human resources, information technology, internal systems and data departments and other public company costs. This increase was offset by a \$0.7 million decrease in bad debt expense in the quarter. As a result of the above, our general and administrative expenses as a percentage of revenue increased to 19% from 15% between the six months ended September 30, 2019 and the six months ended September 30, 2018.

## Research and Development

(In thousands of US dollars, except percentages)	Three months ended September 30,				Six months ended September 30,			
	2019	2018	Change	Change	2019	2018	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
<b>Research and development</b>	7,339	4,024	3,315	82.4	13,642	8,208	5,434	66.2
<b>Percentage of total revenues</b>	26.2%	21.6%			26.2%	22.8%		

Research and development expenses for the three months ended September 30, 2019 increased by \$3.3 million or 82% compared to the three months ended September 30, 2018. This increase was due primarily to additional salary and other employee costs due to increased headcount in our research and development teams including a \$0.8 million increase in stock-based compensation and related payroll taxes as well as incremental expenses assumed as part of our recent acquisitions of Chronogolf Inc. (“Chronogolf”) and iKentoo. Our research and development costs as a percentage of revenue increased from 22% to 26% from the three months ended September 30, 2018 to the three months ended September 30, 2019.

Research and development expenses for the six months ended September 30, 2019 increased by \$5.4 million or 66% compared to the six months ended September 30, 2018. This increase was due primarily to additional salary and other employee costs due to increased headcount in our research and development teams including a \$1.2 million increase in stock-based compensation and related payroll taxes as well as \$1.1 million of incremental expenses assumed as part of our acquisition of Chronogolf and iKentoo. Our research and development costs as a percentage of revenue increased from 23% to 26% from the six months ended September 30, 2018 to the six months ended September 30, 2019.

## Sales and Marketing

(In thousands of US dollars, except percentages)	Three months ended September 30,				Six months ended September 30,			
	2019	2018	Change	Change	2019	2018	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
<b>Sales and marketing</b>	12,060	9,039	3,021	33.4	25,100	17,686	7,414	41.9
<b>Percentage of total revenues</b>	43.0%	48.6%			48.2%	49.0%		

Sales and marketing expenses for the three months ended September 30, 2019 increased by \$3.0 million or 33% as compared to the three months ended September 30, 2018. Approximately \$1.2 million of the additional expenses related to salaries and other employee costs including incremental employee costs pursuant to our recent acquisitions of Chronogolf and iKentoo. An additional \$1.7 million in costs was incurred for other growth focused investments in sales and marketing specifically in advertising, acquisition and growth spend including payments made to our distribution partners as reseller commissions. Given that revenue growth was 51%, sales and marketing costs as a percentage of revenue decreased from 49% to 43% from the three months ended September 30, 2018 to the three months ended September 30, 2019.

Sales and marketing expenses for the six months ended September 30, 2019 increased by \$7.4 million or 42% as compared to the six months ended September 30, 2018. Approximately \$3.5 million of the additional expenses related to salaries and other employee costs, \$0.7 million of which related to stock-based compensation and related benefits as well as the \$1.0 million in incremental employee expenses pursuant to our recent acquisitions of Chronogolf and iKentoo. An additional \$3.8 million in costs was incurred for other growth focused investments in sales and marketing specifically in advertising, acquisition and growth spend including payments made to our distribution partners as reseller commissions. Given that revenue growth was 44% for the six month period, sales and marketing costs as a percentage of revenue decreased from 49% to 48% from the six months ended September 30, 2018 to the six months ended September 30, 2019.

## Depreciation

(In thousands of US dollars, except percentages)	Three months ended September 30,				Six months ended September 30,			
	2019	2018	Change	Change	2019	2018	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Depreciation of property and equipment	423	324	99	30.6	813	596	217	36.4
Depreciation of right-of-use assets	609	—	609	100	1,023	—	1,023	100
	1,032	324	708	218.5	1,836	596	1,240	208.1
Percentage of total revenues	3.7%	1.7%			3.5%	1.7%		

Depreciation of property and equipment expenses for the three months ended September 30, 2019 increased by 31% as compared to the three months ended September 30, 2018. The increase in the depreciation expense results from additions to property and equipment made throughout the fiscal year ended March 31, 2019 ("Fiscal 2019"). The depreciation of right-of-use assets represents the depreciation of leases that were capitalized as a result of the adoption of IFRS 16.

Depreciation of property and equipment expenses for the six months ended September 30, 2019 increased by 36% as compared to the six months ended September 30, 2018. The increase in the depreciation expense results from additions to property and equipment made throughout Fiscal 2019. The depreciation of right-of-use assets represents the depreciation of leases that were capitalized as a result of the adoption of IFRS 16.

## Foreign Exchange Loss (Gain)

(In thousands of US dollars, except percentages)	Three months ended September 30,				Six months ended September 30,			
	2019	2018	Change	Change	2019	2018	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Foreign exchange loss (gain)	(80)	(9)	(71)	788.9	(410)	110	(520)	(472.7)
Percentage of total revenues	(0.3)%	0.0 %			(0.8)%	0.3%		

Foreign exchange gain for the six months ended September 30, 2019 increased to \$0.5 million as compared to the foreign exchange loss for the six months ended September 30, 2018. This was due to the strengthening of the Canadian dollar given that subsequent to our Initial Public Offering, a significant portion of the Company's cash was held in Canadian dollars. Items included in our results are measured in the functional currency (US dollars), and foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions or when items are re-measured with resulting gains and losses subsequently recognized.

### Acquisition-related Compensation

(In thousands of US dollars, except percentages)	Three months ended September 30,				Six months ended September 30,			
	2019	2018	Change	Change	2019	2018	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
<b>Acquisition-related compensation</b>	2,055	108	1,947	1,802.8	2,762	108	2,654	2,457.4
<b>Percentage of total revenues</b>	7.3%	0.6%			5.3%	0.3%		

Acquisition-related compensation expenses for the three months ended September 30, 2019 increased by \$1.9 million or 1,803% as compared to the three months ended September 30, 2018. The increase was due to acquisitions of ReUp Technologies Inc. (“ReUp”) in July 2018, Chronogolf in May 2019 and iKentoo in July 2019. We issued contingent consideration tied to ongoing employment obligations in connection with these acquisitions. This contingent consideration was not included in the total purchase consideration, but rather was treated as an acquisition-related compensation expense for post-combination services.

Acquisition-related compensation expenses for the six months ended September 30, 2019 increased by \$2.7 million or 2,457% as compared to the six months ended September 30, 2018. The increase was due to our acquisitions of ReUp in July 2018, Chronogolf in May 2019 and iKentoo in July 2019. We issued contingent consideration tied to ongoing employment obligations in connection with these acquisitions. This contingent consideration was not included in the total purchase consideration, but rather was treated as an acquisition-related compensation expense for post-combination services.

### Amortization of Intangible Assets

(In thousands of US dollars, except percentages)	Three months ended September 30,				Six months ended September 30,			
	2019	2018	Change	Change	2019	2018	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
<b>Amortization of intangible assets</b>	1,800	875	925	105.7	2,812	1,855	957	51.6
<b>Percentage of total revenues</b>	6.4%	4.7%			5.4%	5.1%		

Amortization of intangible assets for the three months ended September 30, 2019 increased by \$0.9 million or 106% as compared to the three months ended September 30, 2018. The increase in amortization relates to intangibles acquired through the Chronogolf and iKentoo acquisitions of \$1.4 million during Fiscal 2020 which was offset by a decrease in amortization from intangibles that were fully amortized during Fiscal 2019 of \$0.5 million.

Amortization of intangible assets for the six months ended September 30, 2019 increased by \$1.0 million or 52% as compared to the six months ended September 30, 2018. The increase in amortization relates to intangibles acquired through the Chronogolf and iKentoo acquisitions of \$1.7 million during Fiscal 2020 which was offset by a decrease in amortization from intangibles that were fully amortized during Fiscal 2019 and Q1 of Fiscal 2020 of \$0.7 million.

### Other Income (Expenses)

(In thousands of US dollars, except percentages)	Three months ended September 30,				Six months ended September 30,			
	2019	2018	Change	Change	2019	2018	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
<b>Fair value loss on Redeemable Preferred Shares</b>	—	(3,643)	3,643	(100)	—	(6,595)	6,595	(100)
<b>Percentage of total revenues</b>	—	(19.6)%			—	(18.3)%		

Other income (expenses) mainly include losses on the Redeemable Preferred Shares that are measured at fair value.

Fair value loss on Redeemable Preferred Shares for the three months ended September 30, 2019 decreased to \$0 from \$3.6 million in the three months ended September 30, 2018. Fair value loss on Redeemable Preferred Shares for the six months ended September 30, 2019 decreased to \$0 from \$6.6 million in the six months ended September 30, 2018. Upon the Initial Public Offering in March 2019, all the Redeemable Preferred Shares converted to Common Shares and as a result, there will be no further impact on our results of operations from these shares.

### *Income Taxes*

<b>(In thousands of US dollars, except percentages)</b>	<b>Three months ended September 30,</b>				<b>Six months ended September 30,</b>			
	<b>2019</b>	<b>2018</b>	<b>Change</b>	<b>Change</b>	<b>2019</b>	<b>2018</b>	<b>Change</b>	<b>Change</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
<b>Income tax expense (recovery)</b>								
Current	19	—	19	100	39	(5)	44	(880.0)
Deferred	(483)	662	(1,145)	(173.0)	(635)	1,133	(1,768)	(156.0)
<b>Total income tax expense (recovery)</b>	<b>(464)</b>	<b>662</b>	<b>(1,126)</b>	<b>(170.1)</b>	<b>(596)</b>	<b>1,128</b>	<b>(1,724)</b>	<b>(152.8)</b>
<b>Percentage of total revenues</b>								
Current	0.1 %	0.0%			0.1 %	0.0 %		
Deferred	(1.7)%	3.6%			(1.2)%	3.1 %		
<b>Total costs of revenues</b>	<b>(1.6)%</b>	<b>3.6%</b>			<b>(1.1)%</b>	<b>3.1 %</b>		

Deferred income tax expense (recovery) for the three months ended September 30, 2019 decreased by \$1.1 million as compared to the three months ended September 30, 2018. Deferred income tax expense (recovery) for the six months ended September 30, 2019 decreased by \$1.8 million as compared to the six months ended September 30, 2018. The decrease was primarily due to the reversal of the balance of the Part VI.I tax given the conversion of the Redeemable Preferred Shares upon the Initial Public Offering.

### **Key Balance Sheet Information**

<b>(In thousands of US dollars)</b>	<b>September 30, 2019</b>	<b>March 31, 2019</b>
	<b>\$</b>	<b>\$</b>
<b>Cash and cash equivalents</b>	171,841	207,703
<b>Total assets</b>	275,977	255,811
<b>Total liabilities</b>	80,621	59,145
<b>Total long-term liabilities</b>	21,133	10,510

See “Results of Operations” in this MD&A for a more detailed discussion of the year-over-year changes in revenues and net loss and comprehensive loss.

### **Total Assets**

#### *September 30, 2019 Compared to March 31, 2019*

Total assets increased \$20.2 million or 8% from March 31, 2019 to September 30, 2019. The main drivers of this increase was the \$13.3 million lease asset resulting from the implementation of the new lease standard, an increase of \$19.1 million in intangibles and an increase of \$21.4 million in Goodwill resulting from the acquisition of Chronogolf and iKentoo, offset by a decrease in cash of \$36 million.



## Total Liabilities

### September 30, 2019 Compared to March 31, 2019

Total long-term liabilities increased by \$10.6 million from March 31, 2019 to September 30, 2019. The main drivers of the increase were the creation of the long-term lease liability, net of any lease incentives, of \$10.7 million from the implementation of the new lease standard. The long-term portion of payroll and deferred tax liabilities also increased by \$1.4 million. This was offset by a reduction in the long-term portion of deferred revenue of \$1.5 million. The decrease of deferred revenue was due to the shorter durations of our contracts in general which increased the short-term portion of deferred revenue and decreased the long-term portion of deferred revenue versus Fiscal 2019.

Total current liabilities increased by \$10.9 million from March 31, 2019 to September 30, 2019. The main drivers of the increase were the creation of the current lease liability of \$2.7 million from the implementation of the new lease standard. Accounts payable and accrued liabilities increased by \$4.3 million due to an increase in acquisition-related compensation of \$1.9 million and an increase in trade payables of \$1.7 million. The current portion of deferred revenue increased by \$3.9 million.

## Quarterly Results of Operations

The following table sets forth selected unaudited quarterly statements of operations data for each of the eight quarters ended September 30, 2019 in accordance with IFRS. This data should be read in conjunction with our audited annual consolidated financial statements and the notes related thereto. These quarterly operating results are not necessarily indicative of our operating results for a full year or any future period.

(In thousands of US dollars, except per share data)	Three months ended							
	Dec. 31, 2017	Mar. 31, 2018	Jun. 30, 2018	Sep. 30, 2018	Dec. 31, 2018	Mar. 31, 2019	Jun. 30, 2019	Sept. 30, 2019
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>	14,988	15,688	17,471	18,598	20,097	21,285	24,065	28,026
<b>Direct cost of revenues</b>	4,499	4,842	5,390	5,251	5,970	6,962	8,366	9,522
<b>Gross profit</b>	10,489	10,846	12,081	13,347	14,127	14,323	15,699	18,504
<b>Operating expenses</b>								
General and administrative	2,589	2,523	2,644	2,910	3,443	4,793	4,411	5,527
Research and development	3,067	3,820	4,184	4,024	5,001	5,074	6,303	7,339
Sales and marketing	8,186	9,262	8,647	9,039	9,995	11,362	13,040	12,060
Depreciation of property and equipment	297	351	272	324	378	415	390	423
Depreciation of right-of-use assets	—	—	—	—	—	—	414	609
Foreign exchange loss (gain)	16	(31)	119	(9)	240	637	(330)	(80)
Acquisition-related compensation	—	—	—	108	158	188	707	2,055
Amortization of intangible assets	943	954	980	875	644	649	1,012	1,800
<b>Total operating expenses</b>	15,098	16,879	16,846	17,271	19,859	23,118	25,947	29,733
<b>Operating loss</b>	(4,609)	(6,033)	(4,765)	(3,924)	(5,732)	(8,795)	(10,248)	(11,229)
Fair value loss on Redeemable Preferred Shares	(19,018)	(4,644)	(2,952)	(3,643)	(52,489)	(132,135)	—	—
Interest income (expense)	(36)	(7)	58	33	9	81	1,019	690
<b>Loss before income taxes</b>	(23,663)	(10,684)	(7,659)	(7,534)	(58,212)	(140,849)	(9,229)	(10,539)
<b>Income tax expense (recovery)</b>								
Current	60	18	(5)	—	—	64	20	19
Deferred	4,501	986	471	662	12,916	(44,837)	(152)	(483)
<b>Total income tax expense (recovery)</b>	4,561	1,004	466	662	12,916	(44,773)	(132)	(464)
<b>Net loss and comprehensive loss</b>	(28,224)	(11,688)	(8,125)	(8,196)	(71,128)	(96,076)	(9,097)	(10,075)
<b>Loss per share – Basic and diluted</b>	(0.97)	(0.40)	(0.28)	(0.27)	(2.37)	(2.21)	(0.11)	(0.12)

## ***Revenues***

Our total quarterly revenue increased in all periods presented due primarily to increased sales to existing and new customers. The increase in total revenue was due to increases in subscription revenue, payments revenue, payment referral fees as well as additional hardware sales. The number of Customer Locations using our platform and the GTV processed through our platforms have both exhibited increases over the cumulative period evidencing their increased usage and adoption.

## ***Direct Cost of Revenues***

Our total quarterly costs of revenue increased sequentially for all periods presented except for the three months ended September 30, 2018. The aggregate increase was primarily due to increased costs associated with supporting a greater number of Customer Locations utilizing our platform.

## ***Gross Profit***

Our total quarterly gross profit increased sequentially for all periods presented due primarily to increased sales to existing and new customers.

## ***Operating Expenses***

Total operating expenses generally increased sequentially for each period presented except for the three months ended June 30, 2018. The aggregate increase was primarily due to the additional resources such as headcount required to support our expanding base of Customer Locations, legal and accounting fees related to operating a public company, as well as all sales, marketing, and product related costs assumed through our acquisitions.

## **Liquidity and Capital Resources**

### ***Overview***

The general objectives of our capital management strategy reside in the preservation of our capacity to continue operating, in providing benefits to our stakeholders and in providing an adequate return on investment to our shareholders by selling our services at a price commensurate with the level of operating risk assumed by us.

We thus determine the total amount of capital required consistent with risk levels. This capital structure is adjusted on a timely basis depending on changes in the economic environment and risks of the underlying assets. We are not subject to any externally imposed capital requirements.

### ***Working Capital***

Our primary source of cash flow has been from raising capital totaling \$286 million since Fiscal 2016. Our approach to managing liquidity is to ensure, to the extent possible, that we always have sufficient liquidity to meet our liabilities as they become due. We do so by monitoring cash flow and performing budget-to-actual analyses on a regular basis. In addition to the cash balances, since April 2019, we have a \$55 million credit facility available to be drawn to meet ongoing working capital requirements. Our principal cash requirements are for working capital and acquisitions we may execute. Working capital surplus as at September 30, 2019 was \$127.6 million. Given our existing cash and credit facilities, along with proceeds obtained from our Initial Public Offering, we believe there is sufficient liquidity to meet our current and short-term growth requirements in addition to our long-term strategic objectives.

## Cash Flows

The following table presents cash and cash equivalents as at September 30, 2019 and 2018, and cash flows from operating, investing, and financing activities for the six months ended September 30, 2019 and 2018:

(In thousands of US dollars)	Three months ended September 30,		Six months ended September 30,	
	2019 \$	2018 \$	2019 \$	2018 \$
<b>Cash and cash equivalents</b>	171,841	18,727	171,841	18,727
Net cash provided by (used in)				
Operating activities	(2,628)	(958)	(8,933)	(3,858)
Investing activities	(16,962)	(1,720)	(26,426)	(2,131)
Financing activities	282	97	(447)	127
Effect of foreign exchange on cash and cash equivalents	(291)	17	(56)	(62)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(19,599)</b>	<b>(2,564)</b>	<b>(35,862)</b>	<b>(5,924)</b>

### Cash Flows Used in Operating Activities

Cash flows used in operating activities for the three months ended September 30, 2019 were \$2.6 million compared to \$1.0 million for the three months ended September 30, 2018. Excluding transaction related costs of \$0.1 million, as well as acquisition related compensation paid in the quarter of \$0.2 million, cash flows used in operating activities were \$2.3 million for the three months ended September 30, 2019. Excluding transaction related costs, cash flows used for operations were higher for the three months ended September 30, 2019 due primarily to growth-focused investments in sales and marketing as well as improvements to internal systems made in the quarter.

Cash flows used in operating activities for the six months ended September 30, 2019 were \$8.9 million compared to \$3.9 million for the six months ended September 30, 2018. Excluding transaction related costs of \$0.5 million, as well as acquisition related compensation paid in the period of \$0.2 million, cash flows used in operating activities were \$8.3 million for the six months ended September 30, 2019. Excluding transaction related costs, cash flows used for operations were higher for the six months ended September 30, 2019 due primarily to public company costs as well as growth-focused investments in sales and marketing as well as improvements to internal systems made in the quarter.

### Cash Flows Used in Investing Activities

Cash flows used in investing activities for the three months ended September 30, 2019 were \$17.0 million compared to \$1.7 million for the three months ended September 30, 2018. The increase in cash outflows for investing activities was primarily due to the acquisition of iKentoo in July 2019, offset by \$1.0 million of interest income.

Cash flows used in investing activities for the six months ended September 30, 2019 were \$26.4 million compared to \$2.1 million for the six months ended September 30, 2018. The increase in cash outflows for investing activities was primarily due to the acquisition of Chronogolf in May 2019, and iKentoo, offset by \$2.3 million of interest income.

### Cash Flows from Financing Activities

Cash flows from financing activities for the three months ended September 30, 2019 increased \$0.2 million compared to the three months ended September 30, 2018.

Cash flows from financing activities for the six months ended September 30, 2019 decreased \$0.6 million compared to the six months ended September 30, 2018. The decrease in cash inflows from financing activities was due to \$1.6 million in share issuance costs as well as a \$1.2 million cash outflow from payments made on the Company's lease liability, offset by \$2.2 million of proceeds from exercise of stock options under our stock option plans.

## ***Recent Developments***

### ***Kounta***

On November 1, 2019, we acquired all of the outstanding shares of Kounta, a growing cloud-based POS solutions provider to small and medium-sized businesses operating within the hospitality industry with approximately \$35,300 being paid in cash (excluding cash acquired) and the issuance of 306,300 Common Shares at a value of \$26.02 per share issued on the closing of the sale, subject to a post-closing working capital adjustment. An additional \$7,524 in deferred cash consideration along with the issuance of 299,702 Common Shares, at a value of \$26.02 per share, is payable to certain key employees through October 2021, in each case contingent on if certain milestones, including the continued employment of those employees, are achieved by June 2020 and October 2021, and is accounted for as acquisition-related compensation expense. An additional amount of \$3,433 tied to a marketing alliance agreement is payable to one selling shareholder in three annual installments beginning on closing. The accounting for this acquisition has not yet been finalized and certain IFRS 3 disclosures have not been included due to the timing of the acquisition.

### ***Off-Balance Sheet Arrangements***

We have not entered into off-balance sheet financing arrangements. Except for operating leases that aren't capitalized in accordance with IFRS 16 and letters of credit, all of our liabilities and commitments are reflected as part of our statement of financial position.

### ***Related Party Transactions***

We have no related party transactions, other than those noted in our unaudited condensed interim consolidated financial statements.

### ***Financial Instruments and Other Instruments***

#### ***Credit and Concentration Risk***

Generally, the carrying amount in our consolidated statement of financial position exposed to credit risk, net of any applicable provisions for losses, represents the maximum amount exposed to credit risk.

Our credit risk is primarily attributable to our cash and cash equivalents and trade accounts receivable. We do not require guarantees from our customers. Credit risk with respect to cash and cash equivalents is managed by maintaining balances only with high credit quality financial institutions.

Due to our diverse customer base, there is no particular concentration of credit risk related to our trade accounts receivable. Moreover, balances for trade accounts receivable are managed and analyzed on an ongoing basis to ensure allowances for doubtful accounts, which are established and maintained at an appropriate amount.

We maintain a provision for impairment of a portion of trade receivables when collection becomes doubtful. We estimate anticipated losses from doubtful accounts based upon the expected collectability of all accounts receivable, with the estimate taking into account the number of days past due, collection history, identification of specific customer exposure and current economic trends. An impairment loss on trade receivables is calculated as the difference between the carrying amount and the present value of the estimated future cash flow. Impairment losses are charged to general and administrative expense in the consolidated statements of loss and comprehensive loss. Receivables for which an impairment provision was recognized are written off against the corresponding provision when it is deemed uncollectible.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. We do not hold any collateral as security.

## ***Foreign Currency Exchange Risk***

### ***Share price risk***

Share price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the fair value of the Company's ordinary share price. The Company's exposure to this risk relates primarily to the outstanding options and accrued payroll taxes on stock-based compensation.

### ***Other share price risk***

Accrued payroll taxes on stock-based compensation are payroll taxes associated with share-based compensation that we are subject to in various countries in which we operate. Payroll taxes are accrued at each reporting period based on the number of vested stock options and awards outstanding, the exercise price, and the Company's share price. An increase in share price will increase the accrued expense for payroll taxes, and when the share price decreases, the accrued expense will become a reduction in payroll tax expense, all other things being equal, including the number of vested stock options and exercise price remaining constant.

## **Critical Accounting Policies and Estimates**

The preparation of our consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We review these estimates on an ongoing basis based on management's best knowledge of current events and actions that we may undertake in the future. Actual results could differ from these estimates. Areas requiring the most significant estimates and judgments are outlined below. Management has determined that we operate in a single operating and reportable segment.

### ***IFRS 16 - Leases***

In January 2016, the IASB released IFRS 16. The new standard, which represents a major revision of the way in which companies account for leases, sets out the principles that both parties to a contract, i.e. the customer (lessee) and the supplier (lessor), apply to provide relevant information about leases in a manner that faithfully represents those transactions. To meet this objective, a lessee is required to recognize assets and liabilities arising from a lease, following a single model, where previously leases were classified as either finance leases or operating leases.

On April 1, 2019, we adopted IFRS 16, and all related amendments, using the modified retrospective transition method, under which the cumulative effect of initial application, if any, is recognized in accumulated deficit at April 1, 2019. The new standard requires the recognition of right-of-use assets and lease liabilities on our balance sheet for operating leases, along with the net impact on transition recorded to accumulated deficit. There was no impact on our accumulated deficit upon adoption. We are required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Our interim consolidated balance sheet as at September 30, 2019 reflects an increase in lease assets of \$13.3 million and an increase in lease liabilities of \$14.6 million as compared to our consolidated balance sheet as at March 31, 2019 as a result of adopting this standard. Our statement of operations for the three and six months ended September 30, 2019 reflects a reduction in rent expense of \$695 and \$1,181, an additional depreciation expense due to the right-of use assets of \$609 and \$1,023, and an increase in finance costs for effective interest expense on its lease liabilities of \$210 and \$394 respectively.

There is no impact to the overall changes in cash flows. However, operating cash flows is positively impacted, while financing cash flows is negatively impacted due primarily to the classification of principal payments on lease liabilities.

The comparative information for the prior period has not been restated and continues to be reported under IAS 17, Leases, and related interpretations. The primary change in accounting policies as a result of the application of IFRS 16 is explained below. Such a change is made in accordance with the transitional provisions of IFRS 16.

At inception of a contract, we assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, we assess whether:

- The contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- We have the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- We have the right to direct the use of the asset. We have this right when we have the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

At inception or on reassessment of a contract that contains a lease component, we allocate the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

We recognize a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received prior to the commencement date. Any costs related to the removal and restoration of leasehold improvements, which meet the definition of fixed assets under IAS 16 Property Plant and Equipment are assessed under IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and are not within the scope of IFRS 16.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, which is considered the appropriate useful life of these assets. In addition, the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability, to the extent necessary.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using an incremental borrowing rate if the rate implicit in the lease arrangement is not readily determinable.

Lease payments included in the measurement of the lease liability comprise fixed payments, including in-substance fixed payments and variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, lease term, or if we change our assessment of whether we will exercise an extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Lease incentives receivable are included in the initial measurement of the lease liability and right-of-use asset. Upon determining that we have an enforceable right to the receipt of the lease incentive, we increase the value of the lease liability and records a current receivable classified as a financial asset measured at amortized cost.

#### *Short-term leases and leases of low-value assets*

We elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. We recognize the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

On the statement of cash flows, lease payments related to short-term leases, low value assets and variable lease payments not included in lease liabilities are classified as cash outflows from operating activities on the cash flow statement whereas the remaining lease payments are classified as cash flows from financing activities.

#### ***Recoverability of Deferred Tax Assets and Current and Deferred Income Taxes and Tax Credits***

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. We establish provisions based on reasonable estimates for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred income tax assets are recognized for unused tax losses and deductible temporary differences to the extent it is probable that taxable income will be available against which the losses and deductible temporary differences can be utilized. Management's judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

### ***Share-Based Payments***

We measure the cost of equity-settled transactions with employees by reference to the fair value of the related instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant, which depends on the terms and conditions of the grant. This also requires making assumptions and determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield.

### ***Business Combinations and Impairment of Non-financial Assets***

Business combinations are accounted for in accordance with the acquisition method. The consideration transferred and the acquiree's identifiable assets, liabilities and contingent liabilities are measured at their fair value. We develop the fair value by using appropriate valuation techniques, which are generally based on a forecast of the total expected future net discounted cash flows. These evaluations are linked closely to the assumptions made by management regarding the future performance of the related assets and the discount rate. Contingent consideration is measured at fair value using a discounted cash flow model.

Our impairment test for goodwill is based on internal estimates of fair value less costs of disposal calculations and uses valuation models such as the discounted cash flows model. Key assumptions on which management has based its determination of fair value less costs of disposal include estimated growth rates, discount rates and tax rates. These estimates, including the methodology used, can have a material impact on the respective values and ultimately the amount of any goodwill impairment.

Whenever property and equipment and intangible assets are tested for impairment, the determination of the assets' recoverable amount involves the use of estimates by management and can have a material impact on the respective values and ultimately the amount of any impairment.

### ***Provisions***

We have recorded provisions to cover cost exposures that could materialize in future periods. In determining the amount of the provisions, assumptions and estimates are made in relation to discount rates and the expected cost to settle such liabilities.

### **Recently Issued Accounting Standards Not Yet Adopted**

From time to time, new accounting pronouncements are issued by the International Accounting Standards Board ("IASB") or other standards-setting bodies, and are adopted as of the specified effective date.

### **Outstanding Share Information**

Lightspeed is a publicly traded company listed on the Toronto Stock Exchange (TSX: LSPD). Our authorized share capital consists of (i) an unlimited number of subordinate voting shares, (ii) an unlimited number of multiple voting shares and (iii) an unlimited number of preferred shares, issuable in series, of which 70,960,012 subordinate voting shares, 14,667,922 multiple voting shares and no preferred shares were issued and outstanding as of November 5, 2019.

As of November 5, 2019, there were 4,280,008 options outstanding under the Company's amended and restated 2012 stock option plan (of which 1,503,937 were vested as of such date), 162,516 options outstanding under the Company's amended and restated 2016 stock option plan (of which 145,591 were vested as of such date), and 1,693,525 options outstanding under the Company's omnibus incentive plan (of which 12,627 were vested as of such date). Each such option is or will become exercisable for one subordinate voting share.

As of November 5, 2019, there were no warrants outstanding. On August 12, 2019, our last remaining warrant holder was issued 54,604 subordinate voting shares as a result of its net exercise of 61,403 warrants at an exercise price per subordinate voting share of \$4.07142752.

As of November 5, 2019, there were 5,113 DSUs outstanding under the Company's omnibus incentive plan. Each such DSU will, upon the holder thereof ceasing to be a director, executive officer, employee or consultant of the Company in accordance with the omnibus incentive plan, be settled at the discretion of the board through (a) the delivery of shares issued from treasury or purchased on the open market, (b) cash, or (c) a combination of cash and shares.

As of November 5, 2019, there were 68,137 RSUs outstanding under the Company's omnibus incentive plan, of which 540 were vested but not yet settled. Each such RSU will, upon vesting, be settled at the discretion of the board through (a) the delivery of shares issued from treasury or purchased on the open market, (b) cash, or (c) a combination of cash and shares.

## **Controls and Procedures**

The Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures which provide reasonable assurance that material information regarding the Company is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer in a timely manner.

In addition, the Chief Executive Officer and Chief Financial Officer have designed or caused it to be designed under their supervision internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. The Chief Executive Officer and Chief Financial Officer have been advised that the control framework the Chief Executive Officer and the Chief Financial Officer used to design the Company's ICFR is recognized by the Committee of Sponsoring Organizations of the Treadway Commission.

The Chief Executive Officer and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the period ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.

As a result of the adoption of IFRS 16, new internal controls were designed and implemented, including new processes to meet the disclosure requirements under the new standard.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures and our internal controls over financial reporting are effective in providing reasonable, not absolute, assurance that the objectives of our control systems have been met.