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Lightspeed POS, Inc. (LSPD.CA)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Lightspeed Second Quarter 2020 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] I would now like to hand the conference over to your speaker today, Chris Mammone, Investor Relations. Please go ahead.

Christopher Mammone

Analyst, The Blueshirt Group

Thank you, operator, and good morning, everyone. Welcome to Lightspeed fiscal second quarter conference call. Joining me today are Dax Dasilva, Lightspeed's Founder and CEO; Brandon Nussey, Chief Financial Officer; and JP Chauvet, President of Lightspeed. After prepared remarks, we will open it up 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 actual results to differ materially from those projected. We undertake no obligation to update these statements except as required by law. You can read about these risks and uncertainties in our earnings press release issued earlier today, as well as in our filings with Canadian securities regulatory authorities. Also, our commentary today will include adjusted financial measures which are non-IFRS measures. These should be considered as a supplement to and not a substitute for IFRS financial measures. Reconciliations 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 US dollars, all amounts discussed today are in US dollars, unless otherwise indicated.

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

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

Thanks, Chris, and thank you, everyone, for joining us today. We're pleased to announce another quarter of progress, solid execution, as we continue our journey of building a global, leading, cloud-based omni-channel commerce platform for complex SMBs in retail and hospitality. Highlighting our top line growth during the second quarter, total revenue grew by 51% versus last year and topped \$28 million to exceed the high end of our guidance range.

More than 90% of this space consists of recurring software and payments revenue which grew 52% during the second quarter. We believe the complex SMB is seeking a recognized global market leader for the solutions we provide, and we're making great progress in our journey to be known as that go-to player for many high-performing global brands.

We've now reached almost 57,000 customer locations across our increasingly worldwide footprint. Our customers continuing to succeed through greater use of the Lightspeed platform invigorates us the most. To this end, GTV growth of greater than 37% over the last 12 months to approximately \$17.4 billion is an effective gauge of a healthy growing customer base that is finding increased success to partnering with Lightspeed.

We expect that Lightspeed's long-term growth will be driven predominantly via three main organic growth factors. Number one, attracting new merchants, while we are well-positioned to continue growing our overall location count.

Number two, entering new markets, where we see significant opportunity given that less than one-third of our revenue comes from outside North America today. And number three, expanding ARPU where we have tremendous whitespace to capitalize for both new and existing customers paying for more than one Lightspeed product.

Lightspeed Payments has continued to be the notable product success story for us in 2019, and we gain very good traction this quarter as the tax rates once again, were approximately 50% for eligible new customers in our US retail base.

We'll continue to be deliberate in what we commit to accomplish the legacy payments as this remains uncharted territory for us. But as we draw closer to launching payments to additional large [ph] customer (00:04:10) pools such as Canada and restaurants, we are more confident than ever that those new segments will bring the payments in a big way, affirming our overarching strategy of being a one-stop-shop for the core commerce needs for our customers.

While we are very pleased with our progress against our longer-term strategic objectives, we are still at the start of our pursuit of a vast global market opportunity. We believe this fragmented market needs a leader, and we believe that leader will be Lightspeed.

We are moving decisively to achieve this vision, first through continued sharp execution organically, but also accelerating that foundation by bringing together the best-of-breed players in the space in our quest to create a global powerhouse.

We're finding that the best companies in the world with the best minds, the best technology, and the best customers want to join forces with Lightspeed. Most recently, we acquired Kounta, a rapidly growing, leading cloud-based hospitality POS platform in Australia and New Zealand, serving more than 7,000 customer locations across that region.

Kounta fits perfectly into our growth strategy to enhance our organic global growth opportunity by combining the most innovative and disruptive teams' technology, working to modernize the merchant point-of-sale environment. Kounta's team believes in our strategy of building a one-stop-shop for their complex SMB customers, offering advanced analytics and [indiscernible] (00:05:42) modules, and they have recently begun to monetize their own payments opportunity.

We intend to leverage Kounta's experience and relationships in the region to accelerate the adoption of Lightspeed's retail offering to further our data strategy and to eventually leverage Lightspeed Payments as well. This team fits culturally with Lightspeed, and we're fully aligned on how to build a global leader in this segment.

From our perspective as a leader, we also believe Lightspeed's breadth of expertise can help immensely. To that end, I'd like to share some statistics on the performance of Chronogolf, an acquisition we completed six months ago, that brought us instant leadership in the golf course operator vertical. As a result of the amazing team effort from our new employees and leveraging the value of Lightspeed brands more closely as well as our expertise in partnering with complex SMBs, Chronogolf's growth in new customers accelerated to 114% over the past six months, up from 53% a year ago.

This type of growth acceleration is great proof point that our strategy is the right one. Close to 700 golf courses now use the Lightspeed offering to power their operations. Since the acquisition, we signed many multi-course operators highlighted by KemperSports, an Illinois-based operator with more than 100 courses; Landscapes Golf, a Nebraska-based course operator with 50 total locations and several others with at least 10 or more courses.

Turning to iKentoo, the cloud-based POS system specializing in the hospitality segment in Europe that we acquired in July, is integrating well into Lightspeed. iKentoo has had some new customer wins such as the Montreux Jazz Fest, one of the world's most renowned jazz festivals held annually in Switzerland in early July. We'll provide a more thorough update to iKentoo in a future call.

Turning to our product innovation efforts that further our position as the leading cloud based end-to-end solutions platform in our space. During the second quarter, we rolled up the newest version of our core legacy retail platform, Lightspeed Retail 3.0. Key features behind this faster and more streamlined user experience include a sleek new design, simplified navigation capabilities, more mobile-friendly functionality and a more seamless sales workflow engine designed to optimize the selling process in complex retail environments.

We have other major new product releases enhancements coming within both the Lightspeed retail and restaurant platforms throughout the year. And I look forward to sharing with you more of the details around this rapid product philosophy, a hallmark trait of Lightspeed in future earnings calls.

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

channel business needs seamlessly. Customers such as international fashion brand Gabriela Hearst, new US bakery chain Jacques Torres Chocolate, and the Four Seasons-operated Costa Palmas resort in Mexico, all selected Lightspeed in the quarter.

I'd then like to highlight some recent successes with our channel partner strategy as yet another lever we are utilizing to bolster our go-to-market approach. We work with many great channel partners in the Lightspeed ecosystem to help complex SMB customers manage all aspects of commerce in their business. Recent strategic partners brought into the Lightspeed ecosystem include: Averro, which has integrated its hospitality management software and analytics suite into the Lightspeed restaurant solution; Lendio, to offer its small business loan marketplace to applicants directly inside the Lightspeed offering; and finally; Mailchimp, which offers our omni-channel merchants additional ways to engage with our customers.

Recently, we hosted the Annual Lightspeed Partner Summit in Montreal and Amsterdam where we recognized the latest Lightspeed Partners of the Year for their efforts in helping to grow the Lightspeed brand into important new growth markets for our company.

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

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

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

Thanks, Dax. Our second quarter results are a reflection of the solid progress we continue to make across all of the important areas in the business. Before I cover the numbers, just a quick word about how our financial model works for anyone that may be new to Lightspeed. Approximately 90% of our revenue is earned through recurring subscription and payment revenue streams. Our subscription revenue is priced on a per-location per-month basis with rates that increase as customers adopt incremental functionality offered by Lightspeed, 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 to date mainly from payment referral partners. With the introduction of Lightspeed Payments, we've now the ability to earn a much larger portion of the transaction value and we expect that this will become a growing portion of our revenue over time.

Looking at some of the key metrics we use to track our progress, total customer location is now at almost 57,000, up from approximately 45,000 a year ago. The increase was driven by continued organic growth and the addition of iKentoo's customer base which is 38,000 as of the date of acquisition.

ARPU expansion is an important metric for us as well, and we saw that continue to grow by double-digit percentages versus a year ago. Total GTV processed by our customers during the second quarter was \$5.4 billion, 48% from a year ago in total and 32%, when excluding the initial impact of iKentoo's customer base. GTV is an important measure for us as we roll out Lightspeed Payments.

And on Lightspeed Payments, we saw continued strong overall customer receptivity for this important long-term growth driver to our business during this initial rollout year. In the quarter, new customer adoption of payments

remain robust with close to 50% of new US retail customers contracting Lightspeed Payments at the time of purchasing Lightspeed's [indiscernible] (00:12:39) offer once again this quarter. Alongside continued progress, we're seeing our existing base move from their incumbent solutions to Lightspeed.

Bringing out overall financial results for the second quarter, we saw accelerating revenue growth again this quarter. Revenue for the quarter was \$28.0 million, up 51% from the same quarter a year ago and ahead of our previous guidance of between \$26.5 million and \$27 million. Software and payments revenue was over 90% of the total revenue at \$25.4 million and grew 52% in the quarter. When excluding approximately \$1 million of iKentoo revenue, our software and payments revenue growth rate was 46% in the quarter.

Gross profit from software and payments revenue was \$18.3 million, up 39% from the prior year. Hardware and other gross margin was breakeven in the quarter reflecting the hardware subsidy we are providing to new Lightspeed Payments customers in this initial launch phase. Overall gross margin was 66% of revenue in the quarter.

Adjusted EBITDA loss for the quarter was \$5.1 million ahead of our guidance and that's compared to \$2.7 million loss a year ago. The increased loss from a year ago reflects the incremental cost of being a public company and the result of our purposeful investment in marketing in the quarter to drive greater brand awareness primarily in North America.

Net loss for the quarter was \$10.1 million compared to \$8.2 million a year ago, and it was a strong quarter for cash generation. Cash used in operations was \$2.6 million for the quarter, ahead of our guidance for a use of around \$5 million and compared to \$1.0 million a year ago. We ended the quarter with \$172 million in cash on the balance sheet with no debt.

As Dax mentioned, on November 1, we completed the acquisition of Kounta, a leading cloud-based point-of-sale solution provider in Australia for aggregate committed proceeds on closing of just over \$43 million through a mix of cash and stock. There are additional cash and share-based incentives payable over the next two years in the amount of \$15.5 million tied to continued employment of key team members and financial performance milestones. In the most recently completed fiscal year ended June 30, Kounta earned \$6.5 million in revenue in US dollars.

As part of this acquisition, we have entered into an agreement with MYOB, a leading accounting software platform in the Australian market. This marketing alliance will further promote Lightspeed in the region for our retail products as well as provide ongoing support for the hospitality offerings from Kounta and Lightspeed. Kounta brings us over 7,000 customer locations, many compelling brands in Australia and New Zealand and a tremendous platform to further grow Lightspeed brand, our retail offering, our data strategy and ultimately Lightspeed payments. We have a proven track record here and are excited to get to work with the team at Kounta.

I'll conclude my remarks by discussing our financial outlook. As a quick note on our currency, our guidance does not consider any potential impact with foreign exchange gains or losses as we do not try to estimate future movements and currency rates. For the third quarter ending in December, we expect between \$31.5 million and \$32 million in total revenue, representing growth of between 57% to 59% from the prior year period. And for the full fiscal year ending March 2020, we now anticipate \$117 million to \$119 million in total revenue. This represents growth of between 51% and 54% compared to fiscal 2019.

Looking at adjusted EBITDA, reflecting a small incremental loss we encountered on operations this year, we now expect an adjusted EBITDA loss in the range of \$19 million to \$21 million for the year. And for our fiscal third quarter, we expect an adjusted EBITDA loss in the range of \$5 million to \$5.5 million.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Daniel Chan with TD Securities. Please go ahead. Your line is now open.

Daniel Chan

Analyst, TD Securities, Inc.

Q

Good morning, guys. Great quarter. So, significant increase in the guidance, can you give us some color on what's driving that change and how much of that was from Kounta?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Hey, Dan. Thanks. Yeah. No, the guidance just reflects our ongoing confidence in the core business. Kounta did \$6.5 million for the period ended just before we bought them. We closed the deal on November 1. So that should give you a kind of a sense as to how much we expect from Kounta here in the back part of the year. Obviously, we want to be conservative with any new business that we bring on board as part of our own expectations but that's kind of holds up.

Daniel Chan

Analyst, TD Securities, Inc.

Q

To help us think about the Kounta contribution, can you give us a sense of what the growth rate on that business was?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah. I mean, there've been – as Dax mentioned in his comments, what we're really trying to do here is to bring together the best of breeds to build this global platform. So, [indiscernible] (00:18:15) the business growing nicely, I won't say they were growing quite the pace of Lightspeed's core, but it's a good healthy business.

Daniel Chan

Analyst, TD Securities, Inc.

Q

Okay. I wonder if we can get an update on the progress of rolling out payments to your other geographies?

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Yeah. We're currently entering betas in our main markets. Our focus right now is North America to get payments out into...

Daniel Chan

Analyst, TD Securities, Inc.

Q

Okay.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

That's our top priority. We've begun onboarding in Canadian retail investor for beta testing and it's deliberate rollout schedule much like US retail. Pretty pleased with the 50% adoption thus far and that's – you'll see continued progress from us.

Daniel Chan

Analyst, TD Securities, Inc.

Q

Sounds good.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

I think the important, Dan, is that we'll take it really, as Dax said, a deliberate approach to our rollout just like we did when we launched the main, our US retail. It's important for us to do this properly. This is SMB's cash flow and so you should expect us to continue to be deliberate and programmatic about that rollout.

Daniel Chan

Analyst, TD Securities, Inc.

Q

And are you going to subsidize the hardware in these regions just like you're doing in US retail?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah. It's tough to argue with the results so far on that. So, we do think it's an important – we're happy with our progress but we still got long way to go here and it's just a friction point that it just, to us, makes tons of sense to remove out of the process. So, yeah, I think we will continue to do that for the foreseeable future.

Daniel Chan

Analyst, TD Securities, Inc.

Q

Okay. Makes sense. And then final one for me, consumer spending still seems pretty strong in the US, but are you seeing any slowing in consumer spending in other regions, and what's the potential impact for you guys there? Thanks.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

I mean, our customer relations is doing quite well. We disclosed our GTV growth there, 32% when we exclude kind of the initial impact of iKentoo. So, yeah, our customers are continuing to grow. We're pretty happy with that.

Daniel Chan

Analyst, TD Securities, Inc.

Q

Great. Thank you.

Operator: Your next question comes from the line of Richard Tse with National Bank. Please go ahead. Your line is open.

Richard Tse

Analyst, National Bank Financial, Inc.

Q

Yes. Thanks. On the Payments side, I'm kind of curious to see, maybe, you should look at your existing customer base, which is quite significant. I was wondering if you could sort of update us on the process for bringing those, [ph] arguably (00:20:48) your legacy customers on to Payments and perhaps the timeline for that?

Jean Paul Chauvet

President, Lightspeed POS, Inc.

A

Yeah. Good morning. Yeah. So we are progressing on that front, too, where we now are looking at segments of the customer base, and we're starting to deploy strategy there to [ph] port them (00:21:07) over, and it seems to be working well. Here, what we're going to be doing in the coming months is we're going to be looking at new kind of hardware because there's a number of scenarios when you think about existing customers around mobile payments versus fixed terminals.

And so what we're doing is as we are delivering on the software front – as we deliver new devices and new methods and new workflows, we're basically attacking those segments of the database and we're [ph] porting (00:21:36) them over. So, again, we're very new in this. We're starting, but we're seeing the results we're expecting.

And I think for us the most exciting part is as Dax mentioned is we're going to be looking at US restaurant, Canadian restaurant, Canadian retail which really enlarges the segments we can go after, and also, we're looking at new formats of hardware which are going to enable us to accelerate actually penetration within the existing base.

Richard Tse

Analyst, National Bank Financial, Inc.

Q

Okay. And then the Chronogolf numbers you guys put out there, that's pretty impressive like kind of curious to see if you can sort of elaborate in terms of what you contributed to sort of accelerate that growth, was that sort of things you brought to the table post-acquisition? Obviously, it's important because if you guys are making other acquisitions, you're going to apply the same methodology. Just trying to understand how you do that.

Jean Paul Chauvet

President, Lightspeed POS, Inc.

A

Yeah. I think Chrono is a fantastic example actually, when you think about our strategy moving forward. We targeted a vertical, and within that vertical, we actually just acquired one of the leading vendors and we knew this vertical was undertaking a lot of transformation from legacy players and from all the legacy POS players into the kind of the modern world.

So for us, it was very easy when you think about it, Chronogolf, prior to the acquisition, was a much smaller company, way less sophistication in marketing and how they would approach the market. And also when you think about it, they would talk to customers and they had multiple companies within the portfolio, so they have to explain Lightspeed versus Chronogolf, they have to explain the restaurant versus retail, whereas now, it's all under Lightspeed. And so, I think it just accelerates the penetration.

And here what we're seeing with Chronogolf is that the larger golf operators, the bigger ones with a lot of locations like KemperSports is a good example. I think just having the Lightspeed brand and being sure we're a big, large well-funded company just accelerates the penetration. So, net-net, I think, for us, it's a very good kind of blueprint for our next acquisitions where we want to go into verticals, we want to dominate the verticals, and we want to bring our knowhow so we can accelerate [indiscernible] (00:23:46) penetration.

Richard Tse

Analyst, National Bank Financial, Inc.

Q

Okay. And just one last one from me. If I sort of look at the history and then given some of the recent acquisitions you're making, a lot of them have been on the international front. Kind of curious to see what do you think about the relative level of competition in these international markets versus North America? Is it less, is it more fragmented? Just trying to get an understanding on that. Thanks.

Jean Paul Chauvet

President, Lightspeed POS, Inc.

A

Yeah. Look, I think, for us, what is important is to be a global company because we think that this is a global market. We know that lot of our customers operate across different geographies. So we wanted to be sure that Lightspeed had a real strong coverage or will have even a stronger coverage in every geography as we move forward. And I think that's what you see with iKentoo and Kounta. These acquisitions really give us a local presence in fairly interesting markets.

When you think about competition, and I think that's what's kind of exciting is that the market is so fragmented that there's no – we do not have the same competition in Australia as we have in Europe or we have in North America, and all these markets are fairly fragmented. I think the opportunity for us is really when you think about the acquisitions we did, we actually took the best product and the best teams within the regions. We wanted to have a strong market share.

And I think you can expect the strategy to remain as we go forward, which is we're going to deep into verticals and we're going to go into geographies that are interesting to us. And here, we always have the thought processes, should we go directly or should we acquire, and if there is a great company that actually wants to join Lightspeed and can add value on the product front and can also help us accelerate penetration. And the third one is cross-pollination of all the products. These are a much better fit for us. So we're seeing – yeah, we're seeing very different competition. And Kounta, within their markets, are really the leader in Australia.

Richard Tse

Analyst, National Bank Financial, Inc.

Q

Great. Thank you.

Operator: Your next question comes from the line of Thanos Moschopoulos from BMO Capital Markets. Please go ahead. Your line is now open.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Hi. Good morning. Looking at the locations, it seems like the organic location growth was in the high-teens year-over-year. Is that the level of location growth you'd expect in the back half or were there any specific factors relate to the quarter that may have influenced their growth rate?

Jean Paul Chauvet

President, Lightspeed POS, Inc.

A

Yeah. Good question actually. So, first of all, we're very confident with our – the store count we expect to have in the year is still on track to be reached. For us again just to go back to the strategy, the most important piece of our strategy is we're focused on CAC to LTV and we're focused on the, let's say, the more sophisticated, the higher segment of the market.

So, when you think about ARPU, ARPU has expanded because we are working with larger retailers and restaurants. And here for us what's really important is to be sure that we attract the right profile of customers.

Now, when you think about this quarter versus last year, there's a lot of fluctuations. We're not concerned at all. And actually, when you – if you dig down to the quarter we just had, we signed a number of much larger deals than we did in the past. And when you signed a deal, there's a delay between the moment you signed them and they go live. And the bigger they are, the more time it gets for them to go live.

So, when we actually think about the absolute number of customers we've on-boarded, we're very satisfied with the quarter and we see great confidence through the rest of the year.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yes. Thanos, that's an active customer stat, just to append to what JP mentioned. So we signed a customer and they're not yet deployed, then it wouldn't show up in those numbers.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

But even for larger customer deployment would tend to happen within say two or three months or what would the timeframe be for converting those bookings?

Jean Paul Chauvet

President, Lightspeed POS, Inc.

A

Yes. It's two to three months but we – I mean, I guess it's good news but we signed really much larger customers than we did in the past and so those might take a little bit longer.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Okay. Maybe a related question GMV colocation seems to be up significantly year-over-year. Would that increase on that metric much of that, is that related to the acquisitions or is it the fact as you said you're signing larger customers?

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

I think it's a bit of both there, Thanos, and we gave you the breakdown of GTV without the impact of iKentoo's GTV basis model there. The add is growing and the GTV per customer is growing and like take the golf vertical, those are much higher GTV customers for us. So that's certainly contributing and then some of the comments that JP just made in terms of the profile of customers helping to increase that as well.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Great. And finally can you comment on how software ARPU growth has been trending and your traction in [ph] absolute (00:28:37) customers to more modules?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

I think I said on the call double-digit percentage growth, so that's continuing. Loyalty, Analytics, obviously Payments, all those things continue to go well Thanos, so no change in trend line there. Everything continue to go reasonably well for us there.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Sorry, just to clarify. I was talking about software ARPU ex payments. So on that metric, is there growth in that metric as well on the back of the [ph] absolute (00:29:13). Yeah.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

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

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Thanks, Thanos.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Thank you.

Operator: Your next question comes from the line of Josh Beck with KeyBanc. Please go ahead. Your line is now open.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah. Thank you for taking the question. I wanted to follow up a little bit on this slightly larger customer that you're seeing. I mean, is that having an influence on maybe your CAC in any way you need to spend more to go find them, or is it more of a matter of your finding the product have a good fit for these larger customers and that's just kind of where you're gravitating towards?

Jean Paul Chauvet

President, Lightspeed POS, Inc.

A

Yes. So our model hasn't changed. So we really have no salespeople with foot on the ground that the way we attract the customers are identical. And when you think about customers, we attract them in two ways. One is through our channel. So we have a number of partners all over the world who generate leads for us and the other way is really through our website. So there is really, at this stage, no correlation between CAC growing and customers who are just larger.

What happens is sometimes even though we're billed for the two to five locations, sometimes we attract much larger customers and we bring them through our process in the same way and that's really – what we're seeing is happening is – and we're very pleased with that as we continue to develop more sophisticated solutions, we have more modules, now we have, I mean, pretty much everything, it takes for a retail or a restaurant to run their business. We're seeing larger profiles of customers being attracted by the offer. But it's – yeah, for us, it doesn't change in any way how we attract them the cost of acquisition of customers.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. That's good to hear. On the M&A front, it seems like you've done about an acquisition a quarter. I'm just wondering on the back end from a technology perspective, do you envision yourselves running multiple platforms maybe by geography or vertical, or do you have a goal to consolidate? Just would like to understand a little bit about the tech integration strategy resulting from M&A?

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Yeah. There's been a number of hospitality acquisitions, of course, over the last couple of quarters. The long-term goal is to have one go-to-platform, one best-of-breed platform. Part of the evaluation of these acquisitions is some of the amazing technology that's come as part of them. The way that we build software at Lightspeed is using micro services and we can bring together the best technologies into a reference platform that's the most competitive globally. And that's the strategy.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah. And I think maybe just to add to what Dax was saying, ultimately, this is a data play because when you think about all the acquisitions we're doing, these are all modern cloud-based systems that also kind of exposed services.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

Absolutely.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

And here when you think about the volume of transaction and the kind of data that we hold, you've got to look at this as a data play, and maybe the last thing just talking about these acquisitions, there's tons of cross-pollination that we can do. They all come with a lot of unique components that we can add to ours and vice versa.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

There's a lot of our components that we can add to these acquisitions, and Brandon talked about payments as being one of them, but loyalty and...

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

Upsells, yeah.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

The way we built the software is all micro services, and these can all be inter-exchanged between all the platforms. So it has a lot of synergies every time we do these.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Very helpful. And then, last one for me. I know that you have fairly recently launched this new 3.0 POS app. So, maybe just any early learnings and maybe just kind of what you would expect from a benefit or perspective from the sellers and the customers?

Jean Paul Chauvet

President, Lightspeed POS, Inc.

A

Yeah. I mean, retail has been our flagship product and we – this summer, we did open heart surgery and rebuilt the inventory core with a sort of the negative inventory pieces of the – the pieces that can manage. There are going to be inventory, managed bad quarters, manage all the complex inventory workflows. What you saw in the fall with Lightspeed Retail 3.0 is us tackling the front end, so really rewriting all of the different major components of retail to make it – to increase our lead, increase the distance between other competitors and actually really match what was available on legacy players but in the cloud. And I think that in terms of a retail solution, we're really unmatched, but we are tackling part by part and just upgrading continuously with new innovations. So, 3.0, I think, is going to be a much better sales workflow on the front end for regular retail staff and will also allow better management of locations.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

Very helpful. Thanks, guys.

Operator: Your next question comes from Paul Steep with Scotia. Please go ahead. Your line is now open.

Paul Steep

Analyst, Scotia Capital, Inc.

Q

Great. Thanks. Could you talk a little bit more with hospitality about the plans now that you have for Kounta to maybe more aggressively go after the broader North American market in hospitality, and how we should think about maybe the sales and marketing plan? And I got one quick follow-up on the technology [indiscernible] (00:34:47)

Jean Paul Chauvet

President, Lightspeed POS, Inc.

A

Okay. I'll maybe address the go-to market end. So, obviously, US is the biggest market for hospitality, and we have a very competitive product there. I think for us – Dax mentioned we're going to be deploying payments into hospitality in North America. We're very confident that that – once that is out, we're going to have an extremely compelling offer, and we'll be able to kind of to really compete with the other players because we really strongly believe that our solution has more depth, but the payments component is a big piece.

So here, our view is as soon as we have that out, we're going to be doubling down on North America, and we're going to be taking the same approach as we've taken everywhere in the world. We want to be sure that as we tackle sales and marketing in North America, the product is the most competitive out there, and we're on the verge of being there.

Paul Steep

Analyst, Scotia Capital, Inc.

Q

So, actually and maybe related to that, in the technology, on the answer before you talk, Dax, but moving it towards a single platform. So tying to JP's answer, how should we think about the timeline to get towards that single platform? Obviously, you're running at an incredible pace here. And then maybe what are the key elements in the functionality that we should look at out of iKentoo and Kounta that will make the product maybe even more interesting over time? Thank you.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Yeah. I mean, convergence is something that we are approaching aggressively. We're already moving in the direction and so I think you're going to see timelines that are not multiple years. But I think that one of the reasons for the iKentoo acquisition was some very, very strong technology, [ph] fiscalization (00:36:33) technology that's blockchain, and that was I think – that was a technology we want to see in this reference platform for hospitality.

The other component that we're really excited about as well was very strong peer-to-peer offline. They can do hundreds, and actually thousands, of concurrent POS terminals and something like a festival or a very large hotel resort without skipping a beat, no matter the quality of Internet. So very, very strong technology pieces. These are micro services that we'll bring to the main hospitality platform. So extremely excited about all of that potential.

And, of course, as JP mentioned earlier, we have elements of the platform such as our loyalty services, data services, payment services, all of these have been built. And we just need to bring them together as a – we'll have two platforms. We'll have the hospitality and we'll have a retail platform that are best of breed.

Jean Paul Chauvet

President, Lightspeed POS, Inc.

A

Yeah. And I think for Kounta maybe just – when you think – I think that's what's kind of exciting is every – even though on paper kind of they all operate in the same field, every acquisition brings a lot of value. And in the case of Kounta, when you look at their components that were maybe not they're best at that they do really well like ingredient management or supplier integration, they also have a – they do a lot with data.

So, here, over the next months, we're going to be thinking about, okay, what components are going to be packaged together so that we can have the best product in every region? And, here – again, the way we look at this is we're bringing the best brains in the industry together to accelerate the penetration of Lightspeed. And we're very confident going back to the US market that we'll be ready very soon especially when you think about payments...

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Yeah.

Jean Paul Chauvet

President, Lightspeed POS, Inc.

A

...to really tackle this market with the best product out there.

Paul Steep

Analyst, Scotia Capital, Inc.

Q

Great. One last one I just thought of was on the M&A side, you've been very fast [indiscernible] (00:38:34) blocks here in deploying capital and buying some businesses. How should we think about it maybe in the next 12 months? Is there a bit of a pause here as you work through the aggressive plans you just laid out to execute on those? Or do we still have capacity in the team to actually do further deals over time? Thanks.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Yeah. I think we've been pretty clear that we do view the M&A angle as a component to how we build the leadership position we want globally. Paul, those are all things we think about as we embark on this. Are they the right deal? Do we have the capacity? Is it going to influence our ability to continue to execute? And so we think we've – we know we've been pretty thoughtful about that today, and you should expect that to continue. So if you do see more from us, and there certainly is an active pipeline, it'll be because we think we can continue to meet our commitments to our shareholders and, at the same time, moving even more quickly towards achieving our goals.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

What's encouraging is to see acquisitions thrive within Lightspeed. You see Chronogolf dramatically accelerate its growth as part of the broader company. And as we see that with each acquisition and get better at these integrations at the pace that we're going, that gives us confidence to really run this robust pipeline that we have to execution.

Jean Paul Chauvet

President, Lightspeed POS, Inc.

A

And going back maybe to our initial strategy, we are going to look at geographical penetration, and we're going to look at going deeper into certain verticals with more functionality, and we're just going to double down and execute on those. Maybe one other comment just with regards to our ability to ingest, we have obviously an internal team, and every department has people dedicated to these mergers and acquisitions to be sure that we can operationally ingest them very well.

Paul Steep

Analyst, Scotia Capital, Inc.

Q

Thank you.

Operator: [Operator Instructions] Your next question comes from the line of Gus Papageorgiou with PI Financial. Please go ahead. Your line is now open.

Gus Papageorgiou

Analyst, PI Financial Corp.

Q

Thanks, and congrats on the nice quarter. Just on the Kounta acquisition, so their ARPU is significantly below your own ARPU in terms of software revenue per location. Can you talk a little bit about now with the potential to bring that up to your levels and timing?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah. I guess I'll start with that one. Kounta has done a great job of growing through word of mouth, and their customers love their point-of-sale offering. They're pretty new in the kind of the module adoption in their own journey. So they've just launched an analytics offering that built on the same stack as what Lightspeed is and so on. They've just launched some inventory management capabilities and payment is just beginning for them as well.

So that's the main driver between the ARPU delta, but one of the things that attracted us to this team and this company is they just share the similar mindset [indiscernible] (00:41:51) one-stop-shop approach to this customer base is what makes the most sense. And as a young company, they're just starting down that journey. They get a more fulsome product offering and we hope to be helpful there.

Jean Paul Chauvet

President, Lightspeed POS, Inc.

A

And I think maybe just to complement it, I mean we've been doing land and expand for many years now. And here are knowhow on how to upsell customers and how to create value and how to actually create demand within the software for more modules, I think will be a great help and should have good results.

Gus Papageorgiou

Analyst, PI Financial Corp.

Q

Okay. Just couple of follow-ups. You generally provide some sort of indication of the portion of your customers that have more than one module. I think last time you said it [indiscernible] (00:42:40) the customers had more than one module. Can you talk a little bit about the trend of one plus model adoption amongst your customer base?

Jean Paul Chauvet

President, Lightspeed POS, Inc.

A

Yes. So the trend is continuing. We are seeing more and more adoption. And if you remember in the last one, we launched Loyalty. We now launched Loyalty in Europe. We're launching analytics in Europe. So, we're seeing the adoption. Every month we follow that and we're very pleased with the adoption. So more and more customers are buying more modules in Lightspeed and it's what we want.

Gus Papageorgiou

Analyst, PI Financial Corp.

Q

Okay. And just finally, if you look at your GTV, I mean obviously Payments adoption will be highly dependent on GTV. Is there any portion of the GTV either by industry segment or by geography that you think payments cannot cover? Or do you think that payments can go after about 100% of that GTV?

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

I mean, 100% is probably ambitious, Gus. But the bulk of our GTV opportunity is in North America. I think where we have differences is the European GTV will carry a different card mix to what we see in North America. So that's all stuff that we need to factor in. But in terms of customer adoption of payments, it's certainly in the vast majority of it, but we think we have an opportunity to win.

Jean Paul Chauvet

President, Lightspeed POS, Inc.

A

And so – yeah, and that's why I think for us right now the – we're focused on what is the next priority. And so, we're looking at the biggest segments and we're trying to cover the biggest segments. And then once those are covered, we'll be looking at sub-segments and sub-industries where we will have different partners basically to fulfill those payment needs.

Gus Papageorgiou

Analyst, PI Financial Corp.

Q

Okay. Great. Thanks for answering questions.

Operator: Your next question comes from the line of Todd Coupland with CIBC. Please go ahead. Your line is now open.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Q

Hi. Good morning, everyone. I wanted to ask about innovation as well. You've answered a few questions. So, Dax, you talked about micro services innovation and certainly the pace of updates has been very rapid this year. Do you feel that it's – you can call out your unique [indiscernible] (00:45:02) in the sector to actually get a lead in the complex area that you want to get that lead in or is it too early to tell?

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Well, I think that we – the Lightspeed product and technology group is, I think, very strong right now. And I think we're also adding some of the best minds around the world through these acquisitions. So there's a ton of energy and a ton of innovation that we've delivered and that's going to come to market.

So I think that for – since we are so focused and – focused on winning this segment, I think we – our product roadmap is very tailored to being able to win this customer set, especially vis-à-vis other competitors or other people in this space. We are laser-focused on making sure that our innovation sort of is pinpointed towards making sure this customer is successful, and I think that that's what you see there out in the numbers and the adoption and as well the success of these customers as their GPV rises.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Q

And then my second question had to do with international adoption. I think you called out two new languages, German and French. Just talk about your approach to those markets and what we should expect over the next couple of quarters. Thanks a lot.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Yeah. So as we launched omni-channel retail in Switzerland where we have three offices now, I recently visited them, French, we already have Dutch as well. But German is actually a big – a very big opportunity for us to bring our retail products. I think we have an immense opportunity in some of these new markets. We're in Europe but we have some of the largest markets yet to still approach.

Jean Paul Chauvet

President, Lightspeed POS, Inc.

A

Yeah. Maybe just complementing, when you think about it, the three largest markets in Europe are Germany, France and the UK. In one of them, we have a physical presence and we're doubling down. France is a very new market for us, but you can expect to have more of this given now that we have a very competitive product and obviously, we're thinking about Germany and we're going to deal with strategies as we forward for Germany.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Q

Thanks a lot.

Operator: And I'm showing no further questions that are in the queue at this time. Ladies and gentlemen thank you. This concludes today's conference call. Thank you for participating and you may now disconnect.

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