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Lightspeed POS, Inc. (LSPD.CA)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Lightspeed POS Fourth Quarter and Full Year Fiscal 2020 Earnings Results Conference Call. At this time, all participants are in listen-only mode. After the speakers' presentation, there'll be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Chris Mammone. Please go ahead.

Christopher Mammone

Managing Director, The Blueshirt Group LLC

Thank you, operator, and good morning, everyone, and welcome to Lightspeed's fiscal fourth quarter and full year 2020 results 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, and as well as in our filings with the Canadian securities and 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 [sedar.com](https://www.sedar.com). 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. I want to begin today by acknowledging the courage of those on the frontlines of the COVID-19 pandemic; from our healthcare workers to the essential staff restocking grocery stores, delivering our goods during the day and our dinner at night. We are grateful for your heroic work. You have been a lifeline to the independent businesses that we love and support at Lightspeed. As we navigate the implications of COVID-19, the importance of community and the greater good has never been more pronounced.

Similarly, our mission as a company has never been more clear. For 15 years, Lightspeed has empowered the small- and medium-sized businesses at the heart of our communities. We have been their technology partner, enabling them to evolve and reinvent themselves to meet the changing needs of their customers. They are the social and economic backbone of small towns and bustling cities alike. I am inspired by their resolve and how they have turned this unprecedented moment in time and a future full of unknowns into a show of resilience and an opportunity for growth.

With Lightspeed's help, longtime physical retailers have built eCommerce sites overnight. Others are seizing this moment to expand the boundaries of customer service to greater omnichannel reach. Our hospitality customers from fine dining to fast casual are using our technology to redesign menus optimized for home delivery. Our golf course owners are enabling our online booking services to eliminate physical points of contact on the course.

These are not temporary changes. What is clear is the eCommerce economy has changed in everlasting ways. Lightspeed merchants are well-established innovative industry leaders ready to evolve with it, inspired to amplify their sales channels, and eager to use technology to future proof their business for these increasingly digital and virtual realities. I've been incredibly proud to see Lightspeed employees pitch in from every corner of the company to rapidly onboard these businesses with a sense of urgency and genuine care to enable them to sell online and adopt delivery capacity in record time.

Thanks to an amazing team, rising to the occasion in a moment of great disruption and anxiety in their own personal lives. We are supporting record adoption of Lightspeed eCommerce and payment offerings such the GTV processed by our North American retailers through Lightspeed eCommerce is up more than four times from February 2020 levels.

I'm also proud to report that approximately three quarters of our customers are actively trading in some capacity despite dealing with widespread government mandated shutdowns. Lightspeed's commitment to putting the merchant first has been further amplified by our Lightspeed local initiatives. The program was launched to reimburse employees in our 14 global hubs on purchases made from any Lightspeed retail or hospitality customer whether through eCommerce shopping, meal take out, or home delivery.

We've received numerous heartfelt thanks from local restaurants and retailers for the support they received from Lightspeeders during this time reminding us all why we come to work every day. The Coronavirus pandemic has

made it clear to these merchants that the cloud-based omnichannel solution Lightspeed provides is no longer simply a competitive advantage. The business imperative as we move forward.

Our merchants have demonstrated that they are the thought leaders that will redesign the retail and hospitality experiences of the future to shore up the economies and livelihoods of the communities that love and appreciate them now more than ever.

These are uncertain times in our industry but it is clear to me that Lightspeed will be a momentum company coming out of this. The legacy system to continue to represent the majority of the market share are simply no longer sufficient and the move to cloud and the move to omnichannel will only accelerate in our view.

Fortunately, this inevitable shift is happening at a time when product innovation at Lightspeed is accelerating. On the retail omnichannel front, we streamlined our eCommerce onboarding and ramped scalability to meet the increased demand we are seeing for digital channels with upcoming improvements to our digital checkout experience. Our retail POS app also saw further upgrades to its CRM and payment capability. All of this builds upon the inventory management and point-of-sale upgrades we rolled out throughout this past fiscal year to solidify our status as the premier solution in cloud-based retail POS.

In this regard, no other retail system operates with the power, depth, and sophistication of feature set required by our segments of merchants, further appealing also to merchants that may have fewer requirements at the outset but want to do more with technology to differentiate their business in this environment. We'll be redirecting spend to hire new teams and retail omni globally, to double down on our strengths and extend our advantage within both physical and digital channels. As Brandon will cover in his section, Payments had a very strong quarter with North American verticals hitting general availability, continuing with accelerated onboarding through April and May.

On the Restaurant front, we made great strides to converge the efforts of our hospitality engineering teams globally onto our flagship restaurant product which launched in the Swiss and UK markets during the quarter. Delivery tools and integrations were also made widely available in response to demand with early onboarding occurring an upcoming order ahead capability. Expect more rapid innovation ahead from Lightspeed in the hospitality vertical.

Finally, yesterday, we launched Omnichannel Loyalty, operating on our hospitality product, as well as across Retail and eCommerce, our newly launched customer engagement tool is the ultimate Lightspeed technology to help businesses foster, personalized targeted relationships cohesively with their clientele across channels, in a moment where this means more to business success than ever. We will be investing through this period to ensure our technology remains the best in the industry, and that we remain the clear leader for our focus market segments. The importance of our work has never been more crucial, and the opportunity for Lightspeed has never been greater.

With that, I'll turn it over to Brandon to review the quarter and discuss some of the more recent business trends and other indicators we've been seeing more recently.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

Thanks, Dax. I'll start by quickly reviewing the solid momentum in our fourth quarter before the impact of COVID took center stage. I'll then outline some of the trends we saw once COVID began to impact our market in mid-March, and share some of the positive signs we're now seeing post our quarter end.

So, recapping the fourth quarter. We ended the quarter with revenues of \$36.3 million, up 70% from a year ago, and ahead of our guidance of \$35.0 million to \$35.7 million. Software and Payments revenue was 70% higher than a year ago at \$31.8 million, when excluding our recent acquisitions of Gastrofix, Kounta and iKentoo, Software and Payments revenue grew by 42% from the fourth quarter a year ago.

Revenue for the year was \$120.6 million, up 56% from the year ago, and EBITDA loss for the quarter was \$6.2 million, better than our guided loss of approximately \$7 million. For the year, EBITDA was negative \$21.7 million. We ended the quarter with approximately 76,500 customer locations, and our GTV for the year was over \$22 billion, up by more than 50% from a year ago, and approximately 30% organically, better than 60% of our eligible new customers contracted for Lightspeed Payments alongside their Software subscription in the fourth quarter, an improvement from prior quarters. And we saw another record quarter of conversion from our existing base. While Payments has been a great success for us during its first full year of availability, we sold much runway ahead and remain excited about the potential upside it provides us.

Looking at some of the performance indicators we share annually, we achieved positive net dollar retention rates, again, in fiscal 2020; and the number of core Lightspeed customers using more than one Lightspeed module grew from 33% a year ago to 40% of March 31, 2020, led in part by record adoption of our eCommerce offering in March. These are encouraging metrics for us.

We achieved all this in the quarter despite a slowdown in the back half of March that affected our ability to add new customers, affected our churn rates, our Payments revenue and our GTV. Said differently, the strong quarter would have been even stronger.

So looking at the initial impacts of COVID-19. Like others, we began to see the impact during the week of March 8 primarily in our European markets to start. We saw our usual 30% plus growth rates in GTV begin to slow that week and deteriorate further as the quarter progressed. By the end of March, our weekly GTV was approximately 50% lower than the same period a year ago.

Much like the reported numbers from others you're likely seeing, we saw this decline led by our Restaurant segment, which fell by more than 80% because our customers were forced to close their doors. Our Retail customers fell by approximately 35%, but this look quite different segment-by-segment. Verticals like bike, home and garden, and hobby performed decently, while others such as apparel, gift shops, and electronics saw declines of up to 70% or more.

Of course, during this period, we also saw an impact on our lead volumes and, in turn, on our new customers. March is typically our best month of the year and, while the first half was trending above their internal plans, we saw new business volumes slow considerably in the back half of the month.

And as you heard from Dax, our teams quickly doubled down to help customers navigate this uncertain time. We focused the vast majority of our resources on our existing customers, help them find government relief programs, to share best practices, and to help them adopt new business strategies so they could continue generating sales.

We empowered our employees to help our customers however they possibly could, and that's when it started to get interesting. In March, we saw more eCommerce subscriptions than ever before and, by the end of the month, we were seeing the increase in eCommerce sales by our merchants approaching 400% as compared to the prior year, with further momentum continuing into April.

We also sold more Payments than in any other month of the past year in March, with many of our existing customers making a leap as a way to save money from the minimum fees charged by our legacy competitors, as well as to take advantage of our promotions designed to help them streamline their operations. And on the Restaurant side, we saw a large uptake in Lightspeed Delivery, enabling some of our customers to retain their previous volumes.

Subsequent to the quarter, we've seen those trends continue as the impact of these various initiatives have helped to offset the overall toll COVID-19 is taking on the customer base. As retailers pivoted more of their business to online channels, our overall retail GTV in April grew more than 50% from March lows. And in the last week of April, we're back to being higher than the prior year's level. Not all verticals are recovering at the same pace, of course. But overall, this has been a positive trend.

We had a record month in April for revenue generated by Lightspeed Payments. This was despite lower GTV per merchant on a year-over-year basis and driven by the traction we are seeing online, the impact of new merchant adoption, and the good performance in some of our verticals like golf, home and garden, bike, and pet.

Our Restaurant customers are continuing to face challenges overall, but signs of recovery are beginning to show in countries like Australia where we've seen an increase of close to five times home delivery volumes in April, a steady week-by-week growth in GTV as their economy attempts to reopen. As a reminder, our Hospitality revenue stream is largely unaffected by underlying customer volumes that is concentrated in countries like Australia, Germany, Belgium, France, Switzerland, and the UK.

Of course, we're watching churn closely knowing full well that we will see some business failure in our client base. We've seen elevated levels of churn in March and April and expect that to continue whilst also distancing measures are in place. We're also being impacted by our ability to add new customers during this time, but we've been encouraged by what we are seeing there. Aided by our virtual sales and marketing model, we have been successfully adding new retailers, new golf courses, and new mid-market restaurant customers during this time.

So netting it all out, we finished April with over 75,500 customer locations, down only slightly from March. Of this, we do have less than 5% of our customers on pause plans, reflecting active customers on a much reduced subscription plan, while they are forced to close their doors.

So quickly summarizing, we're pleased with our fourth quarter results announced today that reflect the strong fundamentals of the business. While COVID-19 is undoubtedly affecting our customers and in turn Lightspeed, our diversity across geographies, across various retail and hospitality verticals, our ability to support omnichannel models for these customers has mitigated the impact considerably.

The lows we've seen in March have rebounded in April particularly for Retail, eCommerce customers and we're processing more through Lightspeed Payments than ever before. In overall net adds, losses, and customer locations have fared reasonably well through April where we finished at 75,500 customer locations, down slightly from our all-time high of 76,500 at March.

I'll conclude my prepared remarks today by sharing thoughts on cost management. Our internal mantra since this all began has been to embrace our customers, protect our people, and preserve our balance sheet. JP will talk shortly about how well we feel we are positioned in the long term if we can accomplish these things.

So on the balance sheet we ended quarter with cash on hand of \$220 million of which \$210 million is unrestricted and access to a further \$25 million by way of a credit facility. Despite having this sizable cash position, we move swiftly to manage our costs in many ways once we began to feel the impacts of COVID-19. We revisit our hiring plans, quickly recalibrated go-to market spending in line with new activity levels, renegotiated with vendors, and attacked all other vectors of discretionary spending. We further pursued the various available government relief programs in the many markets we serve around the world.

Our intention in doing all of these is to ensure we can preserve our best asset, our people, in a manner that leaves us confident in our bank account balance. The benefits of this cost management exercise will allow us to redirect spending to the product side of the business this year to ensure we continue to make the investments needed to lead our customers through this period.

As you will hear from JP, we believe this is a transformative moment for our industry and one which we believe will benefit Lightspeed competitively in the long term. We have the balance sheet to not only weather short-term uncertainty but to leverage it as a strength to create further momentum and set us up well in what we expect to be a meaningfully changed competitive landscape.

We're running multiple internal scenarios that reflect various assumptions around the duration of COVID-19 and its impact on new business, GTV, and churn. Under each of these scenarios, our intention is to manage the business with a view to maintaining strength in our balance sheet and capitalize on the opportunities we see ahead.

I'll let JP weigh in now on how we're viewing those.

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

Thank you, Brandon, and good morning to everyone on the call. Before we open it up to questions, I'll provide my quick thoughts on the big picture. To start, the fundamentals of our market opportunity have now been accelerated almost overnight. It is now evident that our cloud omni eCommerce solution offering is now a must have for our markets. More than 70% of this market continues to be served by legacy systems and we believe COVID-19 has accelerated market adoption of our solutions by many years.

There are millions of merchants around the world who will be seeking a modern system to help them manage their business as a better way to keep up to the evolving needs of their customers. Second, our value proposition as a one-stop shop for our customers is now more important than ever. The complexity that [ph] an SMB (00:19:13) must now manage to sell through multiple channels, handle payments, reach customers have increase even further and is likely that they will be seeking a single vendor to manage all of these things.

Lightspeed have always been ahead of the market with the aim of helping our customer simplify their operations and adapt to changing customer behavior. For instance, we introduced cloud-based POS to our customers six years ago, and we launched Omnichannel Retail solutions five years ago. We've delivered an Omnichannel Loyalty program to help our customers further engage with customers, Analytics to help them run their business better, and Payments to save time and money.

Third, the scale and diversity of our business has served us well and sets us up even better for the future. We have customer locations in over 100 countries globally, with a balanced customer mix between retail, restaurants, hotels, and golf courses. This diversity has helped us manage risks and focus on growth areas to offset others

that have seen pressure. We believe that scale and diversity matters enormously in our business as we look to solidify our position as a global leader for our segments of the market.

Our focus has always been the complex retailers and the hospitality merchants. This has been intentional. Our core customer, who does greater than \$600,000 of GTV per year on average, is one that has the ability to adopt a broader solution set and succeed in a changing world. And given they are more established, they are less susceptible to churn and have a greater ability to weather short-term disruptions.

Of course, higher GTV presents a greater opportunity for Lightspeed Payments. You heard from Brandon that, despite overall pressure on our customers, Payments still had a record month in April. This is because our customers are adopting this solution at an increasing pace in order to save time and money, and realize a better user experience.

We're still so early into our rollout with tremendous white space in front of us, but regardless of our near-term volumes, the opportunity remains for us to continue to grow this line of business. And as more of our economies migrate faster to electronic payments as a byproduct of this pandemic, we expect the need for modern integrated payment solutions to only increase from here.

And lastly, we have always stood behind the benefits provided by our virtual go-to-market and customer onboarding model. While others in our industry pursued expensive feet-on-the-street sales and installation models and have been forced to lay off employees, we simply recalibrated our spend dials and maintain our CAC to LTV ratio.

Our team seamlessly shifted to work-from-home environment and immediately began helping triage on our customers various needs. Meanwhile, our virtual onboarding model enabled us to quickly and remotely help customers adopt the technology they need to run their business.

To wrap it all up, we compete in a highly fragmented market and I don't believe that any other competitor that can make all of these claims. We expect to encounter a much different competitive environment as we emerge from this crisis, one that strongly favors Lightspeed. We have the balance sheet and the business fundamentals to capitalize on a permanently altered commerce economy and to take advantage of strategic opportunities that we expect to emerge.

With that, I'll turn it over to the operator to open it up for questions.

QUESTION AND ANSWER SECTION

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

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Hi. Good morning. I know you don't disclose your Software ARPU but can you give us some color on how that's been trending? You said less than 5% are on post plans. In terms of the other 95%, there's higher marginal adoption on the one hand but, on the other hand, I think you've had some pricing promotions. And just so net-net, how should we think about the trends in Software ARPU in subsequent quarters relative to what we would have seen historically?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Hey, Thanos. It's Brandon here. I think you're right. You're hitting on the right things. We've seen ARPU continue to grow historically double digits a year. That was true through Q4 as well. As we look into Q1, there's two competing things overall. We do have some customers on reduced subscription plans. And offsetting that, we've got increased module uptake of things like Delivery and eCommerce and so on as well that's helping to offset that.

So, a lot of moving pieces, obviously, inside of the business right now, but those are the things that are affecting things right now. Longer term, as you heard from Dax and JP during the call, we think longer term, all of these trends we're seeing bode well for – certainly, ARPU has more and more customers that adopt a broader portion of the solution set.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Okay. And can you clarify in terms of the current revenue mix on a run rate basis, just very broadly speaking, what the split looks like between Retail and Hospitality?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah. The customer mix is pretty close to balanced 50/50. The revenue mix is a little more skewed to Retail just because we're driving the Payments revenue through Retail and are yet doing so through the majority of our Resto product offerings. So, call it two-thirds Retail, one-third Resto, from a revenue perspective [indiscernible] (00:25:25).

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Great. And in terms of Payments and the payment economics, given that you have retailers doing a lot more eCommerce with a lot more card map present transactions, are the economics looking much different than they normally would?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

So eCommerce, our pricing is a little higher for online just like most people. And so that helps as more and more volumes move online. We did run some promos as I think everyone has seen. For net new customers on the Payments we did at discounted rate for a short period of time. So that'll impact kind of the immediate quarters. But, yeah, those two things are more or less offset also at the moment.

Thanos Moschopoulos

Analyst, BMO Capital Markets (Canada)

Q

Great. Thanks. [ph] I'll go pass the line (00:26:16).

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

Daniel Chan

Analyst, TD Securities, Inc.

Q

Hi. Good morning, guys. You mentioned that 75% of your customers are still processing transactions on your platform. Do you know how many of them are still processing transactions through the physical POS? I'm just trying to get a sense for how many of your customers physical stores are still open?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

I don't have a stat on that, Dan. I think the way our customers manage and hopefully Dax or JP could keep me honest here. But I think they manage the business through our software entirely. So anything that they are processing will make their way through our platforms. But I don't have a sense of how much is in person versus what percentage of those is physical versus online.

Daniel Chan

Analyst, TD Securities, Inc.

Q

Okay.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Yeah. The omnichannel system will record everything in the database and we'd have to dig a bit further to get that.

Daniel Chan

Analyst, TD Securities, Inc.

Q

Fair enough. Do you have any metrics on whether these customers have been able to offset bill lost from brick-and-mortar volumes with higher online sales?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah. I think we gave some stats [ph] with folks (00:27:31) on the Retail. I agree and then we do have [indiscernible] (00:27:33) came through on the call through Retail and eCommerce and omnis faring far better right now than Resto overall. But on the Retail eComm side of the business, we're [ph] sort of trucking (00:27:51)

along fine through the early part of March and then things change pretty quickly. And as economies close, we saw that deteriorate as we ended the month of March.

And then since then, we've seen – we said 50% improvement in April from March lows for our retailers, that's continued on through May. We've also seen in the last week of April Retail omni overall is now back to being above prior year's levels. So irrespective of COVID, we're not quite to where we used to be, but these merchants are generally speaking leveraging the tools to fare pretty well through this on the retail and omni side.

Daniel Chan

Analyst, TD Securities, Inc.

And considering that Retail is about half your customer base, was that growth in GTV enough to offset any GTV declines, so that your total GTV through April and maybe through, obviously, and in May so far has continued to grow?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

No. I think the other side of – the Restaurant side of business, we're not unique in this. I think lots of [ph] public stats (00:29:08) out there as to how that segment is still fairing. They're still down considerably. So the good news is as we outlined our revenue in Restaurant is – because we [ph] know that (00:29:26) Payments there is Software subscription revenue that is largely unaffected by those volumes. And likewise, our customer concentration is in countries that maybe a little further ahead and opening up their economies. So, we're seeing some encouraging signs there, but it's still early, and that remains – those volumes remain below prior year for sure to this point.

Daniel Chan

Analyst, TD Securities, Inc.

Great.

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

And maybe if I could just add what we've seen – I mean, to be expected, but a lot of our customers, because of COVID on the Retail side are just rushing towards eCommerce, because they need to sell through multiple channels. And what we're seeing on the Restaurant side is a lot of our customers are now moving as quickly as possible to our modules, order ahead and delivery, because governments are having them close. So, it's a transition we're seeing. I think we can expect to see that as we continue into the year as just a lot of demand for all the digital products from Lightspeed.

Daniel Chan

Analyst, TD Securities, Inc.

Thank you.

Operator: Your next question comes from the line of Paul Treiber from RBC. Your line is open.

Paul Treiber

Analyst, RBC Dominion Securities, Inc.

Thanks very much. Good morning. I was hoping if you could bridge a comment between the 75% of your customers that are currently trading versus GTV being up 50% in April versus in March lows. How should we think about that increase in GTV, even though 75% of the customers, or obviously 25% of customers are on trading, are the 25% typically in a smaller customers with lower GTV or are you just seeing a GTV per customer increase?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Hey, Paul, I'll take that one. I think it's – there's a few things there. So, 75% customer tradings, that's across the whole base, so that includes all the Restaurant customers as well. The 50% improvement that we're seeing, that was a Retail-specific comment, Retail omni-specific comment where we've seen that side of our business fare pretty well as they've embraced the eCommerce tools that we offer.

So, that's the difference there. And for sure we are seeing signs like the early signs inside any churn or pause plans or so on tends to be the smaller customers in the base and the larger ones have found a way to keep moving along and we've certainly seen that in the Payments revenue which you heard was, in April, all-time high for us.

Paul Treiber

Analyst, RBC Dominion Securities, Inc.

Q

All right. Thanks. That's good to understand. The – in terms of...

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

A

I think maybe just to comment there and I think it's worth saying is that there is very little correlation between our revenues and GTV levels. Because a lot of our revenues are subscription-based, customers are on or off. So I think that's where we've done fairly well I think in this period is if you want to even just do delivery or if you just want to sell online, your subscription is on. And so unlike other vendors who have their revenues that are really a correlation between GTV and a percentage of GTV being revenues, Lightspeed is just a subscription or mainly a subscription which helped us quite a bit.

And then just the other side, the portion that is a percentage of revenue that's doing really well because we've onboarded so many new customers that those onboarded customers have offset the decline of every single customer at GTV which means, overall, the volumes are higher than they were, and we had the record month in April.

Paul Treiber

Analyst, RBC Dominion Securities, Inc.

Q

[indiscernible] (00:33:28) clarification. When you look at adoption of more than one module, how is that tracking through April? And should we expect the adoption trajectory to accelerate here or are there maybe structural limitations that prevent it at rising above a certain level at a certain point in time?

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

A

That's a very good question, I think. So, we see the adoption go to 40% from the 33%, I think, so – and mainly in the last few months. And, I think, this was two things, Payments. I think, generally speaking, what we're seeing is because of the COVID crisis, people are starting to narrow the number of vendors. And because we have a very

broad portfolio, we're seeing a lot of customers move to our eComm, move to our Payments, move to our Loyalty. So, I think you can expect the adoption of modules to increase.

And, I think, maybe the other big two trends, I already mentioned earlier on, is if I'm a retailer today, I mean, the only way I'm going to preserve my revenue is going online. So we're seeing a ton of demand there for all of our customers who are saying, hey, turn on eCommerce and I want it now. And so, we've seen a really incredible adoption through March and April.

And then, the other big piece is, if I'm a restaurateur, you don't need a client [ph] server (00:34:51) old system. You need a platform that connects online and can connect to delivery. And so, there also receiving a lot of demand for order, order ahead and delivery services for restaurants.

And then finally, I think Loyalty is one that's been doing well because, when there are hard times, you need to engage with your customers across channels, which is the essence of our loyalty program. So, you can expect that the percentage of customers that have more than one module is going to accelerate throughout the next 12 months.

Paul Treiber

Analyst, RBC Dominion Securities, Inc.

And just one last one for me. Strategically, what's your thoughts on bringing Lightspeed Hospitality or Restaurants into other regions at this time? I mean, a couple of your competitors in that segment have announced large restructurings and it seemed to be retrenching. Is now the time to try to gain share in new markets?

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

Yeah. I'm happy you're saying this because I think this is really – again, I think the first thing that comes to mind with your question is the majority of our revenues are not a percentage of GTV. It's a subscription; you're on and you're off. So here we've done really well throughout the pandemic because the majority of our customers are paying subscriptions, and our revenues haven't just declined drastically overnight.

The second thing that comes to mind is really our go-to-market model. When you think about the Lightspeed go-to-market model, we've always been virtual. But we've always sold from a distance. We don't have people with foot on the ground. And I think there are – again, we adapted to the new world very, very rapidly, and we just dialed the right CAC to LTV. So we're in a strong position. So I think our perspective here is that scale matters.

Our business model has worked out very well for us. And we think there's a lot of opportunity now to gain market share in the new regions. And I think we're more in an offensive mode where we're now – we think the market is going to need more and more platforms like ours. We think that the disruption of the legacy system is going to accelerate in the coming years. And so we want to be sure that we can penetrate as many markets as possible but always keeping in mind that CAC to LTV matters for us. And it's not growth at all costs but sustainable growth.

Paul Treiber

Analyst, RBC Dominion Securities, Inc.

Thanks for taking my questions.

Operator: Your next question comes from the line of Josh Beck from KeyBanc. Your line is open.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks for taking the question and really impressive what the team has done to your customers and from a product perspective. But I really wanted to ask a little bit about how all these trends aggregate. You've certainly given a lot of details. I really appreciate that about what's happening with Retail and how the end of April had a really nice recovery and Payments and eCommerce, how they've done well, offset certainly by what's happening with Hospitality. So I'm just wondering if you wrap all of these trends together, is there any way to give us a sense of maybe how April revenue or some other aggregated metric was tracking just to help us think through setting our new estimates and such.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Hey, Josh. We've obviously specifically decided to not give guidance given all the uncertainty and despite also being encouraged through April and into May so far. We just don't know the duration and how this is going to look country-by-country in markets that we serve.

So I guess I'll leave it at that. I think we've tried to give as much indicators as we're seeing and hopefully [ph] we're pretty good sense of what I think you do (00:39:02) as to what the drivers of the business are and how those might translate into a model. But for the time being anyway, we're going to leave it at that.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. That makes sense.

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

A

Let me just go into the fundamentals of the Restaurant business; it's very, very close to what's happening in Retail. What we're seeing is if I have a – I mean, first of all, the majority of the market are legacy systems; and in Restaurants when you think about new world post-COVID it's really around adapting very rapidly to the online world. So how am I going to make myself visible? How am I going to sell online? How am I going to provide curbside pickup or delivery?

So the world has become extremely complex and way more complex than just cooking a good dish. And I think right now, this is really favorable to Lightspeed given the breadth of what we offer and we actually think that – and again, we don't know when all this is going to end but when it does end, we don't believe that the Restaurants are going to keep their legacy systems. It's going to accelerate adoption for sure.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Really helpful. And then just a little bit of follow-up on that point. Are you seeing some customers come to Lightspeed and want to start maybe the journey on the eCommerce side and certainly no one is – or probably not a lot of people are opening stores right now but they might have that in their game plan and they can get started online and then it'd be very easy for them to transition to in-store over time. So I'm just wondering if you've seen any proof points of people more interested in the eCommerce or Delivery solutions first.

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

A

Yeah. I think that's really the strategy we're seeing, is we have a lot of customers or new customers coming to us just for a digital offering, an eCommerce site or just even a delivery platform. But then I think that's actually the wonderful case scenario where we have this Trojan horse where now they're using a piece of the platform. And, over time, we will get all the legacy systems and the POS.

So, we're seeing and, I think, what's interesting is we're seeing that in Restaurant and in Retail. So, we're seeing Restaurants sort of actually overnight turn into grocery stores because they have very good wines they want to sell because they have the ingredients with specific suppliers that they want to be able to sell.

So, we're seeing your typical restaurant actually overnight go, okay, I want to now start selling the dishes and the ingredients online so, here, just adopting our eCommerce engines. And then, we're seeing a lot of restaurants, who are fine dine restaurants, who narrowed down their menus and started just selling online and without touching for now the POS, but just using us to sell online.

But, I think, finally the retail stores, we have a number of initiatives, even with the City of Montreal as an example, where we are – we're helping, basically, everybody adopt eCommerce as a first step, knowing very well that the importance of omnichannel is a medium-term important, but this logic of having a joint inventory and joint view of your customers.

So, we're seeing a lot of very creative and interesting models pop up right now. And, I think, that's why when we look at the future, we think that the adoption of systems like ours is going to accelerate because people who have legacy platforms, which is the bulk of the market, can order that to all of these new workflows.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

Really helpful. Thanks, team.

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

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Hey. Thanks so much. Appreciate the time. I had a question on the expense side first, just with R&D being up a little bit to quickly build up these products for the benefit of the merchants, that make sense. Is that level sustainable here in the short-term or could we see a little relief there? And then, the other comment around your fixed variable cost below the gross profit line. Thanks.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

Yeah. No, we won't be releasing the R&D line as you heard from Dax. We're going to use this period of time to continue to invest in this given the trends we're seeing and our belief that this legacy POS market is now firmly up for grabs. So on that line, we don't intend to – you won't see any [indiscernible] (00:43:50). On some of the others like within sales and marketing, we've always had this virtual sales model you heard a little bit from JP. The benefits of that are we have a lot of dials we can turn that just quickly align with what our expectations are there in new business.

So on that line, we do expect amongst other things like canceled events and some other things, there will certainly be some relief seen through that line in the near term. And we've done a lot of other costs [indiscernible] (00:44:26) throughout the other lines of the business, just anything discretionary and so on to make sure that we can fund those R&D investments in a manner that keeps the overall expense line intact, if that makes sense.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Got you. Got you. And then, Brandon, anything on the transaction loss or bad debt side we need to be mindful of here?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

Transaction loss, we've continued to fare well. So nothing to speak of there [indiscernible] (00:45:00) on the Payments processing side. On bad debt, we did take an additional provision at year end. You'll find that in our filings, about \$1 million, so nothing overly significant. But we did take an increased provision just given the broader macro environment that was felt to be the prudent thing to do.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Okay. No, for sure, for sure. Last one for me just on the big picture side. I'm curious not to – I'm always scared to say it, not to celebrate the pandemic or turn it into a positive in any way; but just once we rebase here, what are you guys most excited about? Is it the potential for more unit growth? Is it upselling modules, Lightspeed Payments? Could it be M&A? Could we see more things become available to buy here? Any comment on that. Thank you.

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

I think – yeah, what are we excited about? I would say pretty much everything when you think about the long-term business. We've been – I mean we've been preaching for years omnichannel and it wasn't nice to have and everybody was like, oh, yes, sounds good. One day, those days are over. So I think that's what's exciting to us is that I think the market fit of our offering is stronger than ever. And the relevance of our solutions are stronger than ever because this is not a nice to have [indiscernible] (00:46:30).

I think the second thing we're excited about is Payments options. I mean when you look at – and the fact that the markets are going to favor having one vendor that does the integration of all this complexities and I think there were very well equipped. We pretty much have everything we need to take the market.

And I think the third one you mentioned very, very accurately, this is a highly fragmented global market and here what we see is a lot of the countries we operate in have sub-scale smaller POS, point solution vendors. And I think there, we will see a ton of opportunity for M&A at a much more reasonable cost. And I think this will be the time for us to grab that market.

And again, we think that scale matters, and size matters, and we've seen it through the pandemic. So, I think here, we'll continue going through plowing through our strategy which is a mix of organic and M&A, and the strategy of having one global brand recognized in every single country, and I think there's a ton of options.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

And I think it was mentioned earlier that digital products like eCommerce, Delivery, Loyalty, these are real. These are things that people are adopting to adapt to this moment. And these are real Trojan horses for us to be able to expand our footprint with those customers and start on nice big solutions and grow with a single vendor.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Yeah. And I'm glad to hear you guys. Thank you.

Operator: Your next question comes from the line of Gus Papageorgiou from PI Financial. Your line is open.

Gus Papageorgiou

Analyst, PI Financial Corp.

Hi, and thanks for taking my question. So, I think some of these modules like eCommerce and Loyalty and Delivery, I think you're giving those away for free for a certain timeframe. Can you just remind us how long is the free period and based on what you're seeing, what's your confidence that customers maintain these modules and what kind of financial impact can they have and when do you think we'll see it?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

90 days. Go ahead, JP.

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

Yeah, I'll maybe start, and then, Dax or Brandon, if you want to jump in. So the promotions are really around our ability or customer's ability to immediately sell online. And I think what happened overnight is this is necessary for our customers to do well. So, the idea here, let's say, during the pandemic, we will – and while there's closure, because a lot of the countries were closed for business, we will help our existing customers sell across digital channels. And so, we went out and said, okay, hey, we'll give you three months free.

But the reality of that is most of our customers have signed up for 12 months. And they're basically paying 9 months, and getting 3 months free. So I think here, the majority of the customers are not paid, just using, and if you ever want to pay, pay for it. It's like, hey, let's go into a contract of 12 months, and we'll give you the first 3 months for free to help you through the more difficult times.

And I think for us the most important thing is to get them to the transactional level. And so, we've re-gearred the entire company, and the go-to-market teams on helping those customers quickly adopt eCommerce, quickly get going, and quickly be transactional online. And as Brandon mentioned, we've seen a huge pickup in the volume of transactions on the eCommerce side. So, we're pretty, pretty excited by this, and we think that actually, again, long-term, this is a real good thing for us, because customers are not going to turn off what works.

Gus Papageorgiou

Analyst, PI Financial Corp.

And, sorry, Brandon, how does that accounted then, I mean, do you just recognize 9 months relatively after the first 3 months, or do you average it over 12 months?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

We would average it over 12 months, in the case of a committed 12-month contract.

Gus Papageorgiou

Analyst, PI Financial Corp.

Q

Great. Thank you very much.

Operator: Your next question comes from the line of Suthan Sukumar from Eight Capital. Your line is open.

Suthan Sukumar

Analyst, Eight Capital

Q

Good morning, guys. Can you please talk about your plans to accelerate your product investments? I'm curious to know what capabilities are you guys looking to pull forward, and what types of new use cases are you looking to introduce?

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Yes. As we've spoken about, omnichannel is accelerating in terms of adoption. And so we're doubling down on all of the – both the physical and digital workflows, all of the new kinds of things that – new interactions that merchants want to be able to do with their customers. So that means things like omnichannel Retail, multi-channel Resto, integrated Payments, that's single product focus. We are going to see a big migration away from legacy on-prem systems to the cloud. And omnichannel POS, this has been accelerated by several years. So that I think is an important trend that we have to invest behind.

I think one of the – a great example is what we launched yesterday, Omnichannel Loyalty, to be able to track rewards across multiple channels just gives our merchants much more ways to interact with their clients, whether it's physically in-store or in the digital space. So, lots of new models by which merchants can differentiate. And that will accelerate our results overall this market's up for grabs and having a broad set of tools that people can use across physical and digital channels systems is key.

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

And maybe if I could just add, Dax. We've always been very strong in specific verticals and we believe that's a strength. We talked about bikes, about jewelries, about pets. And so here, we obviously want to also invest quite a bit in going much deeper into verticals and to getting way more value from all of that. So, you can see, as Dax mentioned, all of the digital channels, but also working upstream with the suppliers, there's a lot that we're investing there.

Suthan Sukumar

Analyst, Eight Capital

Q

That's great. Now, thanks. That's helpful. And I also wanted to touch on your earlier comments on the changes that you're starting to see in the competitive landscape. How are you guys seeing your peers adapt their strategies with respect to go-to-market or product and how is that creating an opportunity here?

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Okay. Yes. So, there are a few categories. I think the first category is – especially in the Restaurant space, a lot of our competitors have foot on the ground, even the [indiscernible] (00:53:47) vendors. So, I think, what we're seeing from those is our competitors are really just recycling themselves and trying to adapt to this new world that was not their natural DNA.

And, I think here, this for us is a real opportunity because, for us, it's kind of business as usual in the way we sell and we install. We never physically meet customers. So, I think that's one we're seeing is that we're seeing the more traditional sales models shift towards a more Lightspeed model, which is completely virtual.

Then, we're seeing in the market – as I said, it's a very fragmented market. So, we're seeing a lot of sub-scale point solutions. So, as an example, if I am today only providing a point-of-sale platform within the Restaurant or the Retail space, it's hard times for those companies because they don't have the breadth that we do. So, they can't just pivot overnight and start selling digital strategies. So, I think, what we're seeing from those is they're basically laying off and, even in some cases in Europe, some of our competitors in Germany that have a point-of-sale solution have laid off almost their entire workforce.

So, we're really in a very strong position there and, I think, there's a big market up for grabs. And, I think, this whole message around keeping our employees, ensuring that we're here to support our customers, providing digital strategy I think is a good opportunity. And then I think the third bucket we're seeing is we're seeing quite a few [ph] me toos (00:55:19) or companies who are trying to quickly adapt to digital solutions and try to go into our segment, which is okay because, quite frankly, the market is so broad and so fragmented that there's room for more than one player.

But I think overall, again going back to our thought process around omnichannel, which we've been preaching for five years, our thought process around virtual sales teams and enabling customers to use our platforms without ever meeting us. And then this whole logic around one vendor that can provide a broader scope of solutions we think is the right thing.

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

Richard Tse

Analyst, National Bank Financial, Inc.

Q

Yes. Thank you. JP, you referred to 17% of market being legacy. Would you include some of the larger, say, incumbents in that category?

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

A

Yes, [ph] Micros and CR (00:56:24). I think when we refer to legacy, we really refer to client server systems that have on-premise databases and that have custom hardware. And so – and again, a lot of countries have different vendors but the [indiscernible] (00:56:42) of the world because just going back to a conversation I had with one of our good customers a few weeks ago is, if I'm using those platforms just trying to imagine how complicated it is to connect these proprietary models and databases that are not in the cloud to cloud-based systems for delivery and take off and all of that.

So, I think – and that is, yeah, 70-plus-percent of the market are those platforms. And I think – now, I don't think it's one company going to take the entire market. But we were pretty certain that those who survived COVID will not want to keep those platforms. Simple things, you can't even have access to your reporting without being physically in the store.

So, there's a lot of kind of reasons and that make us believe that this transition from those on-premise systems to cloud-based platform is going to accelerate after COVID.

Richard Tse

Analyst, National Bank Financial, Inc.

Okay. And then, I think, you talked about having had some wins even during this lockdown, I mean obviously I'm guessing it's against legacy systems. Will those wins be against some of these large incumbents or some of the smaller independents?

Jean-Paul Chauvet

President & Director, Lightspeed POS, Inc.

No, no, it's the larger – and actually what we're seeing is those who are financially stable and have multiple locations, actually those are actually using COVID to accelerate their deployments, and say, okay, look, now that we're seeing that quite a bit in Hotels also, this mentality of, okay, were closed. Let's take this time to actually equip ourselves with a better system. And then, I mean, we're seeing, as we said earlier on, that when you look at the smaller customers, many of them are reaching out to us, because they have an immediate need for eCommerce or an immediate need for delivery, and we'll start there and then work our way back to the POS. But we're seeing – it's incredible to see the different dynamics and to see how resilient our customers can be through this and how creative they become.

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

Todd Coupland

Analyst, CIBC World Markets, Inc.

Hi. Yeah. Good morning, everyone. I wanted to ask you a question about churn, if I could, 1,000 in a month seems pretty low relative to the total customer location. What is your opinion of the remaining customers in terms of their health? And with the slow openings that you're seeing in the different regions, would you expect that churn rate to slow?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

Hey, Todd. We're certainly modeling that churn has been only elevated for the foreseeable future until social distancing measures are relaxed everywhere that we are operating. Having said that, so far, I think we've fared quite well, and I think that's a testament to some of the things you've heard today around what type of customer we serve, the characteristics of that customer being a little more established, and a little more able to weather the storm here. But I don't think we can sit here today and forecast with any degree of uncertainty that the worst is behind us or not. I think we just need to see how this plays out but, rest assured, we'll watch it very closely on a daily and weekly basis right now.

Todd Coupland

Analyst, CIBC World Markets, Inc.

And then, just structurally, on the Restaurant or Hospitality business post-COVID, do you have an opinion on what kind of churn is necessary in that segment of the market in terms of restaurants having to operate at reduced capacities. So, there certainly will be some inevitable churn there that those establishments won't be able to get through or survive with a third or 50% or 75% capacity given customers need to be spread out. Just talk about your thinking on that. Thanks.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Yeah. So maybe I'll start, Brandon, and you can – I think when you – so first of all, it is survival of the fittest. So the customers are going to need to adapt to be able to thrive. And so you could argue that the importance of being able to do order ahead and delivery is kind of one of the only way out of this when you think about it. And so with that in mind, we think demand for those products is going to go up. And we've seen actually that those of our customers who adapted quickly to that have been doing well.

And so here, again, nobody can predict what's happening. But our mindset is this is not a nice to have, it's a must have. And our mindset is if you are running a business and you are not connected online or not using delivery systems and you were insulated in your world of, hey, I'm in my neighborhood, and my people are coming to my restaurant, I think that world is turned upside down. And I think there, we think that the restaurants are going to reach out as quickly as possible to get delivery platforms so that they can compete.

But I think if you – for the restaurants that are doing well with Lightspeed are those who have quickly adapted and those who've understood the importance of having a good website, having a good platform where you can order, put your credit card and come pick up your bag at the back of the restaurant. So, anyway, it depends – I mean, you could see the glass half full or half empty, but we certainly believe that we're better equipped than anybody else in the market to actually convey the story and enable them to succeed in this new world.

Brandon, do you want to add anything?

Brandon Nussey

Chief Financial Officer, Lightspeed POS, Inc.

A

No, I think you said it well.

Dax Dasilva

Chief Executive Officer & Director, Lightspeed POS, Inc.

A

Yeah. And I think it's not just – yeah, as JP mentioned earlier in the call, it's not just delivery. Many restaurants are pivoting to use our retail tools as well in order to set up groceries or as they say in [indiscernible] (01:03:39) and that's been in effect. So it's an effective use of all of our tools plus layering Loyalty to engage with customers and let them know about new offers, let them know about weekly menus. So we're seeing very creative use of our tools and that's what's reflected in some of the adoption numbers that we're seeing here especially in Restaurant. I mean I know of a case that a newly opened restaurant transitioned completely to delivery and opened the second location more downtown in Vancouver and is all delivery model and has adopted that and is having strong momentum with that.

Operator: This is all the time we have today for questions. So this concludes today's conference call. You may now disconnect.

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