

Lightspeed POS

APRIL 13, 2020


- Integrity
- Independence
- Insight
- Individually-focused
- Investments

- Restaurant/retail closures will weigh
- Strong net cash position to face crisis
- High volatility
- Recurring revenues support business
- Rating maintained at 'B+'

| | |
|-------------|----------------|
| Traded as: | LSPD (TSX) |
| Price: | C\$18.48 |
| Dividend: | Nil |
| Debt: | None |
| Market Cap: | \$1.43 Billion |
| Stability: | Low/Medium |



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5i Report Card

| Metric | Value | Grade |
|--------------------------------|---|-------|
| Industry | Technology | |
| Expected 1 year Revenue Growth | 54.5% | A+ |
| 5 Yr. Revenue Growth | N/A | N/A |
| 5 Yr. EPS Growth | N/A | N/A |
| 5 Yr. ROE | N/A | N/A |
| Gross Margin | 63.7% | A+ |
| Net Margin | -48.8% | C- |
| Current Ratio | 2.2 | A- |
| Debt/Equity | 0.1 | A |
| Insider Ownership | ~1% | B- |
| Recessionary EPS (2008/2009) | N/A | N/A |
| 5 Yr Dividend Growth | N/A | N/A |
| Qualitative | Potential to emerge stronger than competition | B+ |
| Rating - | B+ | |

Recent Results

Since our last report, LSPD expanded its international footprint to Europe and Australia with acquisitions such as Gastrofix, iKento and Kounta helping LSPD expand its reach into the hospitality segment in addition to existing restaurant and retail verticals. In the third quarter of 2020, the company reported year-over-year revenue growth of 61% and gross transaction volume growth of 45% to ~\$20 billion. Recurring software and payments revenue was up 58% year-over-year and adoption rates for Lightspeed payments were over 50%. In response to COVID-19, Lightspeed has offered free "Lightspeed Delivery" for restaurant clients and free "Lightspeed eCommerce" for retail clients. LSPD's customers are currently on lock down so a move to support SMB clients should benefit the company, though marginally. LSPD also completed a share issuance at \$37.30 and raised proceeds just before coronavirus concerns peaked, bringing cash on hand to ~\$220 million US.

Valuation

Shares are down nearly 70% from two months ago and we would attribute this largely to a high valuation and investor concern over restaurant and retail shutdowns. The company now trades at nearly 7x forward sales compared to 16x at the end of 2019. Interestingly, LSPD is now trading more in line with more established software companies like Constellation Software while having a higher growth rate. Companies with high valuations like LSPD tend to be sold off first and more aggressively in a tough market. What gives us confidence that LSPD will recover is that LSPD is fortunate to have cash reserves that should keep the company solvent for years. The company has no debt.

Summary

With \$400 million in cash and next to no debt, the solvency risks to LSPD are low in our view. This means the odds of LSPD getting through this should be fairly high. If/when LSPD emerges from this crisis, we think it will be a much stronger company as many of their competitors with less access to capital are likely to be shaken out and LSPD can even consolidate their space at lower costs than before. Access to the public markets and the balance sheet are two advantages for LSPD right now. Rating maintained at 'B+'