A 55-Slide Update on Why Lightspeed POS' Share Price Appears Expensive

Lightspeed POS Inc. (**LSPD.TO** $43.89)

Rating: **SELL;**

Price Target of **$31** by **May 2020**

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August 28, 2019

Lightspeed POS Inc. Summary

Perspectec Rating: **SELL**

Target Price: C$31

Current Price (August 28, 2019) : C$43.89

Ticker (TSX): **LSPD**

Market Cap.: C$3.7 Billion

Basic Shares Outstanding: 84.7 million

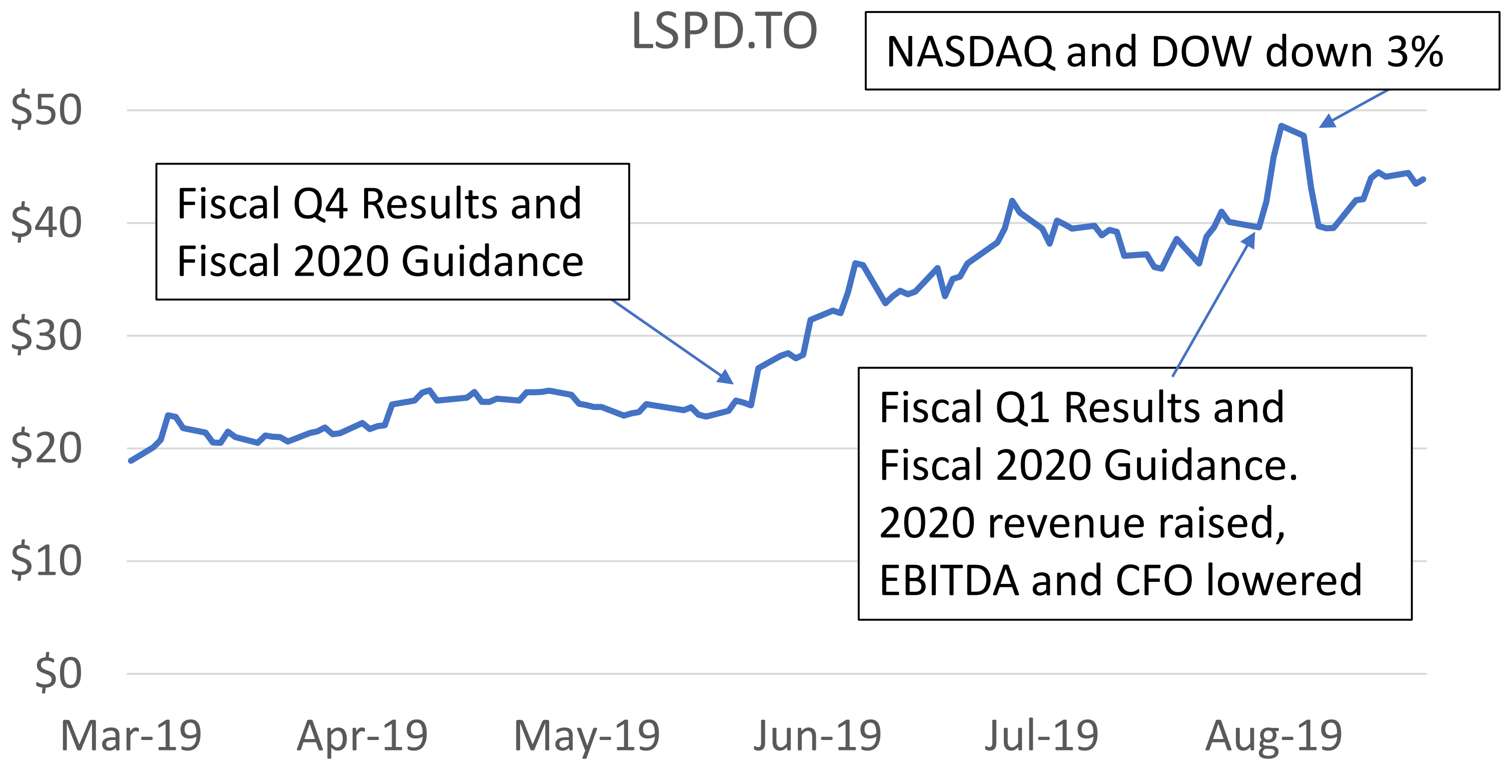
52-week H / L: C$49.70 / C$18.05

Largest Shareholders (Voting Ownership):

Dax Dasilva, Founder & CEO (43%)

Caisse: (20%)

Jean Paul Chauvet, President (1.2%)



Source: Perspectec

On the IPO in March of 2019, CEO and founder Dax Dasilva converted his shares to a new class of multiple voting shares, with one multiple voting share receiving four votes versus one vote for every subordinate share.

Dasilva is looking to grow through acquisitions while remaining mostly in control of his company.

Lightspeed POS Inc.

1) Material Headwinds to their Growth Strategy

2) Creating Value Through Acquisitions Is Expensive for Shareholders

3) Valuation – On a Historical, Relative, and Absolute Basis, Lightspeed is expensive

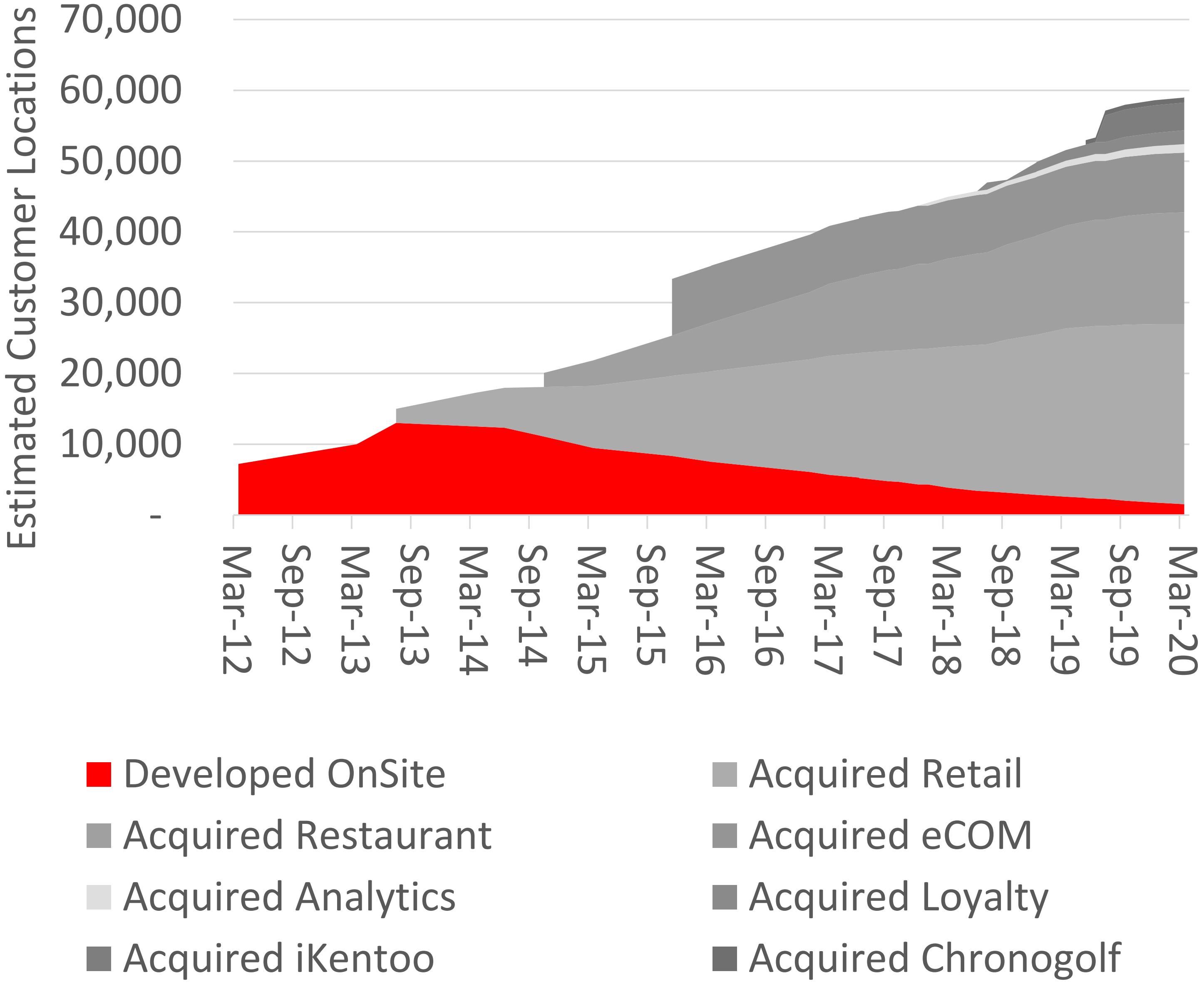
Material Headwinds to Growth Strategy

Lightspeed's Stated Primary Drivers for Growth are:

A. **Expanding their Customer Base**
B. Rollout Lightspeed Payments
C. Grow with its Customer Base
D. Expand on Module Uptake

Material Headwinds to Expand its Customer Base

Lightspeed's Customer Growth has (and will) come almost entirely from acquired platforms



Source: Perspectec

Source: Perspectec

Material Headwinds to Expand its Customer Base

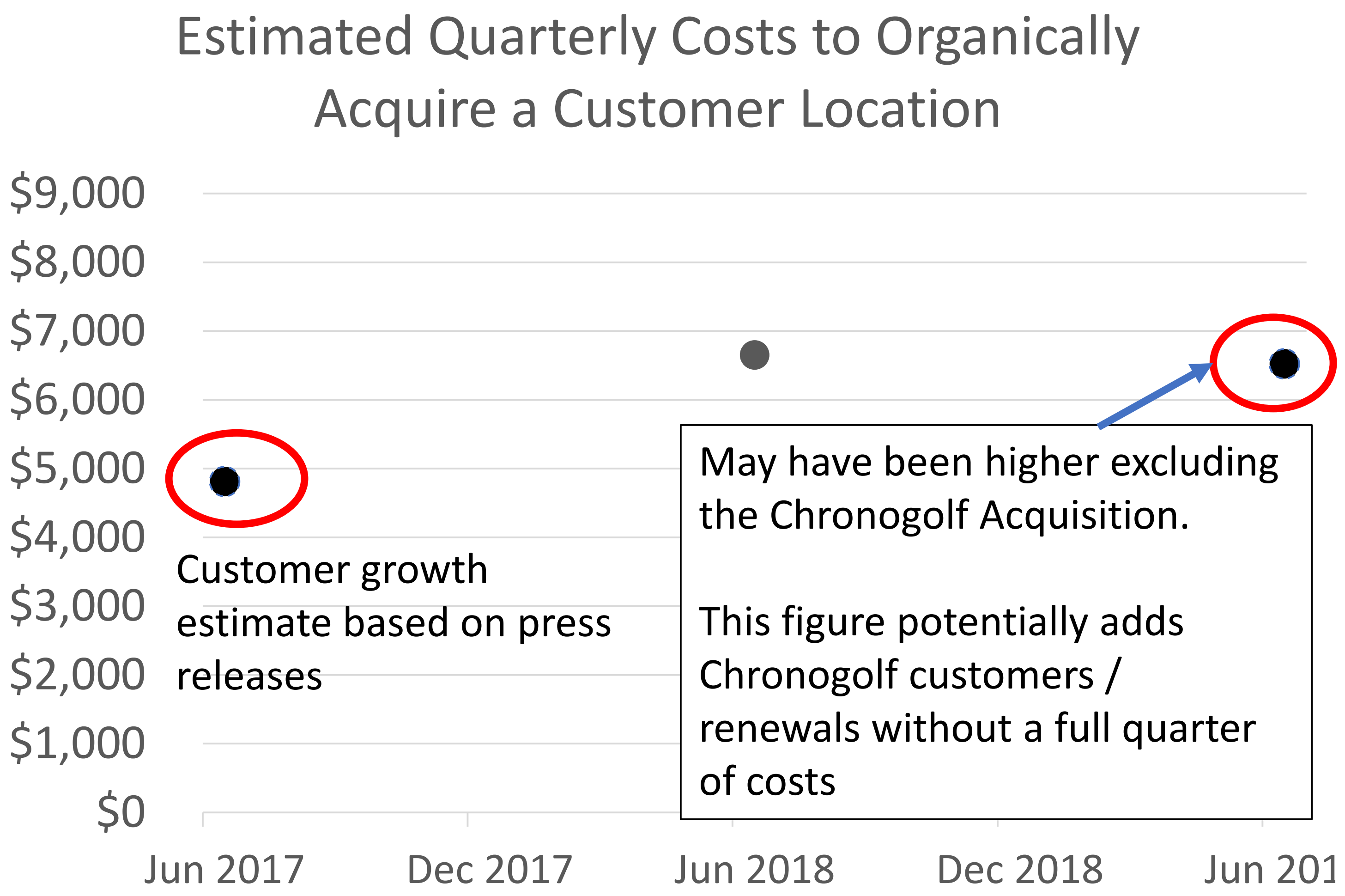
Organic Customer Location Acquisition Costs are High and Rising

Estimated Customer Locations Added (End of Period) / Sales and Marketing Costs (Quarter)

TTM June 2019

= [51,000 – 42,000] / ($43.4 million)

= ~$4,800 cost to acquire one store (~$6,000 with costs of acquisitions)



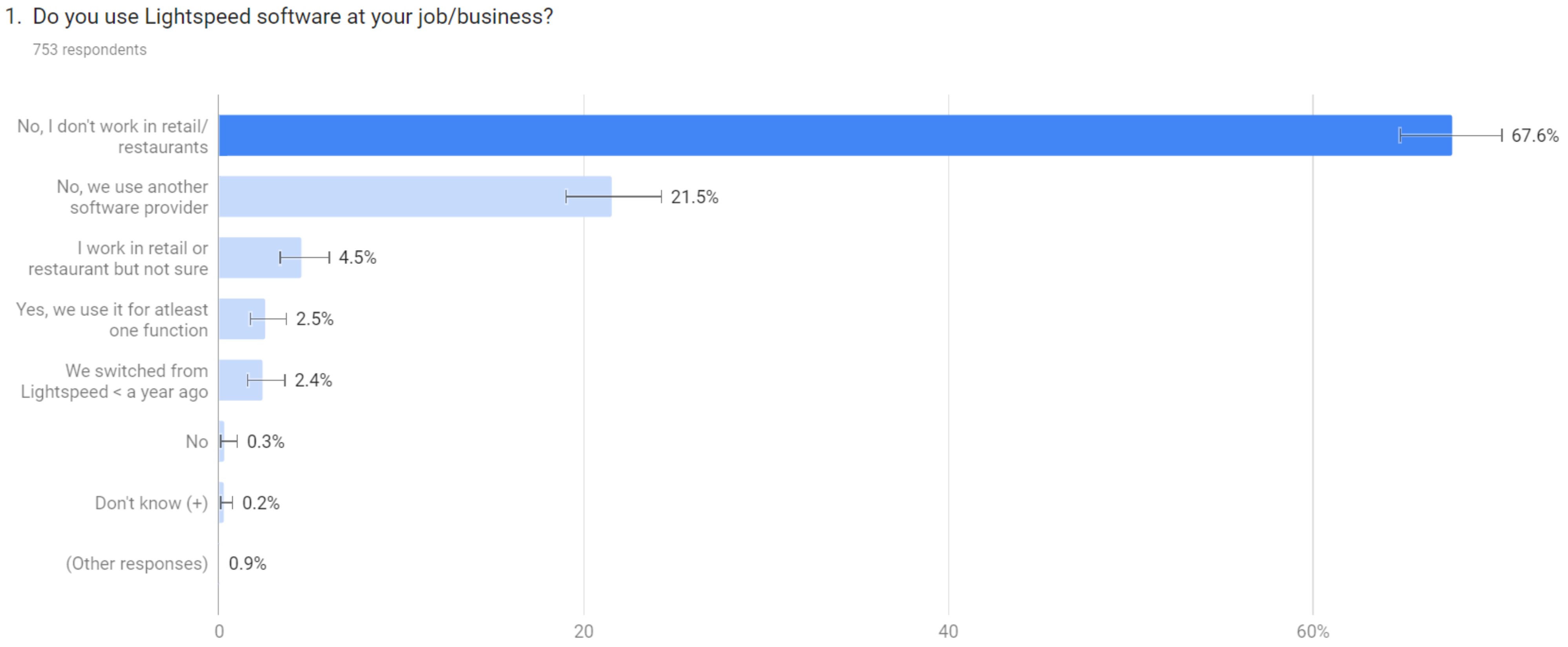
"**Customer Location**" means a billing customer location for which the term of services have not ended, or with which we are negotiating a renewal contract. A single unique customer can have multiple Customer Locations including physical and eCommerce sites. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Key Performance Indicators".

The Acquisition of Chronogolf may have helped to keep Lightspeed's Customer Location growth steady at up 20% Y/Y, keeping its growth story intact.

Material Headwinds to Expand its Customer Base

Lifetime Value Requires a Churn Rate – Our Online Survey Shows a Rate of 46%,

Surprisingly High given 'the majority of Customer Locations are contracted for at least 12 months'

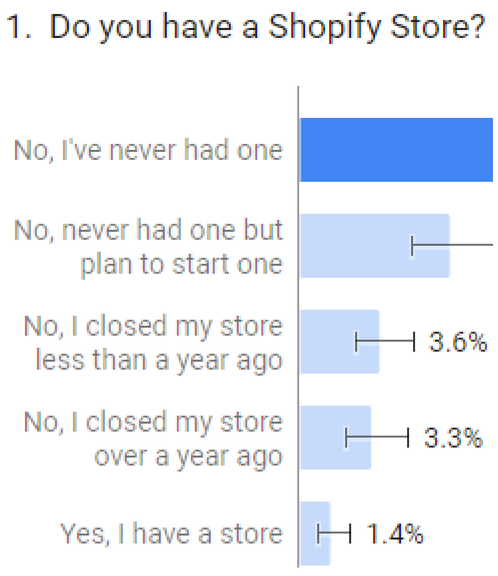


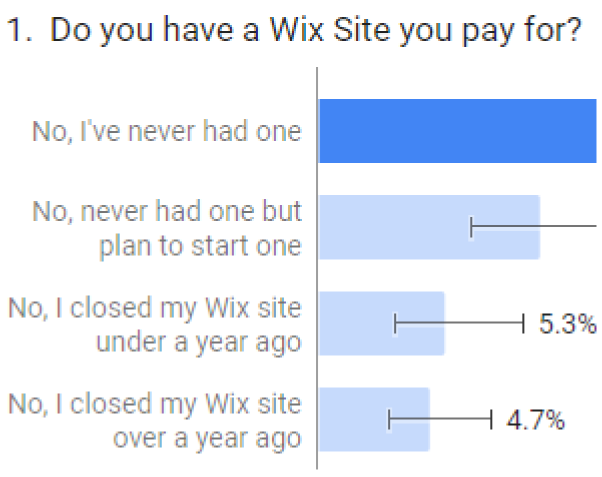
Source: Google

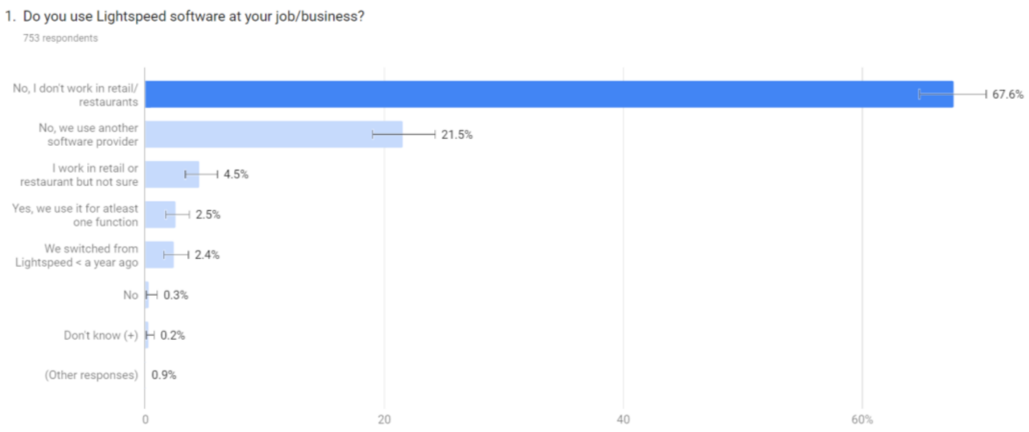
Material Headwinds to Expand its Customer Base

On a Relative Basis, Lightspeed's Churn rate was the Lowest versus Square (SQ), Wix (WIX), Shopify (SHOP) and GoDaddy (GDDY).

The *Survey Questions and Sample Population (U.S. Adults) were generally the same for LSPD, GDDY, SHOP, SQ and WIX.*
We believe the churn rate is reasonable







Source: Google

Material Headwinds to Expand its Customer Base

Our estimates have Lightspeed's Customer Acquisition Costs (CAC= ~$6,000) Materially Higher than their Customer Lifetime Value (CLTV ~2,800).

While a 46% churn rate seems high, there is no other data to rely on. We urge Lightspeed to define and provide a figure.

Customer Lifetime Metrics → Assuming a 104% Net Retention Rate (Company States > 100%) → WACC of 1% based on Equity Raises to Maintain Growth

→ Customer Lifetime Value (CLTV) = (Gross Margin Dollars/(Churn Rate - (Net Expansion Rate+1) + WACC) + Hardware Gross Margin) / Est. Avg. Customers *

→ TTM = ($56.5 million / (46% - 4% + 1%)+$1 million) / 48,000 Avg. Customers

→ = $132.4 million / 48,000 customers

→ = ~$2,800 CLTV (per customer Both Q2 and TTM)

→ **Based on our estimates, Lightspeed would need to see annual churn rates lower than 23%** (vs. our survey results of 46%) **to break-even using traditional customer SaaS metrics.**

* Using Software & Payments Gross Margin as this is the most granular information Lightspeed discloses. This figure theoretical inflates CLTV by applying a lifetime value to Payments gross margin. In addition there are material differences between an eCOM vs. Restaurant/Retail customer.

Material Headwinds to Expand its Customer Base

An Estimated 85% of Revenue is Generated by the Retail/Restaurant Industry that is Growing in the Low Single Digits. We have not been able to identify reliable statistics on Industry POS Cloud Growth.

the U.S. Retail/Restaurant Industry is Growing @ 2%*
the U.S. eCommerce Industry is Growing @ 13%*

*Stats based on U.S. Census Bureau

Source: Perspectec Estimates and Company Reports

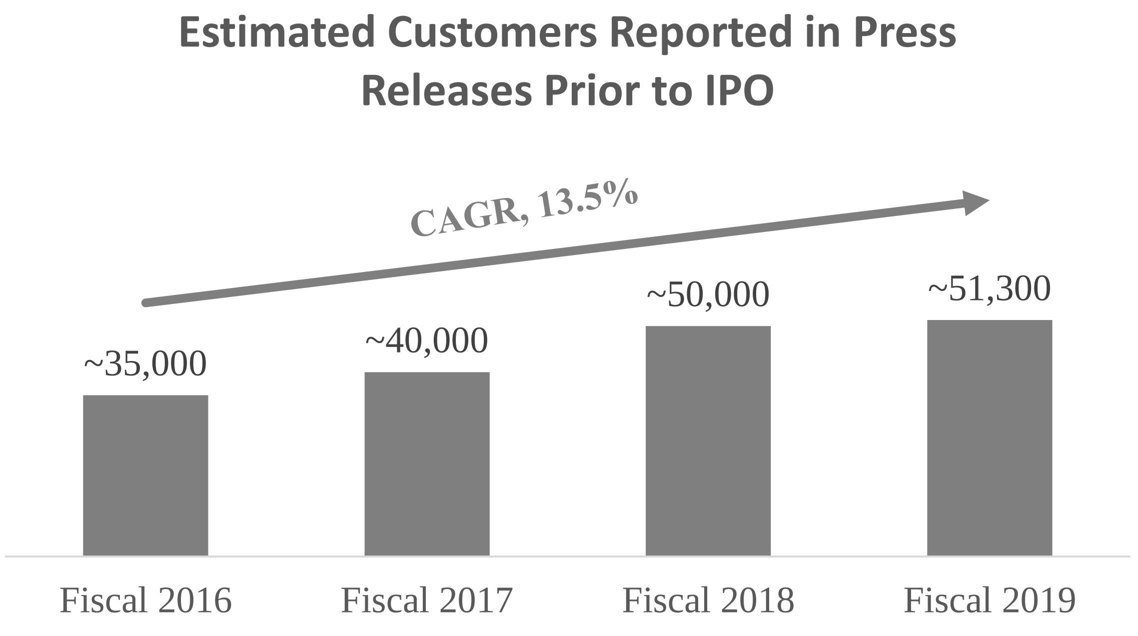
Region	Customer Base	Y/Y Growth	2019 $	2018 $
United States	MerchantOS Base (Retail)	39%	42,885	30,801
Netherlands	SEOShop Base (eCOM)	36%	10,972	9,116
Canada	OnSite Base	20%	8,840	6,501
Belgium	POSIOS Base (Restaurant)	46%	6,416	4,380
Other		33%	8,338	6,281

Material Headwinds to Expand its Customer Base

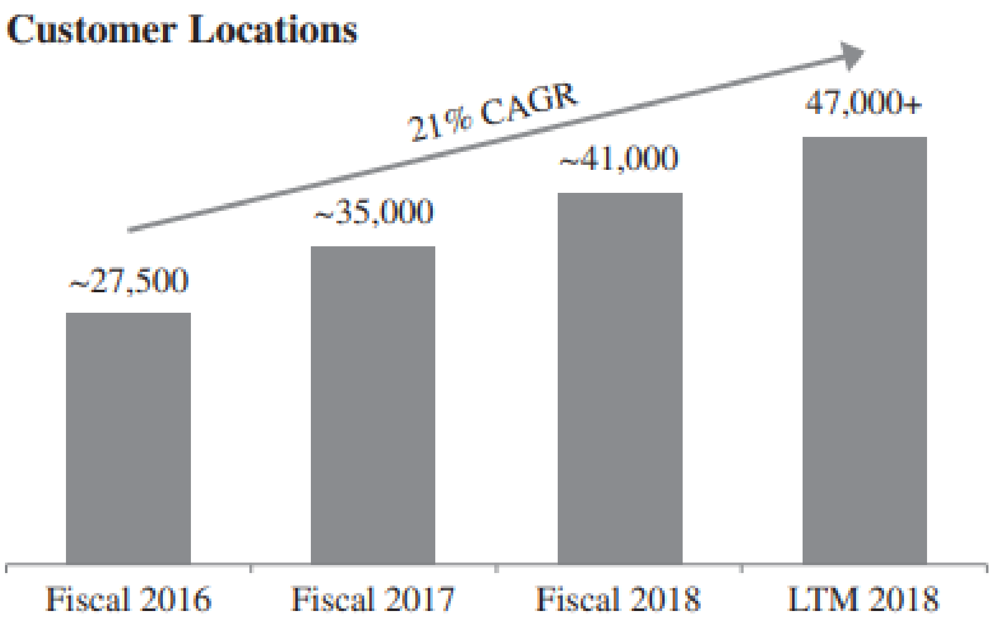
Definitions Obscure Real Customer Growth

Lightspeed's Accelerated Reported Customer Growth Rate post their IPO is being Driven by:

1. Referencing 'Customer Locations' vs. 'Customers'
2. Excluding Customers on their Legacy Premise software



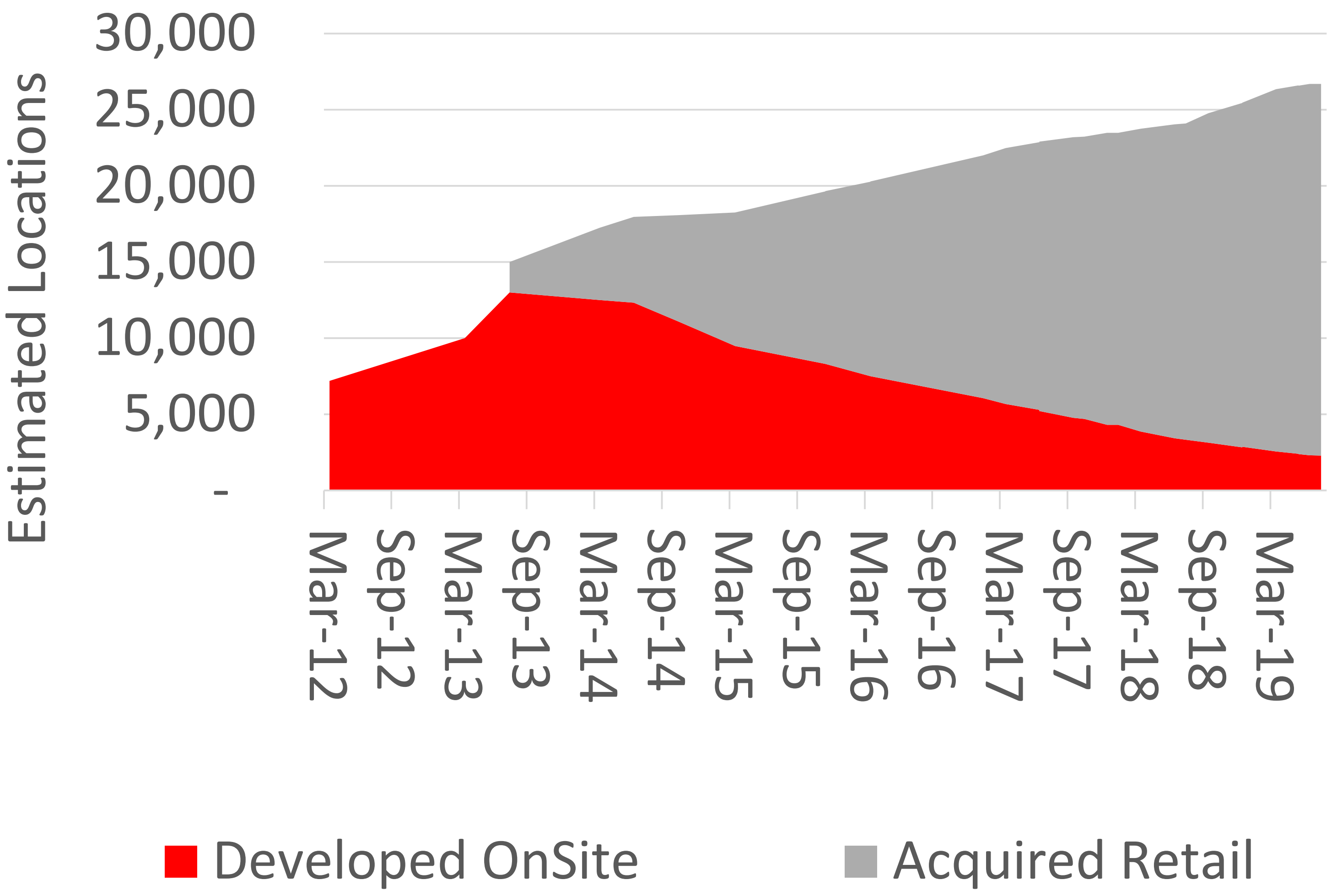
Source: Perspectec



Source: Lightspeed

Material Headwinds to Expand its Customer Base

We believe Lightspeed Retail will begin (has begun?) to exhaust large numbers of OnSite customers to transfer to the cloud

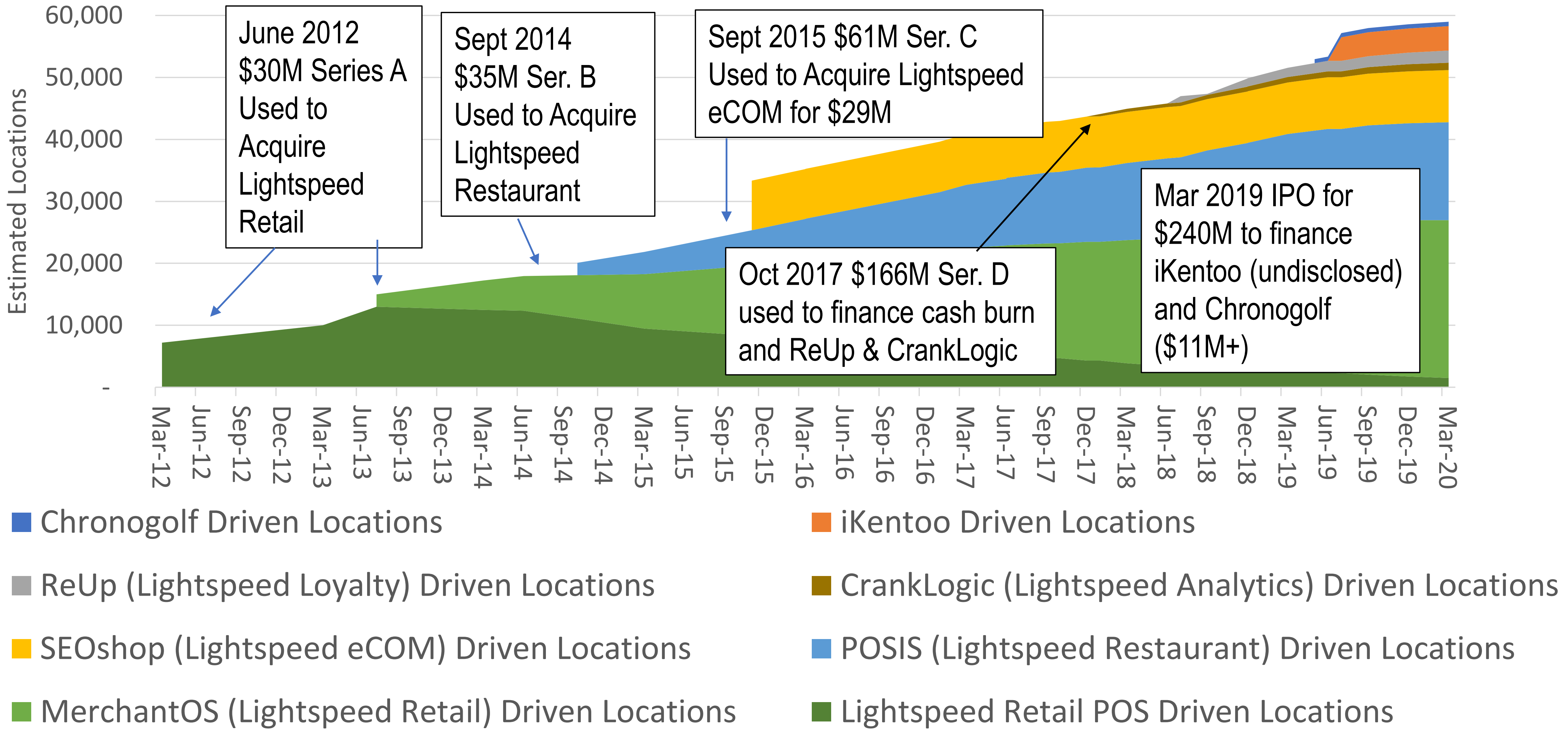


Source: Perspectec

Source: Perspectec

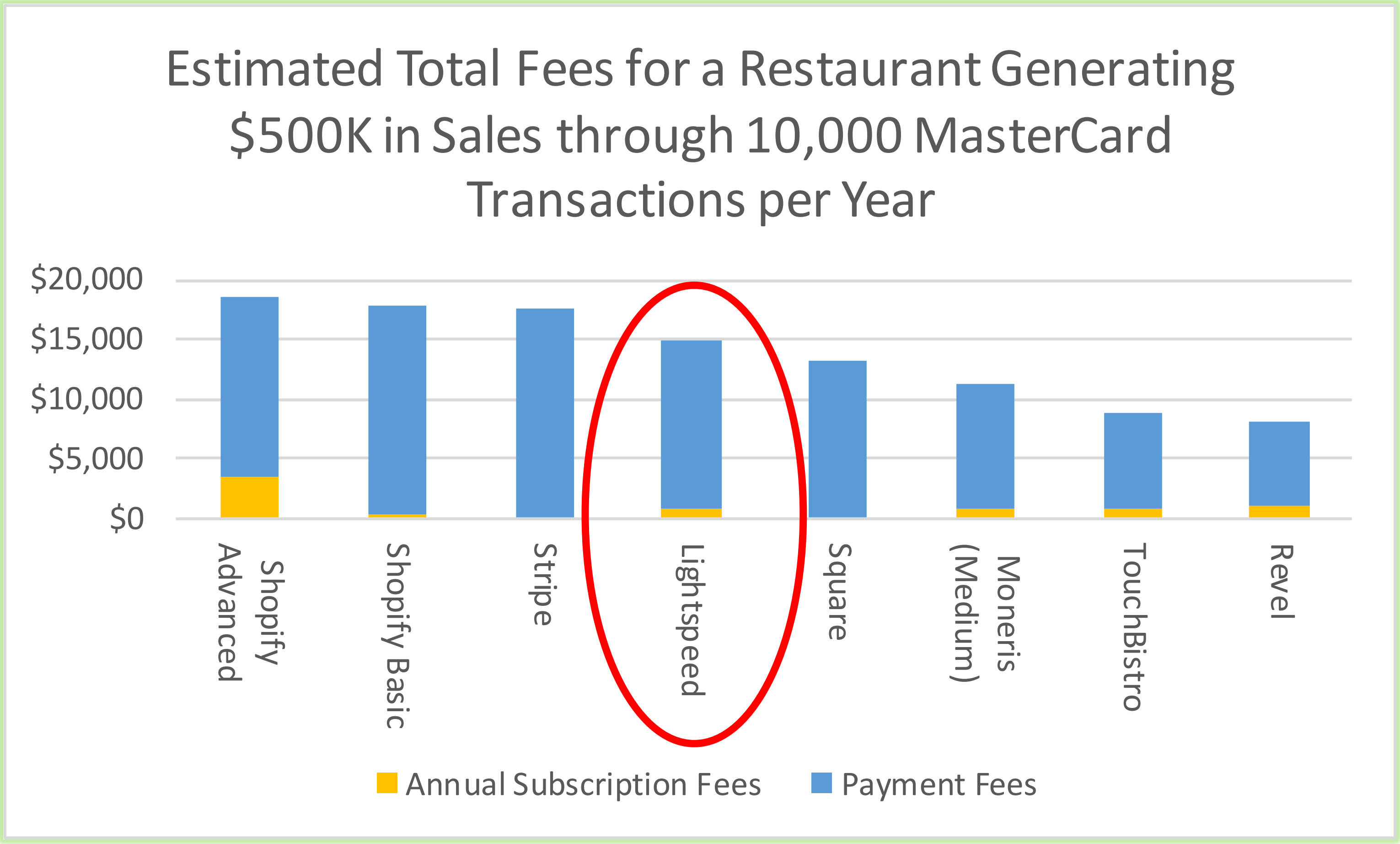
Material Headwinds to Expand its Customer Base

We Expect an Acceleration in Funding at a low WACC to Increase its Customer Base



Material Headwinds to Expand its Customer Base

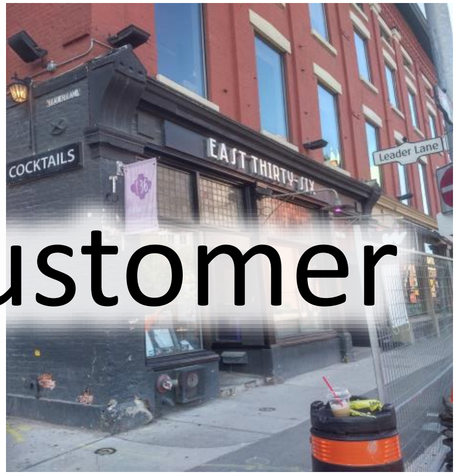
As a Result of Structurally High Costs, Lightspeed Charges Higher Prices vs. Other Brick & Mortar Options



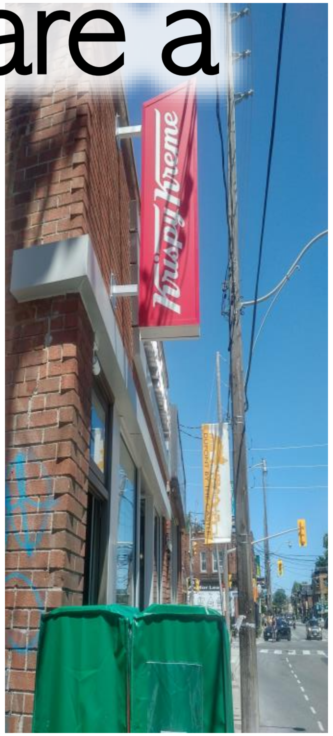
Source: Perspectec

Material Headwinds to Expand its Customer Base

Interviews Indicate Already High Prices are a Barrier to Growth



Door-to-door interviews with restaurants and retailers in Toronto



Perspectec door-to-door walk-in survey

Source: Perspectec

Material Headwinds to Expand its Customer Base

What Mattered the most according to our interviews was Price, Support, and Uptime. Lightspeed's Higher Price is a Material Headwind to improving churn

Small Retail: The overall price of the final product and the support provided by the software company is usually the decision-making criteria for an independent retailer.

Retail Chains: legacy solutions such as Squirrel, Micros or NCR are chosen even if it means some compromise with the efficiency.

Uptime was where Lightspeed sees an advantage vs. most other solutions

Restaurants: Be able to run smoothly/low latency during busy hours. Switching costs were as high as C$13,000, very large for non-chain restaurants and is the largest factor in keeping them locked in with inferior/costly products.

A newly opened restaurant is more likely to use a modern point-of-sale software

The time required to install a new software/update is an important secondary factor. While undergoing an installation/update, the restaurant cannot function during that time, which impacts its sales.

Material Headwinds to Expand its Customer Base

Feedback from Lightspeed retailers was mixed

An apparel retailer using Lightspeed is thinking about switching to Shopify because they provide easier integration with their website and the costs are comparable. They are sticking with TD for now as their payment processor because it is much cheaper for them vs. Payments.

A furniture retailer is happy with Lightspeed primarily because of their strong support.

A luxury apparel retailer using Lightspeed was relatively OK with it. May look for a cheaper option when coming up for renewal.

Material Headwinds to Expand its Customer Base

Feedback on a Relative Basis was Poor

Relatively Positive Feedback from Restaurants

- Silverware (Legacy & Cloud)
- Clearview

Relatively Average Feedback from Restaurants

- TCPOS (Legacy)
- TouchBistro (Cloud)
- PosiTouch
- NCR

Relatively Poor Feedback from Restaurants

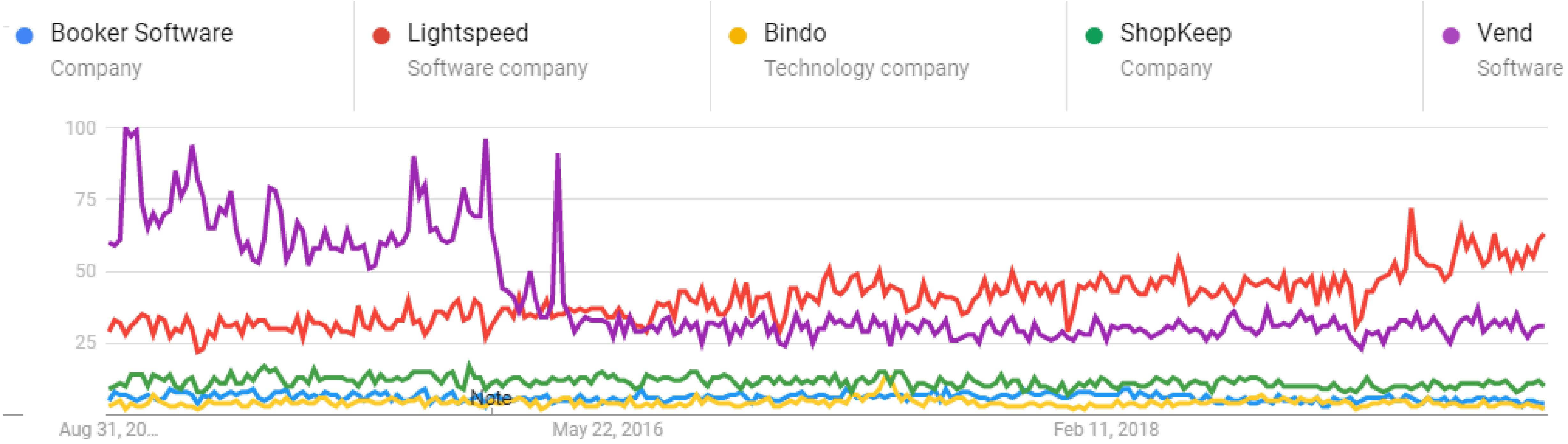
- Micros (acquired by Oracle in 2014 for $5B)
- Squirrel (Legacy)

Relatively Positive Feedback from Retailers

- Cybex POS
- Adyen POS
- Shopify
- Winstore
- Shortcuts

Relatively Poor Feedback from Retailers

- Lightspeed
- Micros
- ICG
- Chaindrive



Source: Perspectec

Material Headwinds to Expand its Customer Base

Despite relative mixed results from interviews in Toronto, Lightspeed Google Searches Worldwide are show increases versus other POS Software Companies.
The recent spike appears to be driven by their IPO

Product	Square Point of Sale	Vend POS	Bindo POS	Erply	Intuit QuickBooks Point of Sale	NCR Silver	Shopify POS	ShopKeep	Lightspeed Retail POS	Revel Systems POS
Lowest Price	SEE IT	SEE IT	SEE IT	SEE IT	SEE IT	SEE IT	SEE IT	SEE IT		SEE IT
Editors' Rating	●●●●◐ EDITORS' CHOICE	●●●●◐ EDITORS' CHOICE	●●●●○	●●●●○	●●●●○	●●●●○	●●●●○	●●●●○	●●●◐○	●●●○○

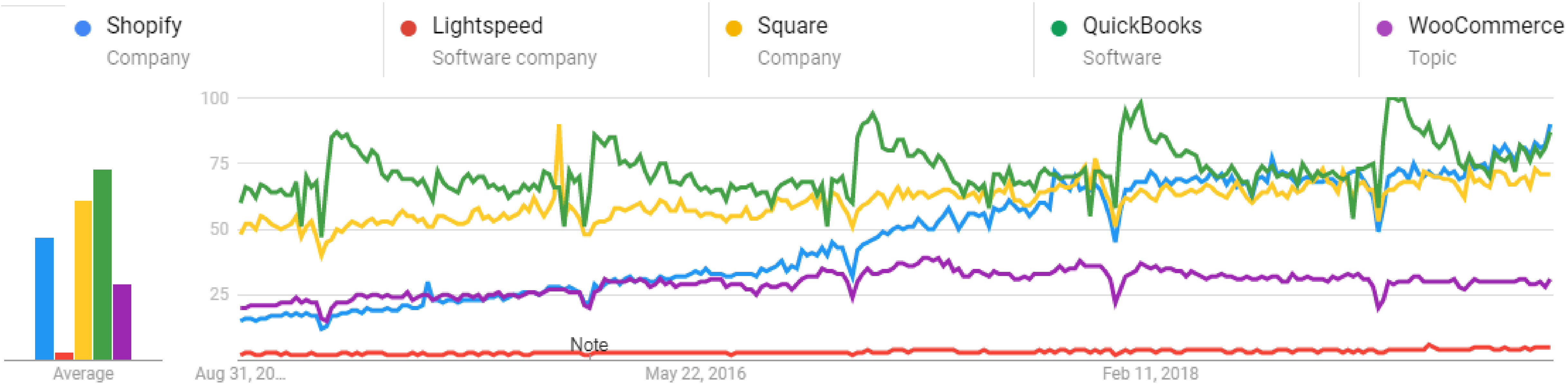
Source: PCMag.com and Perspectec

Material Headwinds to Expand its Customer Base

PC Mag has Lightspeed's Most Entrenched Product Performing Relatively Poorly **Even After Excluding Price**

PC Mag's May 2019 Review of POS Systems rated Lightspeed 9th out of 10 solutions they tried

- *"On the whole, Lightspeed Retail POS has a deep enough feature set that's nicely customizable for most SMB-sized retail operations. However, while I didn't encounter any bugs during my evaluation, there are enough user reviews on the web that call out a certain degree of 'buginess' that it could give some buyers pause. Additionally, the UI can be a bit busy, all of which combine to keep Lightspeed a solid solution in our POS roundup, but not quite an Editors' Choice."*



Source: Perspectec

Material Headwinds to Expand its Customer Base

However omnichannel options (Cloud POS + eCommerce + Other) have a reputation and awareness edge Globally, and their POS related solutions may be gaining share

Investor News Details

Shopify Launches New Retail Hardware to Transform in-Store Shopping

April 25, 2019

OTTAWA, Ontario--(BUSINESS WIRE)-- Shopify Inc. (NYSE:SHOP) (TSX:SHOP), the leading multi-channel commerce platform, today launched a new retail hardware collection to revolutionize in-person shopping for the world's fastest-growing brands and their customers. The new retail hardware includes Shopify's Tap & Chip Reader, Dock, and Retail Stand, designed from the ground up with merchants and customers in mind, to deliver an unmatched shopping experience. With years of experience building point-of-sale (POS) tools for brands that want to extend their online success to offline sales, this is just the latest way that Shopify is helping merchants make commerce better.

Square Launches Order API

By PYMNTS

Posted on August 15, 2019

To allow developers to build a solution that lets sellers send and manage orders online, in-person and in-app, **Square** has announced the availability of Orders API. Orders can be sent directly to a seller that is using one of Square's **point of sale** (POS) products – including Square Point Of Sale, Square for Restaurants, Square for Retail or a custom-built POS – as the central point to manage fulfillment, the company said in an announcement.

Mobility | Sales and Marketing

Square announces the release of a new POS terminal

Buckley Smith @buckleysmith7
Published: August 9th, 2019

A new point of sale system from Square Inc. is available for order, as announced by the company yesterday.

Dubbed Square Terminal, Square said in its press release that it's designed to replace the traditional credit card payment systems as well as the more modern POS systems that can operate on devices like iPads; allowing for the capability to accept all the forms of payments that those systems do, all

Source: Company Press Releases

Material Headwinds to Expand its Customer Base

Larger Vendors Are Upgrading / Innovating their In-Store POS Solution in 2019

2. Questionable Future Impact from Lightspeed Payments

Lightspeed Payments does take away the pain point of signing up with a payment processor for new stores, however, **it may not make sense for existing stores.**

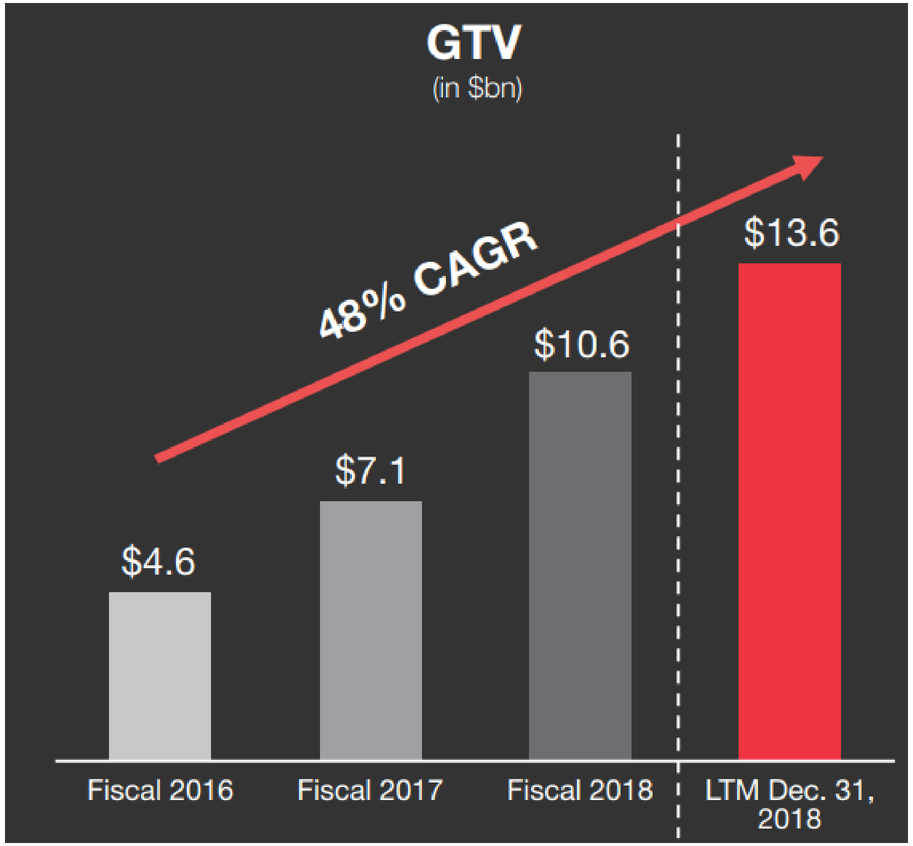
The issue is existing customers already have some sort of payment processor installed at similar (and often lower) costs. The following were used and liked by those we spoke with:

- Moneris
- Banks
- Cash registers
- Shopify
- Square

3. Questionable Growth with its Customer Base

Similar to Customer Locations, GTV has also been restated to exclude Lightspeed OnSite, Inflating their actual GTV CAGR

$10 billion in Transaction Volume on June 15, 2015 vs. $4.6 billion in "Gross" Transaction Volume



Source: Lightspeed

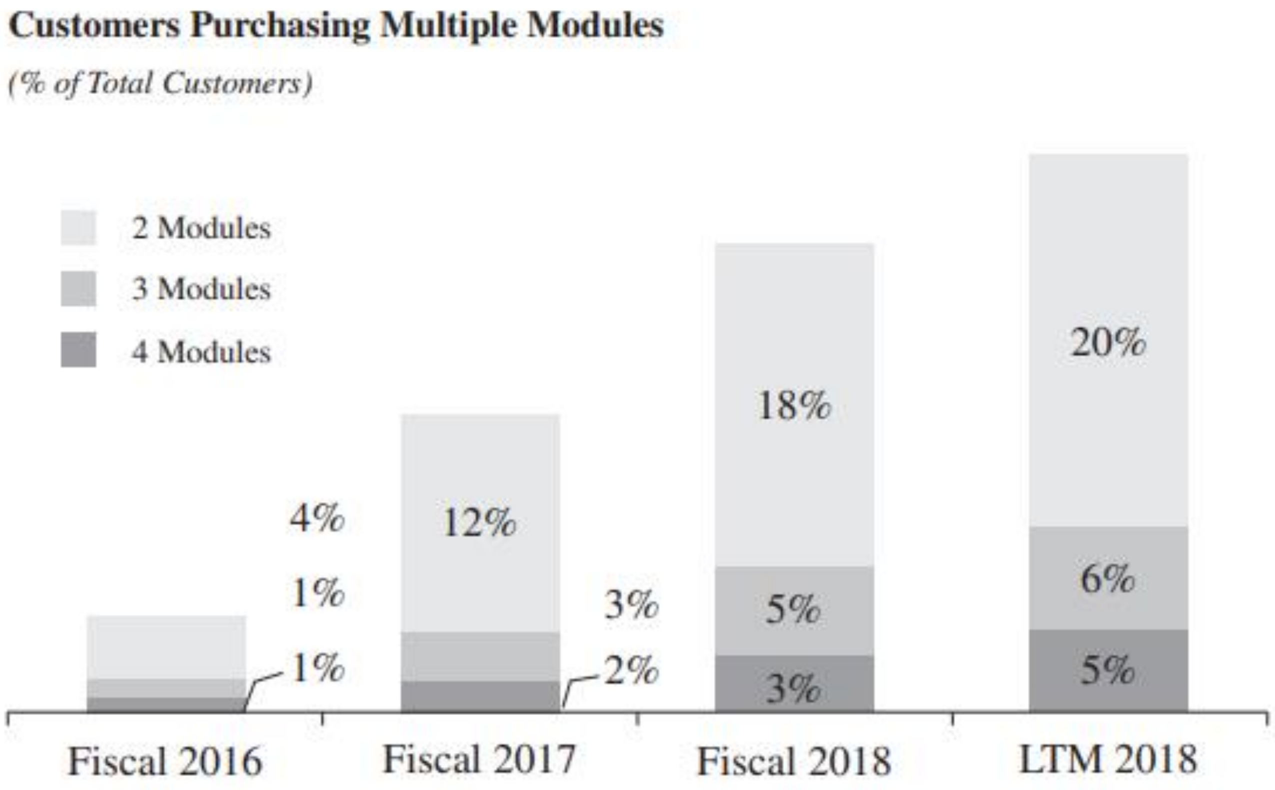
Lightspeed POS Announces Record Fiscal Year As Retailers and Restaurateurs Get Increasingly Tech-Savvy

Company Reaches $10B in Annual Transaction Volume; Moves Headquarters to Historic Montreal Landmark

MONTREAL, June 15, 2015 – Lightspeed POS, the commerce platform for serious retailers and restaurateurs, today announced its customers are now processing $10 billion in annual transactions through the Lightspeed platform, outpacing industry competitors. Lightspeed also expanded its customer base to 24,000 business locations across 100 countries. This growth, coupled with increasing transaction volume across its customer base – its average customer now processes more than $600,000 a year – helped the company achieve 123 percent year-over-year growth in bookings.

4. Expand on Module Uptake

Module Expansion has the lowest barriers to entry and may be the easiest method to grow Gross Margins long-term



Source: Lightspeed

Existing Retailers or Restaurant Customers in Terms of Most Likely Modules to be Added

1) eCOM (very competitive)
2) Payments (more expensive for existing customers)
3) Analytics
4) Accounting
5) Loyalty
6) Other

Expand on Module Uptake is Primarily Captured in:

1) ARPU

2) Customer Growth vs. Location Growth

These figures are not consistently disclosed and therefore growth hard to track.

"**Average Revenue Per User**" or "**ARPU**" represents the total software and payments revenue of the Company in the period divided by the number of unique customers of the Company in the period. Monthly ARPU for Lightspeed was $200 as of December 2018.

Given that roughly 85% of revenue comes from physical stores or restaurants, growth above low single digits comes primarily from Module Expansion and secondly from GTV per location growth

and

"**Customer Locations**" means a billing customer location for which the term of services have not ended, or with which we are negotiating a renewal contract. A single unique customer can have multiple Customer Locations including physical and eCommerce sites.

Growth in customer locations is partially driven by Module Expansion

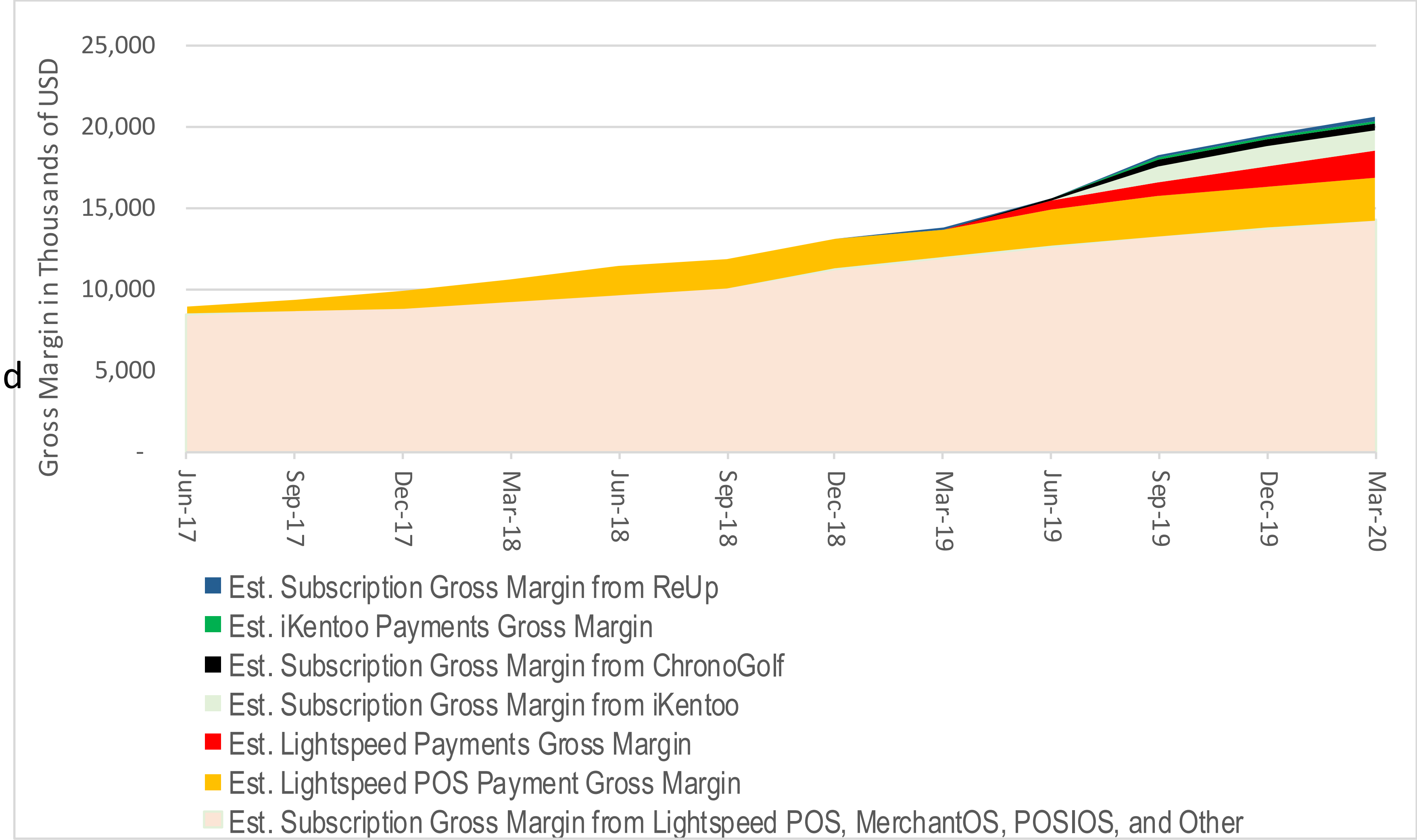
Creating Value Through Acquisitions Is Expensive for Shareholders

Creating Value Through Acquisitions Is Expensive for Shareholders

M&A is Helping to Cover Slowing Growth

For Fiscal 2020, we forecast Lightspeed Subscription Gross Margin excluding acquisitions since the 2nd half of calendar 2018 to be up 23% Y/Y vs. 36% including acquisitions.

Lightspeed does not report organic growth



Source: Perspectec

Creating Value Through Acquisitions Is Expensive for Shareholders

Customer Location Acquisition Costs Appear to be Materially Higher than Historical Organic Customer Acquisition Growth

- Chronogolf Acquisition = Over 600 customers with the total acquisition costs between $10.2 million and $15 million (depending on the stock price and reaching undisclosed milestones).
- Customer Acquisition Costs through M&A using Chronogolf as a proxy are between $15,000 and $25,000 per customer location vs. our estimate of $5,000 per customer location based on historical spending through Sales and Marketing expenses.
- At these levels, the iKentoo purchase price (undisclosed) for 'nearly 4,000' customers could be north of $50 million. We forecast a purchase price of $45 million as iKentoo may have a smaller average customer vs. golf courses.

Growing customer locations through Acquisitions may be roughly 3x to 5x the cost of acquiring them organically.

Creating Value Through Acquisitions Is Expensive for Shareholders

Providing Annual Revenue, EBITDA and Cash Flow from Operations Targets Locks Lightspeed into Inefficient Capital Allocation in order to Meet/Beat Guidance

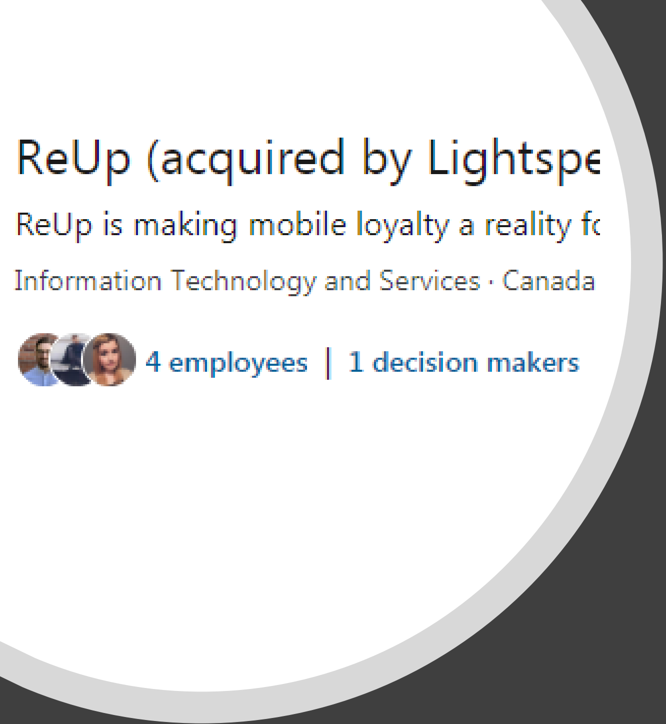
Rather than spend an extra $5 million on Sales and Marketing to grow its customer locations by an additional 1,000, Lightspeed may choose to instead purchase a company for $20 million in order to acquire the same number of customers to stay or beat their stated guidance.

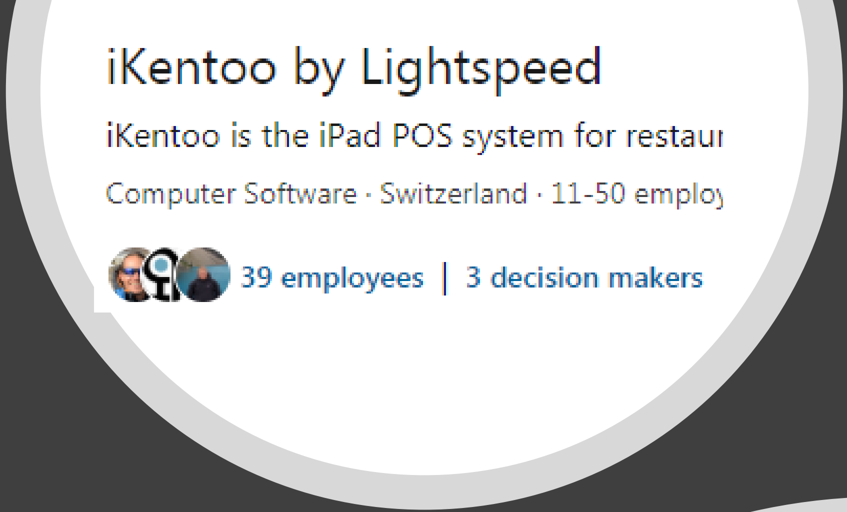
Paying $20 million inorganically vs. $5 million organically to increase current year gross margin dollars by just over $1 million makes sense in order to beat a current year guided metrics of Revenue, EBITDA and Cash Flow from Operations

Full Year 2020

- Revenue of $112.0 – $115.0 million, representing annual growth of 45-48%
- Cash flows used in operating activities of $9.5 million – $11 million
- Adjusted EBITDA in the range of ($18 million) – ($20 million)

Source: Lightspeed





Creating Value Through Acquisitions Is Expensive for Shareholders

Acquisitions Will Raise Already High Fixed Costs

<$100M in Revenue and Employees Speak 4 Languages

4 Non-Sales/Biz Development centers outside of Montreal: the Netherlands (SEOshop), Belgium (POSIOS), iKentoo (Switzerland) and Toronto (ReUp) from prior acquisitions. Chronogolf will likely move to Lightspeed's HQ.

Eliminated their MerchantOS Silicon Valley office (now Lightspeed Retail) with 30 employees, potentially with side-effects.

Source: LinkedIn

Creating Value Through Acquisitions Is Expensive for Shareholders

A High Number of Back Offices Relative to their Size

Lightspeed slightly lowered its rent expense in fiscal 2019 (down $100K to $3 million), but reducing back office teams in different cities to increase cash flow will impact their product

Square with 35x LSPD's Sales has 5 non-HQ, non-Sales locations

San Francisco Bay Area (1,780)
Greater St. Louis Area (255)
Greater New York City Area (225)
Canada (112)
Greater Atlanta Area (108)
Arizona (57)

Shopify with 15x LSPD's Sales has 6 non-revenue locations

Ottawa, Canada Area (890)
Toronto, Canada Area (778)
United States (297)
Montreal, Canada Area (262)
Ireland (234)
Kitchener, Canada Area (147)
British Columbia, Canada (136)

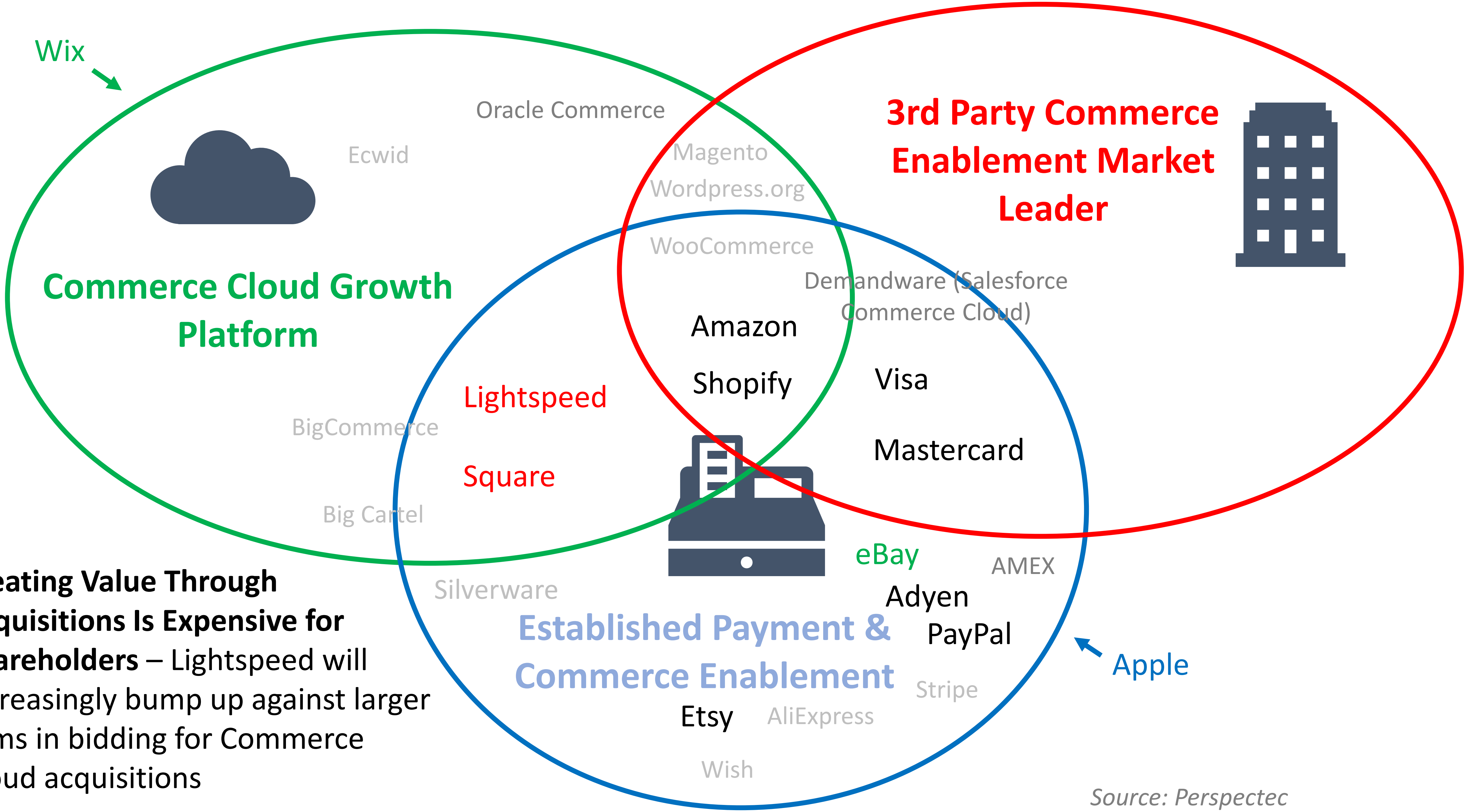
Silverware POS based in Toronto has all functions based there. Support and implementation in the U.S. for U.S. customers

Toronto, Canada Area (32)
Greater Chicago Area (5)
Washington D.C. Metro Area (4)

Apart from Chicago, **Toast** has grown these satellite offices organically, driven by need

Greater Boston Area (706)
Greater Omaha Area (107)
Greater Chicago Area (72)
Ireland (36)
California (36)
Greater New York City Area (28)

Source: LinkedIn



Creating Value Through Acquisitions Is Expensive for Shareholders – Lightspeed will increasingly bump up against larger firms in bidding for Commerce Cloud acquisitions

Source: Perspectec

Name	Fiscal Year	Salary	Share-Based Awards	Option-Based Awards[1]	Non-Equity Incentive Plan Compensation: Annual Incentive Plans	Non-Equity Incentive Plan Compensation: Long-Term Incentive Plans	Pension Value[2]	All Other Compensation[3][4]	Total Compensation
Dax Dasilva *Chief Executive Officer*	2019	$292,641[5]	-	-	-	-	-	$658	$293,299
Jean Paul Chauvet *President*	2019	$228,951[6]	-	$1,866,805	$234,251[7]	-	-	$860	$2,330,867
Brandon Nussey *Chief Financial Officer*	2019	$261,905[8]	-	-	$74,830[9]	-	-	$5,776	$342,511
Jerome Laredo *Senior Vice President of Europe, Middle East & Africa*	2019	$187,740[10]	-	$60,569	$163,390[11]	-	$9,210[12]	-	$420,909
Julian Teixeira *Senior Vice President of Sales*	2019	$131,525[13]	-	$99,981	$182,538[14]	-	-	$624	$414,668

Source: Lightspeed

Experience

Lightspeed HQ
6 yrs 11 mos

JP Chauvet
President at Lightspeed

President
Apr 2016 – Present · 3 yrs 5 mos
Montreal, Canada Area

iPad Cloud based Point of Sale for retailers and restaurants.
Responsible for Product Management, Engineering, Marketing, Sales, Strategic Alliances, Customer Success and Support.

Chief Revenue Officer
Oct 2012 – Apr 2016 · 3 yrs 7 mos
Montreal, Canada Area

iPad Cloud based Point of Sale for retailers and restaurants.

Responsible for Marketing, Communications, Direct Sales, Channel Sales, Strategic Alliances, Business Development, Customer Success and Support.

10x growth in the past 36 months

Source: LinkedIn

Creating Value Through Acquisitions Is Expensive for Shareholders

The 10x Growth is largely driven by M&A. JP Chauvet has built strong relationships with MerchantOS, POSIOS (Belgium French speaking) and the SEOShop teams from his CRO days. He is the glue that holds the company together and is paid 5x more than anyone else at Lightspeed.

Management still appears heavily focused on sales growth vs. accounting for acquisition costs

(11) Represents an amount of £125,395 under the Company's Sales Commission Plan, converted into U.S. dollars using an exchange rate of 1.3030, being the daily rate of exchange posted by the Bank of England for conversion of Pounds Sterling into U.S. dollars on March 29, 2019. Payments under the Company's Sales Commission Plan are made monthly, quarterly and annually based on achievement of sales and other targets.

Source: Lightspeed

Creating Value Through Acquisitions Is Expensive for Shareholders – POS Industry Specialists Disagree with Lightspeed's Acquisition Approach

"[Lightspeed] believes it can build the POS plus everything else that touches the POS. And not just build, but have legitimate, competitive solutions in non-core areas…these are the problems with trying to monopolize the entire ecosystem of bolt-ons…

Lack of focus on core POS ultimately means you'll lose market share*…all the resources you'll splash on activities not named POS are dollars you're not putting into your core POS while your competitors are. Eventually you'll miss the next quantum leap in innovation (from ECR to DOS, from local server to cloud, or the pending physical input to NLP/neural sensor)…NCR was so busy reinforcing their walled gardens and building shoddy bolt-ons that they missed the cloud boat entirely.*

Continued demonstration of nepotism will scare away the third parties *that make your POS a platform… Why would a third party risk material resources in committing to your customers if they thought you would just build a competitive product as soon as you could?...because you're a cloud POS you can turn off that data feed at any time to snuff out a third party; that ain't lost on potential partners either.*

– Jordan Thaeler on Lightspeed's Acquisition model in December 2018

Creating Value Through Acquisitions Is Expensive for Shareholders – POS Industry Specialist continued…

The market doesn't stand still - *Silicon Valley has suffered through an unbundling phenomenon over the past several years and the rest of the world isn't exactly immune to market trends." (our take is software is moving towards a more customized, user friendly experience vs. a one size fits all retailers/restaurants)*

Acquisitions nothing more than a checkbox - *"During a sales process the POS company just needs to check a box to remain in the hunt. So a potential customer might ask if there's an included "_________" (insert whatever feature you want). The POS company might decide it's preferable to check that box by buying something rather than building it internally. The POS company then acquires a solution but agrees to put few resources into further maturing the feature since it's nothing more than a literal check-the-box.*

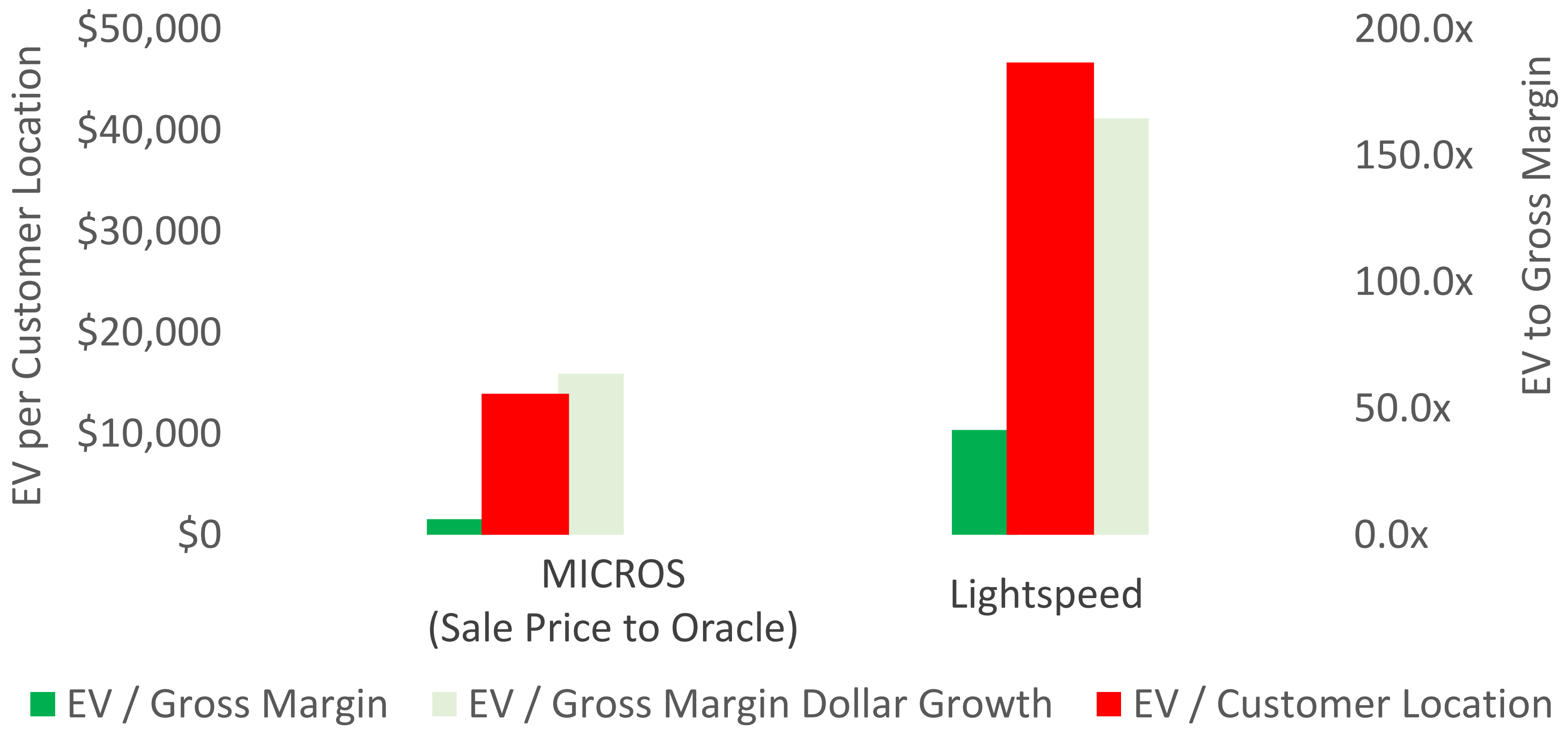
Issues with a solution created through acquisitions - *In acquiring a bolt-on you're agreeing to take on a number of intangibles…Slower sales cycles as you retrain sales employees across a burgeoning number of products…Higher support costs: now your customers will call you for an increasing number of issues. Will your support team be appropriately trained…Innovation against a growing list of competitors…The customer gets stuck with the costs of your inefficiencies. Ever wonder why Micros and NCR Aloha tendered such high prices? To feed their fat, complacent pigs of an organization.* "

– Jordan Thaeler on Lightspeed's Acquisition model in December 2018

Valuation – On a Historical, Relative, and Absolute Basis, Lightspeed is expensive

Valuation – On a **Historical**, Relative, and Absolute Basis, Lightspeed is Expensive

By **Historical** Metrics, LSPD is Multiples Times More Expensive by Almost Any Metric



Source: Perspectec

CISN Share Price since 2017 IPO

Source: Yahoo

Valuation – On a Historical, **Relative**, and Absolute Basis, Lightspeed is expensive

The Argument for Enterprise SaaS Acquisitions is a Lower Churn Rate. Lightspeed however does not disclose this figure

*"The nice halo effect that as everybody knows in SaaS, **the more products they have, the lower the revenue churn goes**, right? Not only for utility value, but then **just what it would be like to rip us out and replace us with 4 discrete products and 4 discrete vendors again.**"*

- Cision (CISN) CEO Kevin Akeroyd on August 11th, 2019 Q2/19 Earnings Call speaking about his SaaS business models

Commerce Cloud Growth Platform Regression Statistics	
Multiple R	0.999
R Square	0.998
Adjusted R Square	0.665
Standard Error	1,151
Observations	4

F-value = 1,598, Significant F = 0.0006

	Coefficients
Intercept	0
Gross Margin Y/Y Dollar Growth x LTV Added / GC (TTM) - Calendar Q1/2020	93.7x

P-value = 0.00003

Standard Error of Variable = 2

Sample includes Shopify, GoDaddy, Wix and Lightspeed

Valuation – On a Historical, **Relative**, and Absolute Basis, Lightspeed is Expensive

Our Price Target is based on Gross Margin Dollar Growth, Lifetime Value and Growth Costs

Valuation – On a Historical, **Relative**, and Absolute Basis, Lightspeed is Expensive

How Perspectec Defines Key Subscription Metrics

Lifetime Value (LTV) Added

$$= \frac{\text{Last Period's Increase in Gross Profit from Recurring Subscriptions}}{((\text{Churn} / \text{Expansion Rate}) + \text{WACC})}$$

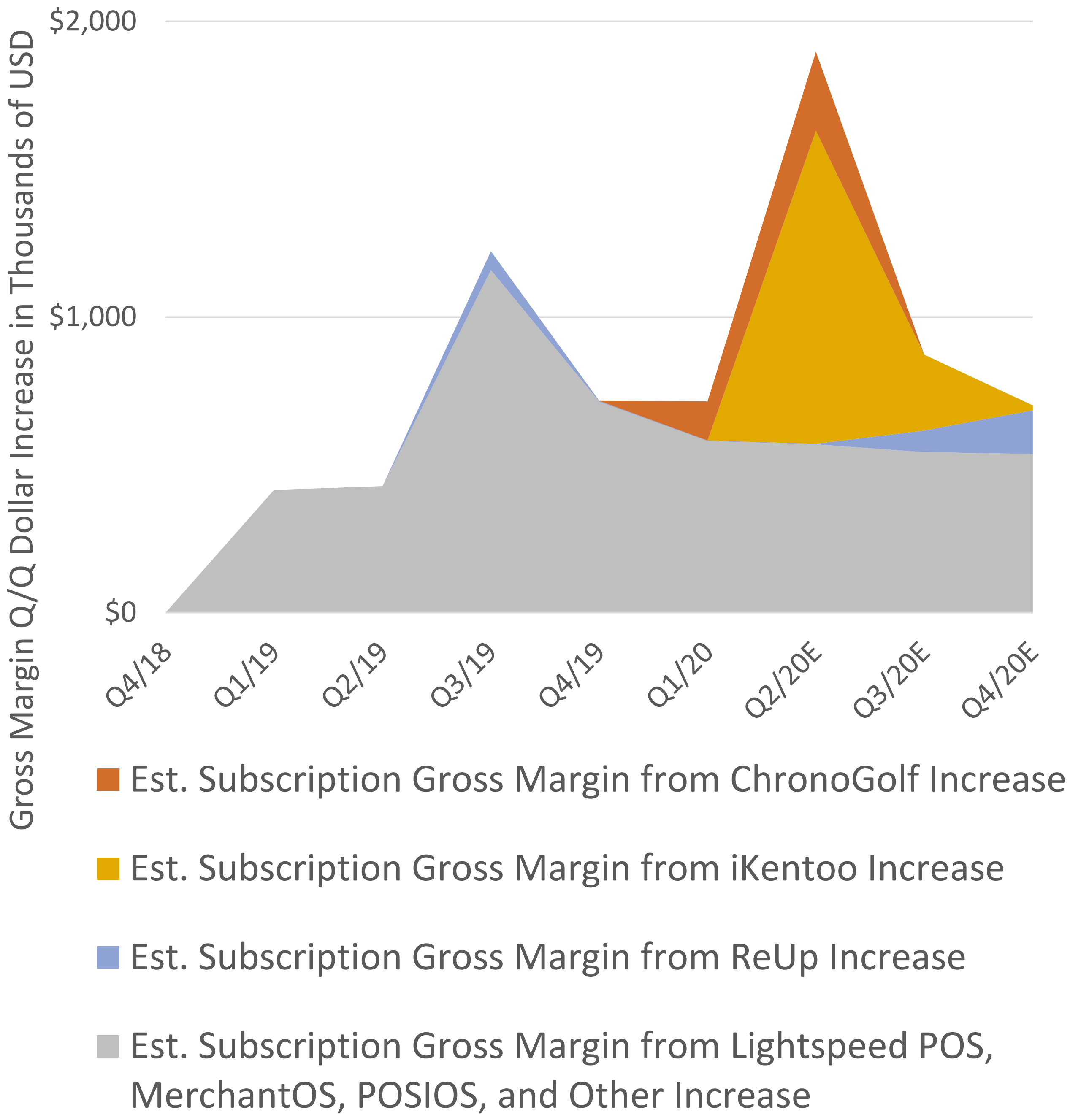
Growth Costs (GC)

= Sales and Marketing Costs + Research & Development + Gross Margin from Non-Recurring GM + Acquisitions

Source: Perspectec. For further details on our calculations please contact us at general@Perspectec.com or by phone at (416) 898-8546

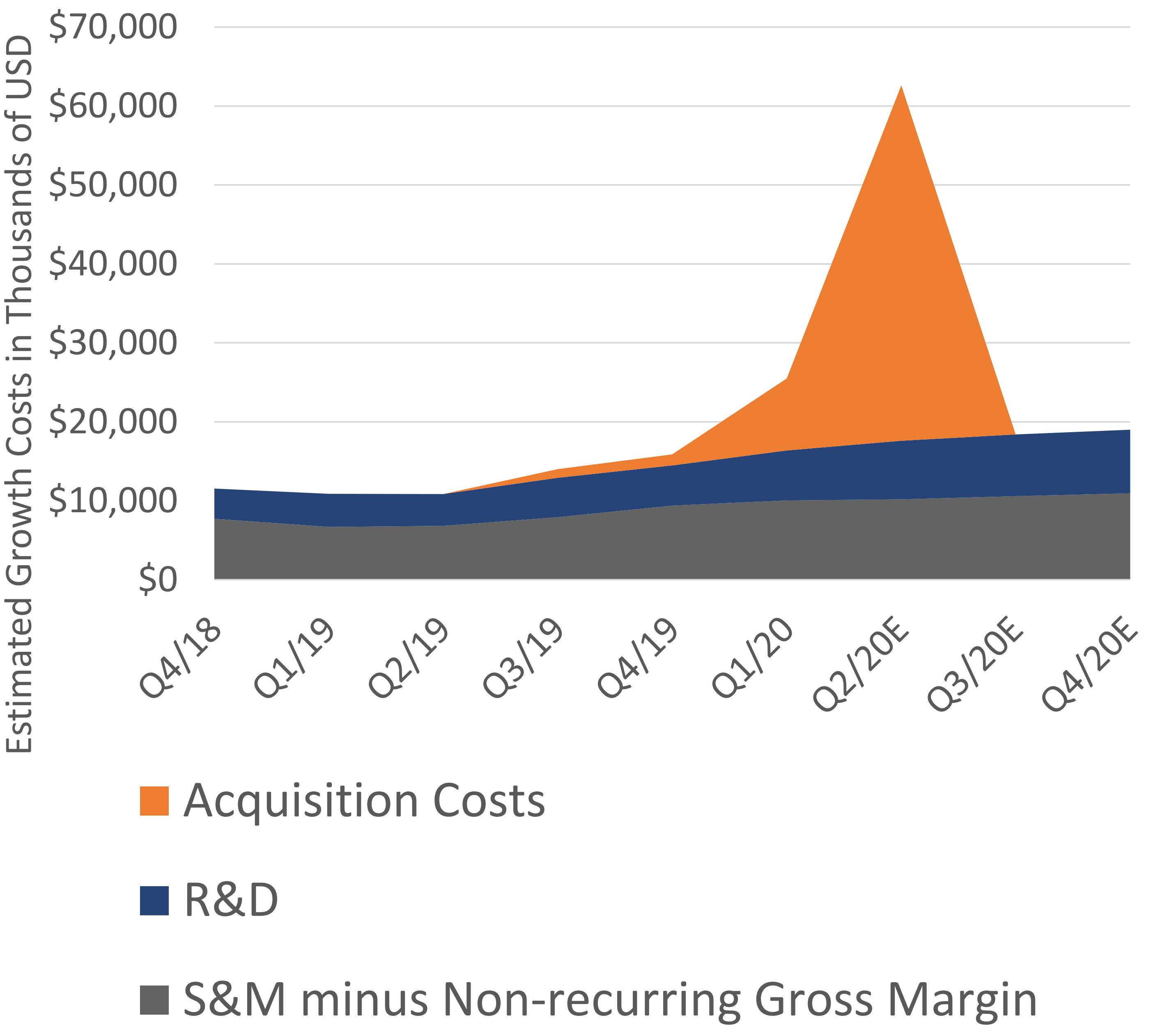
Valuation – On a Historical, **Relative**, and Absolute Basis, Lightspeed is Expensive

Expect a Big Subscription Gross Margin Dollar Contribution from the iKentoo Acquisition in Fiscal Q2/20
(Sept. 2019 Quarter End)



Valuation – On a Historical, **Relative**, and Absolute Basis, Lightspeed is Expensive

Offsetting the Large Increase in Subscription Gross Margin is an expected Jump in Acquisition Costs from iKentoo (the amount was not disclosed in fiscal Q1/2020)

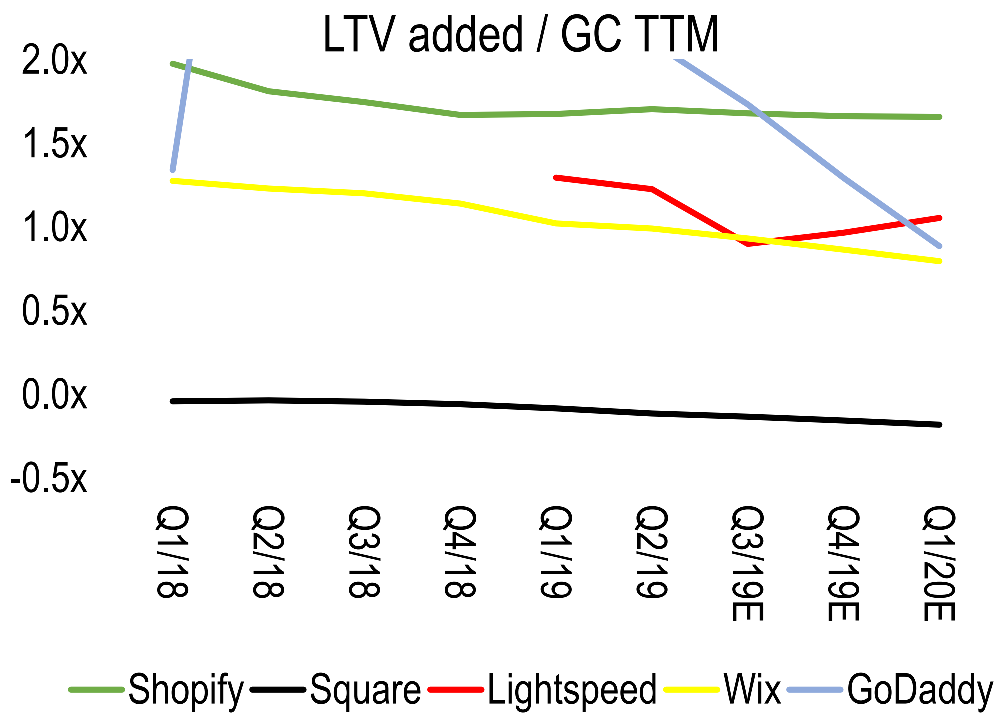


Valuation – On a Historical, **Relative**, and Absolute Basis, Lightspeed is expensive

Lightspeed's LTV/GC is Higher driven by M&A. No Direct Public Peer Group.

- Lightspeed and Shopify are seeing positive LTV/GC metrics relative to its general Cloud Commerce peers.
- Coming off a large positive transaction (HEG) GoDaddy is facing increasing pressure without a major offsetting benefit of GMV/GPV
- With the sale of Caviar, **Square** requires another major recurring revenue acquisition for a re-rating.

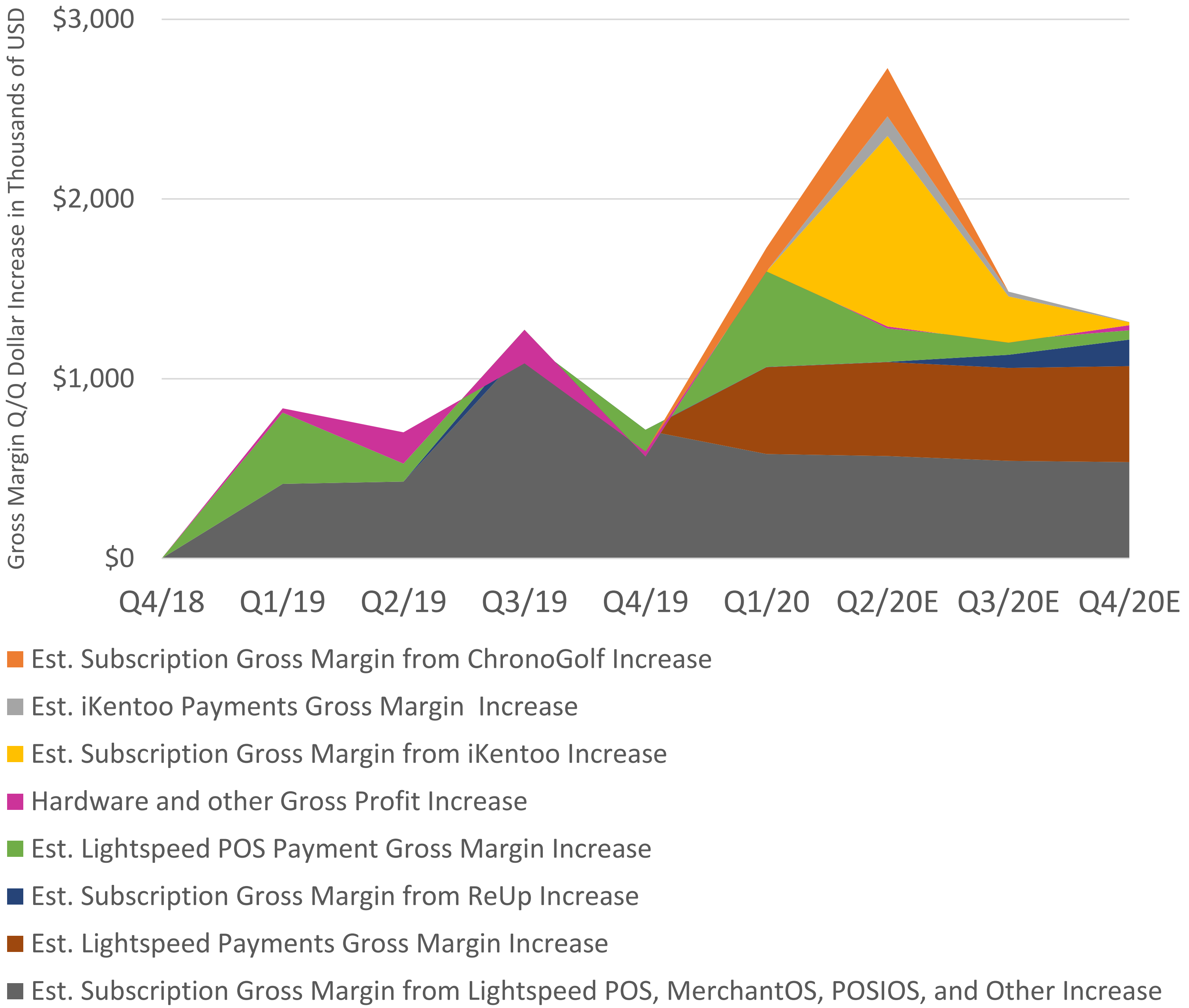
Given its brick & mortar customer base and acquisition strategy, Lightspeed is at a structural disadvantage relative to SHOP in its ability to grow Lifetime Value Added vs. Growth Costs



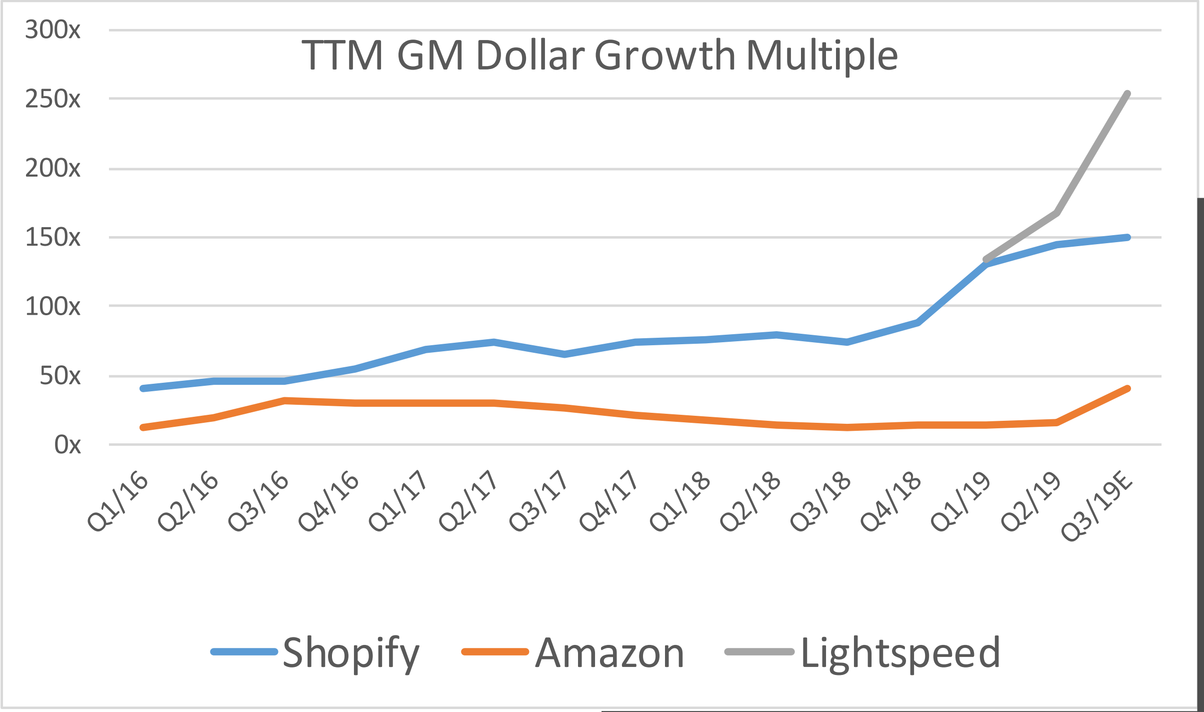
Source: Perspectec

Valuation – On a Historical, **Relative**, and Absolute Basis, Lightspeed is expensive

The large majority of sustainable gross margin growth over the next year we believe will come from Lightspeed Retail, Restaurants and Payments



Valuation – On a **Historical**, **Relative**, and Absolute Basis, Lightspeed is expensive

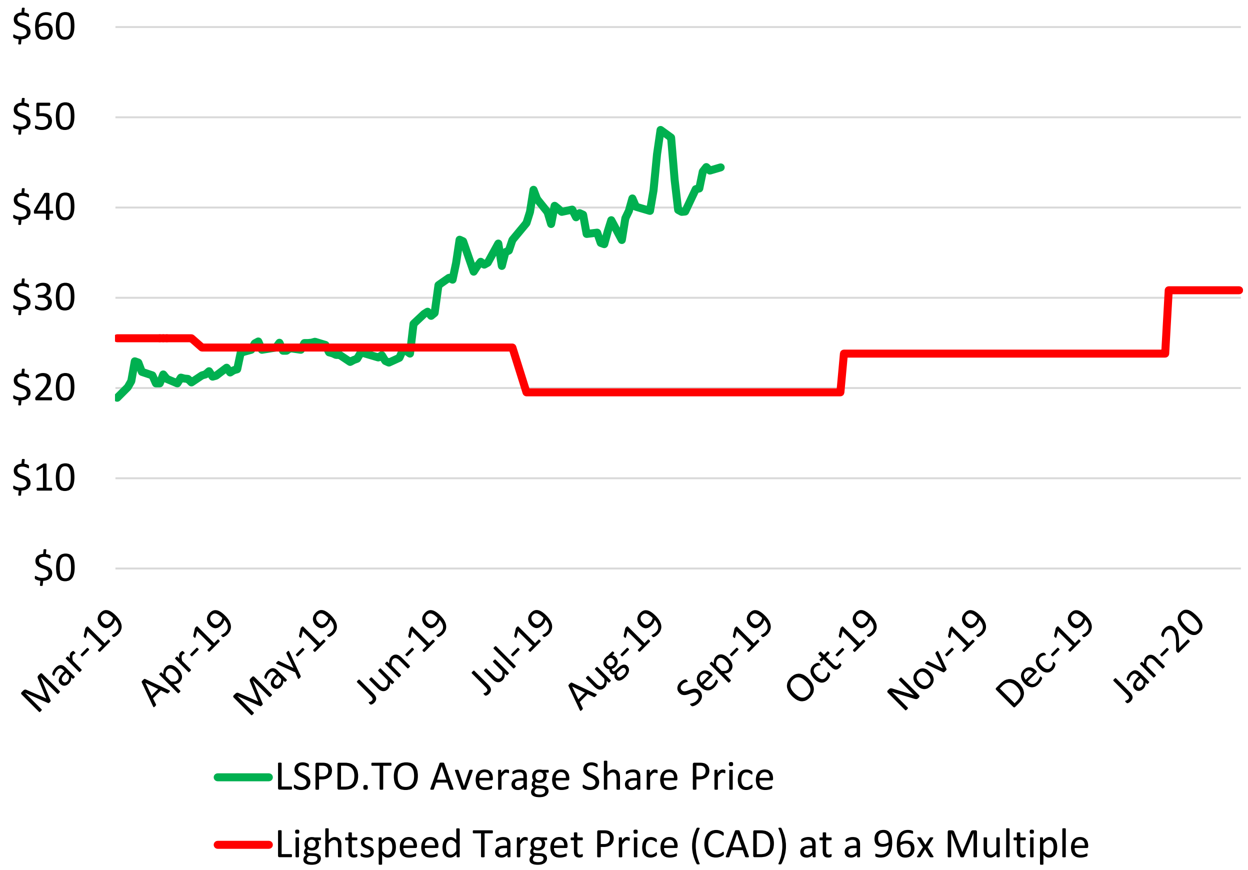


Prior to 2019, Shopify historically traded below 100x TTM Gross Margin Dollar Growth.

While Shopify has seen their multiple raise to about 150x, Lightspeed's has seen its share price decouple from Shopify premium multiple

Valuation – On a Historical, Relative, and **Absolute** Basis, Lightspeed is expensive

LSPD.TO has seen its share price accelerate at a rate well beyond what we believe is fair value



Source: Perspectec

The primary driver to our Calendar Q1/2020 price target are higher payments gross margin dollar growth relative to growth costs

Valuation – On a Historical, Relative, and **Absolute** Basis, Lightspeed is expensive

Perspectec's Definition of Free Cash Flow – We take all changes in cash and only exclude debt and equity issues/buybacks in the public market and any financing/investing issues that are not directly related to operations.

This normalizes the increasing discrepancy in non-GAAP free cash flow. Examples in this space of aggressive tactics include Amazon and GoDaddy.

	Revenue ($M)	Trailing 12-Month Gross Margin Added ($M)	Gross Profit (%)	Free Cash Flow Related to Growing Lifetime Value ($M)	Adjusted EBITDA ($M)	Non-IFRS Net Income ($M)	EPS
Fiscal Q1/20 Results	**24.1**	**14.5**	**65.2%**	**-17.5**	**-5.1**	**-9.1**	**-$0.11**
Prior Quarter (Q4/19)	21.3	14.3	67.3%	-3.2	-4.0	-96.0	-$2.21
Q/Q Change	13.1%	1.3%	-206 bps	n/a	n/a	n/a	n/a
Prior Year (Q1/19)	17.5	0.0	69.1%	-3.3	0.0	-7.1	-$0.07
Y/Y Change	37.7%	n/a	-391 bps	n/a	n/a	n/a	n/a
Q1/20 Guidance	$23M - $23.5M				-$6M to -$7M		
Q1/20 Mid-point Guidance	23.3				-6.5		
Results vs. Guidance	3.5%		n/a		n/a	n/a	
Fiscal Q2/20 Estimate	**28.3**	**15.8**	**65.2%**	**-34.0**	**-4.5**	**-11.9**	**-$0.36**
Prior Quarter (Q1/20)	24.1	14.5	65.2%	-17.5	-5.1	-9.1	-$0.11
Perspectec est. Q/Q change	17.5%	9.5%	-2 bps			n/a	
Q2/20 Guidance	$26 - $27				$(-5.5) - $(6)		
Q2/20 Mid-point Guidance	26.5				-5.8		
Perspectec est. vs. guidance	6.7%		n/a	n/a	n/a	n/a	n/a
Fiscal 2020 Perspectec	**116.6**	**0.0**	**64.6%**	**-70.2**	**-17.0**	**-46.0**	**-$1.39**
Prior Year (2019)	77.5	0.0	69.6%	-11.0	-13.4	-181.3	-$5.54
Y/Y Change	50.5%	n/a	-496 bps	n/a	n/a	n/a	
2020 Guidance	**$112 - $115**				**(18) - (20)**		
2020 Mid-point Guidance	**113.5**				**-19.0**		
Perspectec est. vs. guidance	2.7%		n/a	n/a	n/a	n/a	

Source: Perspectec

For our detailed forecast on GAAP and Non-GAAP info, feel free to contact us at general@perspectec.com or call us at (416) 898-8546

Valuation – On a Historical, Relative, and **Absolute** Basis, Lightspeed is expensive

At current industry valuations for slower growth commerce enablement companies that generate free cash flow, we see Lightspeed's fair value being $19 per share.

Our Assumptions include major restructuring to a few locations and gross margin dollar growth of 14% in fiscal 2023.

In Millions of USD	Free Cash Flow Focused Financials by Fiscal 2023
	2023
Revenue (Growing Revenue @ a CAGR of 30% Until 2023)	**$256.1**
Gross Margin @ 65%	**$166.5**
Operating Costs (Growing @ 10% per Year until 2023)	**$158.3**
Operating Income	**$8.2**
Add Backs: D&A, Acquisition related compensation expenses, Amortization of intangible assets, Depreciation of right-of-use assets	**$20.0**
Adjusted EBITDA	**$28.2**
Net Income (25% Tax Rate)	**$6.2**
Free Cash Flow	**$26.2**
Gross Margin Dollar Growth in 2023	**$30.2**
Diluted Shares Outstanding (Shares Outstanding Growing @ a CAGR of 1%	94,158,074
Our 2023 Unofficial Price Target Based on Re-Rating to an 'Established Payment & Commerce Enablement' Company encompassing Free Cash Flow (12x) and Gross Margin Dollar Growth (50x)	**$19**

Lightspeed Price Target

Our Lightspeed price target is equal to 94x our fiscal 2020 (March 2020 year end) estimated gross margin dollars added ($21.4 million) multiplied by its estimated TTM LTV Added/TTM GC of 1.05x. We convert this amount at a USD/CAD of 1.33 and divide this amount by 91.2 million diluted shares outstanding expected at fiscal year end.

This gets us to a target price of $31 per share by May of 2020. This coincides with the reporting of Lightspeed's fiscal 2020 and 2021 guidance.

We rate LSPD.TO a **SELL** and believe investors should reduce their holdings of LSPD.TO now. There does not appear to be a major catalyst for us to believe that the shares should be shorted. We believe greater awareness on LSPD's valuation with Canadian investors will move the share price lower

Risks to our Target Price

- A combined Lightspeed Retail, Restaurant and eCOM churn rate well below our 46% estimate, which was based on our Google Survey results. The current share price implies a lifetime (not-customer) value churn rate of about 30%.

- The price for acquisitions are materially lower than expected, including the recently acquired iKentoo

- Fund flows continue to move heavily and indiscriminately into the Commerce Cloud Growth space.

- Lightspeed is able to merge development and support of iKentoo as well as with future acquisitions easily and that this strategy leaves Lightspeed with a long-term WACC well below that of competitors.

Appendix: A Frankenstein POS Solution

$350 million in Funding Allowed Lightspeed to Purchase their Entire Cloud Platform (Retail, Restaurant and eCom)

Front-end / POS Software

- Product & Menu management for employees to use
- Multi-platform (acquired MerchantOS **in July 2013 and converted it** to **Lightspeed Retail**)
- Loyalty Management (acquired ReUp in July 2018)

Payments

- Transaction Processors using 3rd party payment providers
- Lightspeed Payments
- 3rd party Hardware (terminals, iPads, scanners, printers)

Back-office Software

- CRM
- Inventory Management
- Retail **Lightspeed Analytics** and Reporting (unannounced Crank Logic acquisition around Jan 2018)
- Accounting
- **Lightspeed Restaurant** (POSIOS acquisition in October 2014)
- **Lightspeed eCom** (SEOshop acquisition) w/ 8,000 customers acquired and #s have not grown (Acquired November 2015)
- eCommerce Apps (Shappz acquisition November 2015)
- eCommerce and retail integration
- Golf Courses (Chronogolf acquisition May 2019)
- European market share (iKentoo acquisition July 2019)

Appendix: Issues with Lightspeed Retail Appear More Frequently than its Peer Group

- **Inconsistency in operating between an iPad and PC**
- **Lightspeed POS and Loyalty do not communicate with each other**
- **No WooCommerce integration with Lightspeed Retail**
- **Some features only work on some platforms** – Example Buy 1 get 1 One Free allowed on eCom but not Retail
- **eCOM lacks scalability** – for a lot of transactions at a time
- **Not easy for growing drop shipper industry** - No customer ship to address for purchase orders. Makes it difficult to dropship using 3rd party products
- **Only 3 free eCom themes are available**
- **Suggestions from customers are kept private** – lacks transparency according to users
- Lightspeed is expensive relative to other platforms.
- **Little bugs for restaurants** – One customer can't pay without closing the entire table, Items can't be sent to multiple locations at once
- No editing invoices
- No record keeping of invoices emailed
- Can't use .xls, csv files to add new products or update pricing.
- **Forcing customers to pay the full 3-year contract even if they've used it for one day**
- Can't customize product labels
- iPad issues linking with the recommended Bluetooth barcode scanner.

	Shares Beneficially Owned Prior to the Offering		Number of Subordinate Voting Shares Offered[1]	Shares Beneficially Owned After the Offering			
	Subordinate Voting Shares	Multiple Voting Shares		Subordinate Voting Shares		Multiple Voting Shares	
	Number	Number		Number	Percentage[2]	Number	Percentage[2]
Jean Paul Chauvet[10]	1,370	—	255,000	1,370	(*) *	—	—

(10) Includes 1,370 Subordinate Voting Shares beneficially owned by Jean Paul Chauvet, which were originally acquired on March 15, 2019 (the closing date of the IPO) in connection with our IPO at a price of C$16.00 per Subordinate Voting Share (for an aggregate cost of C$21,920). Jean Paul Chauvet also holds 633,314 options to purchase Subordinate Voting Shares and 135,434 options to purchase Subordinate Voting Shares issued under our 2012 Legacy Option Plan and 2016 Legacy Option Plan (as defined in the Proxy Circular), respectively, that are vested and exercisable for Subordinate Voting Shares as at August 9, 2019. In connection with the Offering, Jean Paul Chauvet is exercising 255,000 of such options. The weighted average exercise price of these options, after converting Canadian dollar-denominated exercise prices into U.S. dollars using an exchange rate of 0.7564, being the daily rate of exchange posted by the Bank of Canada for conversion of Canadian dollars into U.S. dollars on August 9, 2019, is US$1.10 per share (for an aggregate cost of US$280,454).

Appendix: Creating Value Through Acquisitions Is Expensive for Shareholders – Selling after lockup was generally inline with levels seen at Shopify

The Primary Operational Executive Sold ~15% of Holdings at $35 per share with 3+ Years Left for his Option Expiration

	Option Exercise Price	Option Expiration Date	Value of Unexercised In-the-Money Options[2]
Jean Paul Chauvet *President*	16,588	C$0.372	January 1, 2021
	41,661	C$0.612	March 3, 2021
	165,114	C$1.304	January 26, 2022
	190,880	C$3.68	November 1, 2022
	154,120	$2.96	April 1, 2023
	162,516	$2.96	April 1, 2023
	985,875	$4.72	May 1, 2025

	Shares Beneficially Owned Prior to the Offering		Number of Subordinate Voting Shares Offered[1]	Shares Beneficially Owned After the Offering			
	Subordinate Voting Shares	Multiple Voting Shares		Subordinate Voting Shares		Multiple Voting Shares	
	Number	Number		Number	Percentage[2]	Number	Percentage[2]
DHI[3]	—	16,052,445	1,203,933	—	—	14,848,512	100.0% (100.0%)
Brandon Nussey[11].	—	—	62,330	—	(*) —	—	—

(11) Brandon Nussey holds 252,257 options to purchase Subordinate Voting Shares issued under our 2012 Legacy Option Plan that are vested and exercisable for Subordinate Voting Shares as at August 9, 2019. In connection with the Offering, Brandon Nussey is exercising 73,329 of such options. The exercise price of these options is US$4.72 per share (for an aggregate cost of US$346,113).

Appendix: CEO (DHI) Sold His Multiple Voting Shares, Taking him from 48.5% Ownership to 46.6%

CFO Sold 25% of his Exercisable Options On August 2019 Issuance

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BUY		
HOLD/NEUTRAL		
SELL	✓	✓

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