

PALOS

CONTENTS

Lightspeed: Some Short-Term Pain for Long Term Gain	1
Palos Funds vs. Benchmarks (Total Returns)	3
Disclaimer & Contacts	4

Weekly Commentary

Issue No. 21 | May 23, 2023

By [Charles Marleau CIM[®]](#) and [William Mitchell CIM[®]](#)

Lightspeed: Some Short-Term Pain for Long Term Gain

Lightspeed Commerce (LSPD:TSX/NYSE) reported fourth quarter 2023 and full fiscal year 2023 results last Thursday before the open. For Q4, EBITDA (earnings before interest, taxes, depreciation, and amortization) showed a loss of US\$4.3 million and a loss of \$0.49 per share, which bettered management's expectations. A loss of \$19.7 million was recorded in Q1/2022. Revenue came in at \$184.2 million versus an estimated \$183.8 million. Given the fact there were no acquisitions last year, revenue growth of 26% was "organic" while Gross Payments Volume (GPV) was up by 70% on a year-over-year basis.

Earlier this year, Lightspeed underwent an operational reorganization to become a "more nimble and streamlined company" in the words of CEO JP Chauvet. Building upon the company's established SaaS (software as a service) platform, the primary goals are to focus on two product areas (retail and restaurants) and to achieve EBITDA "break even or better" for the 2024 fiscal year with Chauvet adding "we expect to meet this goal in fiscal 2024".

The first goal was realized with the company formalizing two flagship products, **Lightspeed Retail** and **Lightspeed Restaurants**. With the go-to-market team focused exclusively on two products rather than the nine previous. Lightspeed can offer customers a superior roster of tools designed to make running a business simpler and more economic. A key initiative will be the "unified payment strategy" which will require all clients to subscribe to Lightspeed's payments platform. During the earnings call CFO Asha Bakshani remarked that costs related to the launch of "unified payments", which include free hardware, technical support and contract buyouts, will negatively impact the first two quarters of FY2024. For this reason, Bakshani expressed a "heightened level of caution" regarding the outlook for 2024. However, management believes that the back half of FY2024 will see "significantly better" EBITDA as the initiative begins to bear fruit.

Management acknowledged that 2024 would be a tale of two halves. The first half of 2024 will require a seamless execution of the plan to onboard as many customers as possible into the payments platform. Dedicated sales teams are being assigned with the task of expediting the transition and this will take time and money. An encouraging sign is that so far the reaction from existing customers has been very positive. Management acknowledges that some smaller customers, specifically those with GTV (gross transactional value) under \$200k, could opt to change providers. The smaller GTV customer locations (GTV < \$200k) fell by 6% in Q4 while the larger GTV locations (GTV > \$500k) grew by 13%. Adding the "right customers" and "monetizing GTV" will supersede location count, according to Bakshani.

Investors did not take the news well. LSPD shares declined by 12.7% on Thursday, following a 7.5% gain during the previous day's session. On Wednesday, Lightspeed announced the release of its next generation of restaurant

By Charles Marleau CIM[®] and William Mitchell CIM[®]

management software that's designed to "revolutionize" operations for restaurateurs. The latest version will improve the efficiency of operations, accelerate the payment process, improve the guest experience, and drive additional revenue. The mission is to "radically change the restaurant industry". Following Wednesday's rally and Thursday's selloff, LSPD shares rallied 2.51% decline on Friday. Year to date, LSPD shares are higher by 9.75% on the Toronto Stock Exchange.

Management expressed confidence that the transition initiative is the "right investment and strategic decision to drive durable long-term and profitable growth". Some short-term "pain" is to be expected. Launch costs approximating \$12 million and the process of sending people into the field to help merchants make the transition will take time and carries some risk. The expectation is that the second half of 2024, and onwards, will see a material revenue increase. We view the plan as sound and executable. In the meantime, some impatient investors have "voted with their feet" while patient investors see the opportunity. We are in the latter camp and we took advantage of the volatility by adding to our stake. The **Palos Equity Income Fund**, the **Palos Income Fund LP** and the **Palos-Mitchell Alpha Fund** are invested in LSPD.

Follow us on LinkedIn:



Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.50	5.44%
Palos Equity Income Fund - RRSP	PAL101	\$6.79	4.64%
Palos WP Growth Fund - RRSP	PAL213	\$11.82	-5.16%
Palos-Mitchell Alpha Fund ³	PAL300	\$9.00	13.32%
S&P TSX Composite (Total Return with dividends reinvested)			6.23%
S&P 500 (Total Return with dividends reinvested)			9.90%
S&P TSX Venture (Total Return with dividends reinvested)			7.52%
Chart 2: Market Data ¹			Value
US Government 10-Year			3.67%
Canadian Government 10-Year			3.13%
Crude Oil Spot			US \$71.55
Gold Spot			US \$1,977.20
US Gov't10-Year/Moody BAA Corp. Spread			220 bps
USD/CAD Exchange Rate Spot			US \$0.7404

¹ Period ending May 19th, 2023. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

Weekly Commentary

Issue No. 21 | May 23, 2023

Disclaimer:

This publication is proprietary to Palos Management Inc. (along with its affiliate Palos Wealth Management Inc., "Palos"). This publication may be copied, downloaded, stored in a retrieval system, further transmitted, reproduced, disseminated, and/or transferred, in any form or by any means, but only as long as it is unaltered and attributed to Palos. This publication and its contents may not be sold or licensed without Palos' written permission. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made or implied regarding accuracy or completeness. The information provided does not constitute investment advice and it should not be relied upon on as such. If you have received this communication in error, please notify us immediately by electronic mail or telephone. This document may contain certain forward-looking statements that are not guarantees of future performance and future results could be materially different. Past performance is not a guarantee of future performance. "S&P" is a registered trademark of The McGraw-Hill Companies, Inc. "TSX" is a registered trademark of TSX Inc. The Bloomberg USD High Yield Corporate Bond Index is a rules-based, market value weighted index engineered to measure publicly issued noninvestment grade USD fixed rate, taxable, corporate bonds. To be included in the index a security must have a minimum par amount of 250MM. Palos Funds are not available for non-Canadian residents.

PALOS

1 Place Ville Marie, Suite 1670
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188

F. +1 (514) 397-0199

1 St. Clair Avenue East Suite 504
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110

F. +1 (647) 343-7772

www.palos.ca