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ChargePoint Holdings, Inc.

Third Quarter Fiscal 2023 Earnings Conference Call and Webcast

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PRESENTATION

Operator

Welcome, everyone, to the ChargePoint Third Quarter Fiscal 2023 Earnings Conference Call and Webcast.

I would now like to turn the call over to Patrick Hamer, ChargePoint's Vice President of Capital Markets and Investor Relations.

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Patrick, please go ahead.

Patrick Hamer

Good afternoon, and thank you for joining us on today's conference call to discuss ChargePoint's Third Quarter Fiscal 2023 results. The call is being webcast and can be accessed on the Investors section of our website at investors.chargepoint.com.

With me on today's call are Pasquale Romano, our Chief Executive Officer, and Rex Jackson, our Chief Financial Officer.

This afternoon, we issued our press release announcing results for the quarter, which can also be found on the website.

We'd like to remind you that during the conference call Management will be making forward-looking statements, including our fiscal fourth quarter and Full Fiscal Year 2023 outlook. These forward-looking statements involve risks and uncertainties, many of which are beyond our control and could cause actual results to differ materially from our expectations. These forward-looking statements apply as of today, and we undertake no obligation to update these statements after the call. For a more detailed description of certain factors that could cause actual results to differ, please refer to our Form 10-Q filed with the SEC on September 8, 2022, and our earnings release posted today on our website and filed with the SEC on Form 8-K.

Also, please note that we use certain non-GAAP financial measures on this call, which we reconcile to GAAP in our earnings release and for historical periods in the investor presentation posted on the Investors section of our website, and finally, we'll be posting the transcript of this call to our Investor Relations website under the Quarterly Results section.

With that, I'll turn it over to Pasquale.

Pasquale Romano

Thank you, Patrick, and thank you, everyone, for joining our eighth earnings call as a public company.

We had another record quarter, with strong growth yielding $125 million in revenue, at the low end of our guidance range, up 93% year-over-year and 16% sequentially. The difference between $125 million in revenue and our guidance mid-point was largely made up of production constraints on our most mature AC product as a result of supply-driven redesign. The delay in shipping this high-margin product held our margin improvement for the quarter to one point, and we have now shipped the shortfall, and more, in November. Demand again exceeded supply for the quarter, resulting in additional growth in backlog.

We are on track to achieve our revenue target for the year, and Rex will provide more color on revenue, and particularly on gross margin, in his comments.

As we manage the revenue and gross margin challenges presented by supply chain constraints, logistics disruptions, and new product introductions, I'd like to comment on operating expenses.

As our Opex this year shows, we've significantly slowed our operating expense trajectory. We are managing Opex as a key driver of turning cash flow positive in the fourth quarter of Calendar 2024, and think we have made and are making the right choices in investing to achieve our market position.

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As we have commented previously, we have invested ahead of the market for many years, and our revenue growth has been and continues to be correlated with the availability of electric vehicles. With the continuing announcements by manufacturers of new EVs for consumers and fleets, we believe the global vehicle industry has passed the point of no return. Spending ahead of revenue has enabled us to engage across our key verticals in North America and increasingly in Europe. Our spending has enabled us to build out a broad product portfolio and core functions within the Company to support those product lines in our geographies, and though we have the typical challenges ahead to scale rapidly, we expect to grow operating expenses opportunistically and, thus, to continue to show improved operating leverage, as we've done this year.

Focusing for a moment on R&D, ChargePoint believes a broad product portfolio is essential because you have to be everywhere drivers go to be relevant. We have achieved major recent releases of our highly modular Express Plus DC product line, which powers our global fleet and passenger car fast charge solutions, and introduced the CP6000, our newest commercial and AC fleet product line, expanding our capabilities in the geographies we serve. With these products in production, we expect to shift a higher percentage of R&D spend to evolutions of our platforms and to continue investments in our cloud software, which comprehensively drives our entire ecosystem for drivers, commercial station owners, fleets, and the large array of ecosystem partners.

Given our pace of growth, we will, of course, continue our investments in sales and in our channel relationships, which, combined, give us industry-leading reach. A useful growth indicator in this area is the number of bookings in a quarter that exceed $1 million. Last year, we averaged one booking over $1 million per quarter. This year, we have seen steady increases in the number of bookings exceeding $1 million within a quarter, which is a reinforcing trend supporting our land-and-expand strategy. In the third quarter alone, we had 11 bookings to end customers of over $1 million. We continue to add customers at a rapid clip. Our consistent expansion within existing customers was over 65% of our billings for the quarter, consistent with historical trends, and we now count 80% of the 2021 Fortune 50 as customers and 54% of the 2021 Fortune 500.

Lastly, on investments, in support of the remarkably increasing scale of the business, we will be adjusting spend proportions in favor of business systems, sales automation, customer life cycle management, support operations tools, and installer and channel partner platforms. We believe that the breadth of our product lines, backed by the right systems infrastructure, are significant competitive advantages.

In Rex's commentary, he will address billings by vertical, but I wanted to comment briefly on some of the progress in Europe and Fleet, two key enablers we believe critical to ChargePoint's revenue growth, outpacing North American consumer EV arrival rates.

In Europe, we have been acutely supply constrained. Until the introduction of the CP6000, we did not have our own AC product for most countries. Despite the limitation, we have been winning logos at an impressive rate and are encouraged by the reception of the new solution.

In Fleet, the demand has been strong, but the market has been vehicle limited. We are seeing impressive growth in Fleet where vehicles are being delivered and in scenarios where customers are anticipating deliveries. For example, short haul and last mile billings are up over 475% year-over-year and transit is up 180% year-on-year.

Our installed base of networked ports under management grew to over 210,000, a year-over-year increase of 30% and sequential increase of 6%. Of those, over 65,000 are in Europe and over 16,700 are DC fast, an increase of more than 1,000 DC fast ports quarter-over-quarter. I'll remind you that ports under management is one way to track progress in our Commercial and Fleet verticals, as this represents the installed base generating an annual software subscription. As a reminder, we do not include home chargers for single-family residences in our networked port count, but we continue to see strong demand

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for residential. Complementing this, our roaming reach is now over 400,000 ports in North America and Europe. Combined, that's over 600,000 ports available through our platform.

Rex will elaborate on guidance, but, in short, the breadth and scale of our business model, combined with accelerating driver demand for EVs, has allowed us to narrow our annual revenue guidance range with a higher mid-point than we gave in March and reiterated at each quarterly call. This growth is despite persistent supply chain headwinds. While these headwinds continue, we are seeing signs of freight cost decline and component shortages concentrating.

Looking at some of the environmental statistics that are so critical to all of us, we estimate that our network has now fueled approximately 5 billion electric miles to date. We estimate that drivers utilizing our network have avoided approximately 200 million cumulative gallons of gasoline and over 940,000 metric tons of greenhouse gas emissions.

In conclusion, we continue to focus on execution. We strongly believe we have the right products and the right business model. We are growing rapidly across our three verticals and two geographies, so we simply need to do everything bigger and better to maximize our opportunities and generate maximum returns for our shareholders.

We believe that, with each passing quarter, we add to the remarkable technology, team, customer relationships, channel structure, and other competitive advantages we have been building over the 15-year history of the Company.

Rex, take us through the financials.

Rex Jackson

Thanks, Pasquale, and good afternoon, everyone.

A quick reminder, as in previous calls, my comments are non-GAAP, where we principally exclude stock-based compensation, amortization of intangible assets, and non-recurring costs related to restructuring and acquisitions. Please see our earnings release for our non-GAAP to GAAP reconciliations.

For Q3, revenue was $125 million, up 93% year-on-year and 16% sequentially, at the low end of our guidance range of $125 million to $135 million. As Pat mentioned, the difference between our results and the mid-point of our guidance was largely due to shipments of AC units delayed beyond quarter close, all of which shipped in November. As we have for multiple quarters running, we fundamentally shipped what we could build and booked more than we could ship. Though we worked down a meaningful percentage of our existing backlog during the quarter, a good thing, since much of our backlog was at older and, thus, lower pricing, our ending backlog increased.

Network charging systems revenue at $98 million was 78% of Q3 revenue, up 105% year-on-year and 16% sequentially. Subscription revenue at $22 million was 17% of total revenue, up 62% year-on-year and 7% sequentially. Other revenue at $6 million and 5% of total revenue increased 47% year-on-year and 56% sequentially.

Our deferred revenue, which is future recurring subscription revenue principally from existing customer commitments and payments for our Cloud software and Assure warranty coverages, continues to grow, finishing the quarter at $175 million, up from $168 million at the end of Q2.

Turning to verticals, as you know, we report them from a billings perspective, which approximates the revenue split. Q3 billings percentages were Commercial 69%, Fleet 18%, Residential 12%, and other 1%,

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representing a slight shift in favor of Fleet. Residential contribution was strong, but on a percentage basis, was impacted by supply shortages.

From a geographic perspective, North America Q3 revenue was 86% and Europe was 14%. In the third quarter, Europe delivered $17 million in revenue and grew 145% year-over-year. Europe revenue was essentially flat sequentially due to product availability, but from a bookings and backlog perspective, Europe had a record quarter.

Turning to gross margin, non-GAAP gross margin for Q3 was 20%, up a percentage point from Q2's 19%. ASPs in the quarter improved. We saw about half of the June price increase flow through in Q3, as we continued to work off backlog generated prior to the price increase. However, that impact was partially offset by $7 million or five points of purchase price variances and elevated logistics costs, the margin impact of a heavier DC mix due to AC supply shortages, and $3 million or two points in product transition charges.

Non-GAAP operating expenses for Q3 were $79 million, a year-on-year increase of 26% and down 1% from Q2. We are pleased to see Opex as a percentage of revenue drop from over 100% in Q1 to 74% in the second quarter and to 63% in the third quarter. This progression is a critical component of the combination of revenue growth, margin expansion, and Opex leverage improvement necessary to reach our stated goal of generating free cash flow by the fourth quarter of Calendar 2024. We do not expect Opex to drop in dollar terms as we go forward, but expect leverage to continue to improve, especially given that we have now released a number of core products that have taken years to develop.

Stock-based compensation in Q3 was $26 million, essentially flat from Q2. Recall, our stock-based compensation typically stair steps each Q2 due to the timing of annual grants to our employees.

Looking at cash, we finished the quarter with $398 million in cash and short-term investments.

We had approximately 342 million shares outstanding as of October 31, 2022.

Turning to guidance, for the fourth quarter of Fiscal 2023, we expect revenue to be $160 million to $170 million, up 108% year-on-year and up 32% sequentially at the mid-point. This translates to annual revenue guidance of $475 million to $485 million, slightly above the mid-point we've had all year and doubling year-on-year. For the fourth quarter, we expect non-GAAP gross margin to again improve sequentially, but for the year to be below the 22% to 26% range we previously targeted. With our continued focus on Opex, we are lowering our annual guidance for non-GAAP operating expenses to $325 million to $335 million, down from our prior guidance of the lower end of $350 million to $370 million.

With that, I will turn the call back to the Operator for questions.

Operator

Thank you very much.

We'll take our first question this afternoon from James West of Evercore ISI.

James West

Hi. Good afternoon, guys.

Rex Jackson

Hi, James

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Pasquale Romano

Hi, James.

James West

Pat, on the Fleet side of the business, which, obviously, is a huge opportunity, I know we're still a bit vehicle constrained, but every kind of quarter we get closer to that constraint coming down. Are you starting to see urgency building within your customer base as we get closer to this kind of unleashing of vehicles on the market?

Pasquale Romano

Yes. I mean, the urgency has been there, so I don't see a change in urgency, because the—I mean, I think there's been a lot of pent-up demand for vehicles, because they just pencil. What you are seeing—I'll just draw your attention to a couple of comments that I made—large growth rates year-on-year in both the kind of mid-sized logistics short-haul vehicles, because you're starting to see more supply come online, and then you're also seeing what is a disproportionate on the mature transit industry, effectively buses, where, because there are plenty of manufacturers that have maturing products, products that have actually seen more than one generation, you're seeing that growth rate as well. We expect that trend to manifest the minute vehicle availability kind of percolates through all the other sub-verticals.

James West

Okay. Okay. That's helpful, and then on the production constraints or logistics and supply chain constraints that you guys are still experiencing, are those easing at this point or are they similar to maybe last quarter?

Pasquale Romano

I had some specific comments in my remarks on that. The components that are continuing to be on the problem list are narrowing, so the list is narrowing, and I made a similar comment in an answer to a question, I believe, last earnings Q&A, and so that's continuing.

The freight and logistics, we've got headlights into that starting to normalize, and so that's moving in the right direction for sure, and just kind of a little bit more color on kind of what held us up a bit this quarter on the revenue side, we made a supply-driven design update effectively of one of our AC platforms that was planned, and as a result of components coming in a bit late and a very complicated transition in what is a kind of mature product in the factory, just didn't get it all built in time.

As Rex pointed out in his comments, I think I made them in mine as well, we cleared all that and shipped it. We just shipped it on the wrong side of the quarter boundary, so that stuff's all out and we're continuing to build now in the factory on that product.

James West

Okay. Thanks for that. Perfect. Thanks for that.

Operator

Thank you.

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We'll go next now to Matt Summerville of D.A. Davidson.

Matt Summerville

Thanks.

A couple of questions. I want to put just a finer point on the supply chain side of things. In an unconstrained supply chain environment, what would revenue have looked like in Q3, and what could it look like in Q4?

Rex Jackson

That's a good question, but one I can't directly answer, but we've been building backlog, as we said, at a rapid rate this year. I think the only thing I could say is it would be substantially higher, but I just can't give that out. But anyway, the other thing I was thinking is in listening to the questions from James West and how we're handling things, we have supply chain constraints, but our growth rate is fairly astounding, so I think we're banging through this pretty well, and then I would expect from a backlog burn-off perspective next year for that to be a nice boost to—or maybe a boost or a sustainer of growth rates. It'll help us keep the engine running. I don't know how fast it'll burn off, but I don't see it as being blippish (phon).

Matt Summerville

Then, to your point Rex, in your prepared remarks, you called out $7 million in purchase price variance, $3 million in product transition costs. How much of that goes away, outright goes away in Q4? How much lingers into Q4, and when will you be receiving 100% of the benefit from the pricing actions you've taken? Will that be in Q4, or will that not be until Q1 of next year?

Thank you.

Rex Jackson

Yes, so if you're focusing on the price increase, as we said, we got about half of it in Q3. I would expect to get most of the rest in Q4. It's really dependent on how fast we burn the backlog off, and there are different components to the backlog, and some stuff will ship and some stuff won't, but I would expect us to be hitting 100% by Q1. I'd be surprised if that didn't happen. And then in terms of the variances and whatnot, as Pat mentioned just a moment ago, the logistics' side of the house is turning around pretty well, and I think logistics have pretty well normalized and look a lot like they should going forward, so I would expect to benefit there.

As far as the PPV, it's more isolated. It used to be pretty much across everything, and now it's more isolated components, and I would see that coming down nicely over the next couple of quarters. Can't forecast when it goes away entirely, but I do think it would be on a downward trajectory; maybe not in Q4, because a lot of things are baked in, but certainly as we go into next year. And then one thing you should know, in terms of getting to 100% on price increases, make sure you understand where they apply. They apply mostly to North America, hardware North America. We did a price increase on software earlier last year, and if you're doing a model, it'll apply. When we get to 100%, it won't be 100%, because we have contracts with various customers that won't let us do that everywhere, but the impact is certainly meaningful and positive, as we saw in Q3 and expect to see in Q4.

Matt Summerville

Got it.

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Operator

Thank you.

We go next now to Bill Peterson of JP Morgan.

Bill Peterson

Yes. Hi. Thanks for taking my questions.

I guess as we look into next year, thanks for the color on how you're prioritizing Opex, but I guess what opportunities are you expecting to show the most growth, and, thus, where are you trying to prioritize your Opex? I mean, if you could stack price between things like Fleet or Commercial work, some of the applications, where are you really focusing your resources as we look into next year?

Pasquale Romano

I mean, we're continuing to focus in a balanced way across all the verticals, and we'll continue to do so. We're not going to overweight one. We'll make the necessary operating expense expansion on the sales and marketing side as kind of demand dictates, essentially, by sub-vertical, but it's just how historically we've performed. We haven't steered it unnaturally in any one given direction. I want to just make sure that we reinforce the point that I was making in my prepared remarks, in that when we decided to really escalate our spend rate relative to where the market was, even before we went public, that was essentially to intersect with the growth models that we had put together for EV installed base effectively.

The reason that things have leveled off quite a bit with respect to Opex expansion, and as Rex mentioned, that doesn't mean it's going to go down, it's just we're controlling that trajectory now, is because we built out most of the functions substantively necessary to support the verticals and the geographies. There'll be continued investments as we flesh things out and as certain verticals unwind from vehicle shortages, but I don't expect us to unnaturally overweight anything and leave another vertical uncovered. That's just not how we've operated historically.

Bill Peterson

Okay. Thanks for that color.

For my second question, I'd like to ask where service attach rates are trending. Where is it today? What has been the trend? Has it sustained as a percentage of installed base? Has it gone up? Obviously, there's a lot of new EV drivers out there and that could also kind of create friction when service networks don't work properly, but what is the team doing to, I guess, try to drive that higher as we look ahead?

Pasquale Romano

I just want to clarify that. When you're referring to—you mean our Assure programs, our (inaudible)...

Bill Peterson

Assure program, yes.

Pasquale Romano

...our maintenance and support programs? Okay.

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Rex? Why don't you take that, Rex?

Rex Jackson

Yes, so (inaudible) make sure I'm referring to the right thing, certainly, from a software perspective, which is one of the things we supply that I would call service, attach rates are always 100% out of the gate, and our renewal rates have been very solid, and we've said on multiple calls that our loss rate there is extremely low.

As far as our Assure warranty program, we've put a lot of energy into increasing the attach rates on that over the last couple of years, so they're healthy. They're not 100%, but they're very healthy and they're not trending down. They're trending slightly up, and we would expect that to continue. Big swinger on that is there are some customers who can't buy it, because they want to self serve, and then, obviously, we have to work successfully with our extensive channel network to drive Assure through that, and we're working on that steadily, but Assure is in a great place. We haven't seen any downward trends on either.

Bill Peterson

Okay, thanks for that.

Operator

Thank you.

We go next now to Gabe Daoud at Cowen.

Gabe Daoud

Thanks. Good afternoon, everybody. Thanks for all the prepared remarks.

Pasquale, you talked about demand trends and you talked about Fleet, particularly in Europe, but was just curious if you could maybe talk a little bit about Commercial, and within Commercial, what you're seeing there, what's the largest source of demand, I guess, at this point, within that channel, and then also, just mix shift—sorry, Pasquale—just mix shift on a product basis. Should we expect over time that DC will continue to grow, particularly as the NEVI program kicks off? Sorry, I know there's a lot in there, but...

Pasquale Romano

Yes, there's a lot to unpack in there, Gabe, but let's see if we can take them in order.

The first one regarding hot or cold spots in Commercial. I'll shorthand your question in that way, we've been serving literally every type of parking lot and every type of business for the foreseeable history of the Company, and so there's no major hot or cold spots in that. As Rex has mentioned I think on a few earnings calls, the workplace component, while it's there and continues to be vibrant, is muted a little bit relative to what it would be if people were in the office five days a week, 100% of the previous workforce that was in office have returned to office. That's largely offset by the growth rate of EVs in the installed base to cars, so we just kind of view that as a delay in workplace; and even relative to the previous answer that I gave to one of the questions today, it stresses why you have to be everywhere drivers go.

You lose your network effect if you're not everywhere and in every parking lot that they may encounter a charger, so we lose our network effect advantage to businesses if we were to see a focus on one sub-vertical versus another. That's why we don't do it, but most importantly, when we see unforeseen macro

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trends that'll change traffic patterns and driving patterns, if you're in every vertical, you've been insulated from that, and you've seen us, despite a lot of supply chain constraints, etc., effectively doubling the business, and that is largely due to the fact that we're a bit insulated from mix shifts due to grant programs, things like that, because as things bubble up in one vertical and maybe bubble down in another, the puts offsets the takes and you wind up having a fairly predictable, steady and healthy growth rate, so that taps into the NEVI program.

I want to make one comment. We don't see a mix shift in port count to DC. From an ASP perspective, it's so much higher on an ASP basis. That's why you see it outsized from a percent of revenue relative to the port count percentage it represents; so if you look at the active ports under management, which is a reasonable view because we do represent a network that is in virtually every use case a driver might encounter publicly, you'll see a fairly steady port percentage of DC.

Now, specifically with NEVI, you may see some pull forward there. You may see some. I'll remind you that in the inner years—because it is a five-year program, in the inner years, that'll be a bigger percentage of the overall DC requirement in the United States; but in the outer years, because the amount of grant money per quarter there is constant, but the market will be so much bigger, it will get more diluted. It will still do its job, but it will get more diluted, and I'll also remind you that we're operating in two geographies, and that phenomena does not exist in Europe. And then as Fleet unwinds, from a vehicle supply perspective, that'll start to build, and one of the biggest shortages in vehicle supply in Fleet is light Commercial Fleet, and as light Commercial Fleet starts to come up the chain, that'll move around ASPs a bit in the Fleet segment. Right now, Fleet is very heavily DC-oriented because so much of it is transit and mid-sized trucking, etc.; so hard to call the Fleet impact on this whole thing, but again, the DC mix is much more of an ASP ratio problem—well, not problem, but phenomena than it is a port count shift or a demand shift, and I'll remind you that, regardless of port, there's a recurring software license attached to it.

Gabe Daoud

Yes. Got it, got it. Okay. That's really helpful. Thanks, Pasquale, and sorry again for all the multiple questions within one, but I'll just quickly follow up with one last one on the supply chain front. Could you just talk about what some of the component shortages are at this point? I know last year it was maybe more of a whack a mole. Maybe this year it's just more of a chip issue, and so just any color around that, and then if you look into your crystal ball, when do you think this all kind of eases?

Thanks, guys.

Pasquale Romano

Well, Gabe, one of the things I've learned over my career is using a crystal ball is probably not a great way to run a business when something is driving the financials as hard as supply chain is, so life has more imagination than we do, so I don't know what the hell is going to happen in the macro that could potentially stop the recovery that's happening on the supply chain side, but something could happen that's unforeseen, so it's just too difficult to call. We are seeing, as we've reported now for several quarters, a concentration on the material side that is concentrated largely in ICs, largely in ICs.

In the long term, if, and it's a big if, the macro starts to significantly pull back demand for consumer electronics that use common ICs that would be prevalent in chargers, we would see that segment of the IC shortages clear up substantially. We do see some of that now. Hard to call how long it's going to take to kind of fully relieve itself there; and then in the long term, we expect that power semiconductors will likely continue to be in demand because they're used across the energy transition, so we're going to have to be very strategic with respect to power semis and how we manage that in our supply chain, and obviously, because I just said that, you know that that's something that our supply chain team is working

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on continuously. That's nothing new. That's known in the industry for quite a long time, so that's sort of how it naturally funnels down, but again, anything can happen in the macro, as we all know, so we are trying to be exceedingly careful. I think we've done a good job really building a lot of product and supporting the growth of the Company in what is a situation I've never seen before in my entire 30-some-odd year career of building products, so we're welcoming a relaxation of these trends.

Gabe Daoud

Thanks, Pasquale. Great color. Thank you.

Operator

Thank you.

We go next now to Colin Rusch of Oppenheimer.

Colin Rusch

Thanks so much.

Given the diversity requirements across geographies, could you talk a little bit about what you're seeing on the standards development side and the potential to move increasingly towards standard hardware with dynamically configurable software from a single SKU potentially?

Pasquale Romano

Yes. I mean, look, the fast charge product line that we've been kind of grooming and expanding, that is a product line we—it ships everywhere. Now, it may, because everything has been designed to be a fairly Lego block, whether we have a European standard cable or a U.S. standard cable attached doesn't change the fundamental electronics of the core or the software. The software just wakes up and understands what it's in and what country it's in and it just does the right stuff and makes sure that everything is set up in accordance of all the local guidelines and local standards, because the hardware remains configurable in that dimension.

We launched the CP6000. That's up and running and in manufacturing and chipping now, and that one there is a global AC platform, so it can do the entire power range, as well as single or three phase. It does all the metering required for the entire world that we can see from a meter standards perspective, and we're systematically going through all the incremental certification processes to cover the globe there. We haven't gotten through 100% of everything in every corner of the markets that we serve, but we're making steady progress, and that'll wrap up in the not-too-distant future, so it is possible to build something.

Now, I'll point to a specific example. It's completely modular with respect to where it's socketed or cable attached. Some European countries require socketed in some scenarios where the driver brings their own cable. You can dynamically change a unit from socketed to cable attached, and you can meet all of the shuttered or not socket requirements all over Europe with the same platform, so again, from a manufacturing velocity standpoint and ability to deal with demand instantaneous kind of mix issues, which always happen with the long-term trends, we can predict pretty well, but instantaneously within a quarter, especially as you get close to the end, you could get deals that come in that move things around locally really quickly. It's nice having the ability to have a product that is built that way, because you can satisfy demand from what is a manageable number of sub-assemblies and inventory, so that's why we do it that way.

Colin Rusch

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Perfect. That's super helpful, and then I guess the second question is really around the advantages of slowing some of the growth. You guys have done a very admiral job of growing the team as actively as you have. But with some of that growth slowing and the ability to have a more cohesive integrated team, can you talk about some of the efficiencies you're expecting to get, and what you're seeing from a cultural perspective as you start to see this group get a little bit closer and get some incremental leverage from an operating perspective?

Pasquale Romano

I think there's two big things to highlight that may or may not come to mind immediately when people listen to your question. We had to go through two acquisitions and integrate them, and I couldn't be happier with how the teams have come together in both those acquisitions. They're fully integrated. Many of the folks that came in from the acquisitions have senior positions within technical and other and sales leadership within ChargePoint, so there was a really great add from a talent perspective, and we've kind of culturally all learned a lot from those folks, and they've, I think, learned a lot from us, and together, I think we're better than we were before all three of those companies came together on the technical side and on the sales side, so we're really happy with that.

I think the bigger impact is how many people we've added since COVID, because that forced us into a remote environment like any other company for so many years, and if you look at the historical headcount of the Company kind of pre COVID and then we were still private and going public and now being public for nearly two years, that'll be two years in March, most of our workforce—not most, but a substantial percentage of our workforce that has been hired since COVID have not had the benefit of a great amount of personal interaction, just because it's been constrained. Now, that's coming back and we're doing a lot of things to make sure we actively get people collaborating, and being very careful, by the way, to make sure that we embrace the flexibility that today's workforce sort of demands, so we're trying to make sure that we don't culturally slow down the integration, but that we also don't throw cold water on people's expectations of a slightly more flexible work environment, so I think we've managed it incredibly well.

The feedback we've gotten is people are adapting and they're coming back together now since the restrictions have lifted, so culturally, it's gelling really well. We're also looking internally because of all the shift to now we know what this looks like at scale, so now we know what to invest in from customer onboarding tools and automation, sales force automation, business process, re-engineering internally to support, you know, what it's going to look like, and then you really know what it's going to look like when it's upon you, so there's a ton of that stuff going on cross-functionally inside the Company, and I think it's going about as well as it can, which doesn't mean it's going bad. It's going actually quite well. It'll take time to come to complete fruition, because we're also trying to run a business while we're doing that, but I'm very happy with how the team has come together.

Operator

Thank you.

We'll go next now to Craig Irwin at ROTH Capital.

Craig Irwin

Hi. Good evening, and thank you for taking my question.

Pasquale, I share your preference for performance indicators over fortune-telling with a crystal ball, and that being said, you have the largest business development team in the industry and have a very interesting way of managing that team, making them compete for resources. Can you maybe update us?

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You were appropriately conservative on the funding from the infrastructure bill and said that this is really going to be a '23 benefit. Can you maybe update us on what you see as a potential timeline for different states to disperse that money in a meaningful way, and is there anything else, maybe, that you're more optimistic about in the short to medium term that might have a bigger impact on the overall levels of market activity?

Pasquale Romano

Well, I mean, I don't think we have a shortage of market activity, and I'm not trying to be glib, and with respect to NEVI, I'm not disappointed. As you mentioned, we've been very consistent. We didn't expect anything to happen before 2023, and if you want an update, as you asked, I expect something to happen in the front half of the year, but not a lot. There'll be some things that happen in the front half of the year for sure on NEVI, and it'll grow. It won't be a cliff, but it'll grow through the year, and I think you'll start to see quite a bit of activity in the back half of the year in 2023, and that's if things continue on the current trend. I mean, that's our current visibility.

I'll also point out that we don't engineer things like that into our models specifically as we're managing the Company, because we like to be conservative with respect to the dynamics that can happen and slow programs like that down. I mean, you're dealing with governments, and it just moves at the pace of government, and so if you're in our position and you're betting on something on an optimistic side, or you're betting on something at all until it materializes, it really undermines your ability to be predictable, and as a public company, it's a bit reckless, so when we start to see it ramp and we start to see what our win rate will be, we'll be able to make further comments.

Operator

Thank you.

We'll go next now to Alex Vrabel at Bank of America.

Alexander Vrabel

Hi, guys. Thanks for having me on.

Just one other one for me, and I'm just curious if you can comment. I know it's relatively fresh, but just on this e-RINs news that came out today, just curious if you can kind of clarify how you guys are positioned around that, what you expect. I know the details are very, very fresh, but just curious, any color you can offer at this point.

Pasquale Romano

I haven't had a chance, given that we've been a bit pre-occupied with the goings on of this call today to really circle with our clean fuels program people here to get a full impact statement, but what I can say is that the current LCFS program credit that we take advantage of, or the proportions that we can take advantage of that we share with certain customers, that's in the other line on the revenue line, and where e-RINs will show up for us will be in that line if we can take advantage—in the scenarios where we can take advantage of it. I'll remind you that we are not a station owner in general. There are occasions we are, but it's not material or our business model, and so we have to really analyze the scenarios and where those credits go, what percentage are going to go to us, what that will look like in the long term, and how much we'll administer on behalf of our customers, but largely benefit our station and our customers, so too early to give you a full answer, but if you look at the other line, you'll get a pretty good indicator of what LCFS has done.

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Operator

Thank you.

We go next now to Steven Fox of Fox Advisors.

Steven Fox

Hi. Good afternoon.

Just had a couple of quick questions on gross margins. One, you mentioned how some of your backlog's still on old pricing versus new pricing. What's the difference in sort of the expected margin on the backlog that's sort of more favorable versus less favorable? And then I just want to make sure I'm clear on the gross margins going forward. With the full year guidance, are you implying that the gross margins for Q4 might be down from Q3, or just that you're going to be below the full year guidance?

Thanks.

Rex Jackson

Yes, so let me take the second one first.

What we expect to have happen is continued sequential improvement, so if you look at the year so far, we've gone 17%, 19%, 20%, and so for Q4, we think we will improve on 20%. Given mix and the other things that we have to wrestle with on PPV and that sort of thing, it's getting hard to put ranges on it, but we definitely see that going up in Q4, but we did want to let people know, being transparent, that the 22% to 26%, which we thought we could get to, is not mathematically likely, so we're taking that off the table.

We do expect to get better Q3 to Q4, and then as far as the backlog is concerned, we burn off a significant amount of backlog every quarter, so it's reloading, so we did our price increases in June, and as you can imagine, that takes a while to work through the system in terms of you've got a bunch of quotes out there and now you have to go—when you're doing new quotes, then you put the new pricing in, so it takes a while for that to go through the system. It only applied to hardware in North America. Keep that in mind, and so we're rolling through the older commitments, and as I said earlier, I think we'll probably bang through the older pricing over the next couple of quarters, Q4, Q1, so that we'll be fully on the new pricing. In terms of how the margins improve there, we haven't given out a figure on what the price increase level was, but it was significant, and so it will have a very, very nice impact on margins when we roll that through increasingly through the next six months.

Operator

Thank you.

We go next now to Maheep Mandloi at Credit Suisse.

Maheep Mandloi

Hi. Thanks for taking the question.

Just clarifying the previous comment, you talked about transitioning to new pricing over the next six months or the next two quarters, so by Q2 of next fiscal year, and second question, just on Opex, how should we think about that? You were able to reduce it a little bit for this year. Going forward, should we

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expect somewhat flattish at these levels, or, obviously, slower growth than revenue growth, but how should we—just any clarifications or clarity on that would be appreciated?

Thanks.

Rex Jackson

Yes, so on the pricing front, again, if you think about it, you announce a price increase; you've got to get it out to the channel; you've got to get it out to sales. It impacts only new deals that are not already quoted. Then you have to get those deals closed. As you know, we've been building backlog all year, so then you've got to cycle it through your backlog, so you do a June price increase, to fully see that roll through, you're looking at nine months at a minimum, just the way it works. Good news is we're four months through, and so we're well on our way, and we did see some nice impact from that in the third quarter, but I think we just have to be patient there as that works its way through the system over the next several months.

And then as far as operating expense trajectory is concerned, I think if you look at our Opex for Qs one, two, and three on a non-GAAP basis, which I would encourage you to do even though we all love GAAP, you'll get to see the actual trajectory of the Company, and it's been very steady this year, and that's very purposeful. The nice thing, as we look forward, our new product introduction expenses that hit Opex, many of which were in this past year, will be substantially reduced. We're going to be intelligent on hiring,

As I said in my prepared remarks, I do think Opex will go up, but I think it's going to go up in a very measured way in the near term and a substantially reduced rate relative to our revenue increase, and then frankly, if you were to look back two years ago, what was the Opex rate of increase percentage-wise, I would expect us to be below that, so the rate of increase is going to go down.

Operator

Thank you.

We go next now to Shreyas Patil at Wolfe Research.

Shreyas Patil

Oh, great. Thanks so much for taking my question.

I just wanted to maybe come back to the margin, and just as we're thinking about the prior guide, I think it was indicating something around 25% or 26% for the back half. It sounds like it's going to be more like in the low-20s now. I understand some of that is related to some of the ongoing supply chain issues. But maybe can you help us reconcile the missing pieces there that's kind of resulting in the margin softness?

Rex Jackson

Yes, so if you go through our last two calls and this one, what you'll see is the PPV/logistics side of the house, and we had some separate charges this quarter, and then twice we've had stuff not get out the—get out of the dock from an AC, which is a higher-margin product perspective, so there've been six points to eight points, even nine points, in each quarter that doesn't have anything to do with our business model, doesn't have anything to do with our products, doesn't have anything to do—well, it may be a little bit with mix, but not really. It's sort of points lost on the shop floor, and so our thoughts on trying to recover to get to our annual guidance coming out of Q2 and guiding to the low end of that range was dependent upon some of that stuff clearing up, and as luck would have it, as we said, Q3 was another quarter where we just couldn't get enough product out, especially from an AC perspective, so when we look at that going

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forward, it's a pretty simple question of when the external environment eases so that we get those points back, that's a pretty easy fix.

I think I know we've announced our new Head of Operations. We're attacking the op side of the house, both from a scaling perspective and a cost reduction perspective, with a vengeance, so I think there's cause to look forward with gross margin (phon). I see how this can improve, so we know the recipe. We've just got to get it out of the kitchen.

Operator

Thank you.

We go next now to David Kelley of Jefferies.

Gavin Kennedy

Hi. This is Gavin Kennedy on for David Kelley. Thanks for taking my question.

One of your competitors called out installation issues with DC fast chargers, which stemmed from both labor shortages and transformer supply chain constraints. Is that something that your team has seen, and if so, any thoughts on the magnitude and timetable of that disruption?

Pasquale Romano

Whenever you're doing construction, especially when it involves electrical upgrades, you're into construction permitting and utility interconnect, so things take a while, but I'll point you to the easiest way I could kind of help you understand it, from our perspective anyway, is we added over a thousand DC fast charger ports to our active ports under management count. Now, that means those products that were sold through in the past, went through site design, construction, permitting, all the usual stuff, utility, interconnect, and were activated, but it gives you a flavor for the fact that if you have a pipeline, a proper pipeline, the delays essentially pipeline away, and the delays aren't there everywhere.

They're there for literally certain physical locations where the electrical utility infrastructure at those particular locations may require an upgrade to deal with the power levels that are required for that use case at that site, so we do see some hotspots, but again, the business is very broad here, and we have a continuous engagement pipeline that's feeding the top of the funnel, so in this quarter alone, you're seeing that thousand come out, which is a pretty big number, so I just think as long as you're feeding the top of the funnel, a business like ours—and also because of our diversity of the verticals we're in and geographies, it's a bit more muted for us.

Operator

Thank you.

We take our next question now from Itay Michaeli at Citi.

Itay Michaeli

Great. Thanks. Good evening, everyone.

Just one quick question on the subscription gross margin. I think it kind of came in at below 40% in the quarter, kind of flat from last quarter. How should we think about that going forward? Is there any price

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increases being implemented there? Just kind of curious on the puts and takes in the quarter and the forward outlook.

Rex Jackson

I'm so mired in non-GAAP, I'm kind of surprised by the question, but it's a fair question from a GAAP perspective, so on a non-GAAP basis, our subscription margin actually moved up nicely in Q3, to the extent that if you go to GAAP, obviously, we are growing the team. We're investing heavily, and frankly, doing some pre-investing in that space, just because we see good customer support. It's a huge differentiator for the Company and the way you win, so obviously, those people live in that line item, and the costs are allocated accordingly, but anyway, net-net, our subscription gross margin went north, and frankly, we're putting a lot of energy into making sure that continues.

Operator

Thank you.

We go next now to Mark Delaney of Goldman Sachs.

Mark Delaney

Yes. Good afternoon. Thanks very much for taking the question.

When you think about the pricing and what that means for margins, do you think you need to do another round of price increases in order to reach your longer-term margin targets, or do you feel with the pricing you've already done and potential for some of these other impacts to perhaps ease like supply chain that you can—you get (inaudible)?

Thanks.

Rex Jackson

Sorry, I didn't catch the tail end of the question due to reception, but on the basic question of are we anticipating further price increases, I think the answer to that is TBD, with a shading in the direction of not in the near term, because we just did one early last calendar year, and then we did another one that was larger but North America hardware solution-specific in June, and we're seeing the impact of that begin to roll through. We've seen about half of it in Q3. We'd like to see the rest of it in Q4 and Q1, and so we think that will have a beneficial effect on our gross margins; and then beyond that, we've got a lot of operational improvements that we're doing if the PPV. And if the PPV and logistics situations ease, I think we can get where we need to be through more traditional means, just improving our costs and improving our expenses, etc., versus going for further price increases. I mean, like most software companies, we do have an automatic increase situation on software, so there is a built-in escalator there, but in terms of broad-based price increases, I don't see one on the table in the near term.

Operator

Thank you, and that concludes our question-and-answer session this afternoon.

Mr. Romano, I'll hand things back to you for any closing comments.

Pasquale Romano

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Well, I just wanted to say, first of all, thank you for everyone for the thoughtful questions. Appreciate it very much.

Want to reiterate my usual thanks for our team here at ChargePoint that have to work very, very hard to pull off the quarterly results. I know they're all very proud of their accomplishments and are looking forward to not only wrapping the year up in Q4, but to the road ahead in 2023 for us. I think, as I said in my remarks, the number of makes and models across the board in both passenger cars and the Fleet segment really—it's a really stark difference than it has been even a year ago in terms of availability, and as those things reach some reasonable level of manufacturing maturity, I think we'll all be very pleasantly surprised with the pace of adoption relative to the installed base in this market, so we're very, very excited about the future, and again, thank you all. We will see you at our last earnings call of the year next time, and we'll sign off for now.

Operator

Thank you, Mr. Romano.

Ladies and gentlemen, that will conclude ChargePoint's Third Quarter Fiscal 2023 Earnings Conference Call. We'd like to thank you all so much for joining us and wish you all a great evening. Goodbye.

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