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ChargePoint Holdings, Inc. (CHPT)

Q1 2022 Earnings Call

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CORPORATE PARTICIPANTS

Patrick Hamer
Vice President, Head-Capital Markets & Investor Relations, ChargePoint Holdings, Inc.

Pasquale Romano
President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

Rex S. Jackson
Chief Financial Officer, ChargePoint Holdings, Inc.

OTHER PARTICIPANTS

Colin Rusch
Analyst, Oppenheimer & Co., Inc.

Shreyas Patil
Analyst, Wolfe Research LLC

Gabriel J. Daoud
Analyst, Cowen & Co. LLC

Craig Irwin
Analyst, ROTH Capital Partners LLC

Itay Michaeli
Analyst, Citi

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, good morning. My name is Louisa, and I'll be your conference operator for today. At this time, I would like to welcome everyone to the ChargePoint First Quarter Fiscal 2020 (sic) [2022] (00:16) Earnings Conference Call and Webcast. All participants' lines have been placed on listen-only mode to prevent any background noise. After the speakers' remarks, there'll be a question-and-answer session. [Operator Instructions]

I will now turn to the call to Patrick Hamer, Vice President of Capital Markets and Investor Relations. Patrick, please go ahead.

Patrick Hamer
Vice President, Head-Capital Markets & Investor Relations, ChargePoint Holdings, Inc.

Good afternoon and thank you for joining us on today's conference call to discuss financial results for ChargePoint's first quarter of fiscal 2022. I'm Patrick Hamer, Head of Capital Markets and Investor Relations at ChargePoint. This call is being broadcast over the web 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 President and Chief Executive Officer; and Rex Jackson, our Chief Financial Officer. This afternoon, we issued our press release announcing results for the first quarter ended April 30, 2021, which can be found on our website.

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We would like to remind you that during the conference call, management will be making forward-looking statements, including our second fiscal quarter and fiscal year 2022 outlook and our expected investment and growth initiatives. These forward-looking statements involve risk 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 factors that could cause actual results to differ, please refer to our Form 8-K filed with the SEC on April 1, 2021, and our earnings release posted today on our website and filed with the SEC on Form 8-K.

Also please note that certain financial measures we use on this call are non-GAAP. For historical periods, we provide the reconciliations of these non-GAAP financial measures to GAAP financial measures in the investor presentation that can be found on the Investors section of our website. And finally, once we've completed this call, we'll be posting the transcript of our opening remarks to our Investor Relations website under the Quarterly Results section.

And with that, I'll turn the call over to Pasquale.

Pasquale Romano

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

Thank you, Pat. Good afternoon and thank you for joining our first quarter earnings call. Our strong results this quarter reflect our commitment to execution, as we continue to build on our established leadership position in EV charging. Our exceptional charging technology built over 13 years and broad customer base positions ChargePoint to capitalize on the ongoing and accelerating shift to electric mobility. We are deep in execution. Next, I'll share the extent to which our team and operations are scaling to support the unprecedented pace of fueling infrastructure build-out.

The ChargePoint team is now over 900 strong. We have attracted and engaged high-caliber talent across North America and Europe, and our productivity remained strong as we transitioned to predominantly virtual operations amidst the pandemic. Our channel partners in North America and Europe help us reach more customers at a local level, including distribution partners, value-added resellers, and installation partners. In fact, we added 53 additional channel partners in Q1. Our support team services a range of customers from site hosts to drivers. We continue to offer scaled support operations around the clock in nine languages, and our operations and maintenance group is now 180 partners strong.

EV charging requires compliance with electricity metering accuracy requirements, and we continue the extensive software work associated with this. The build-out of the new fueling network is supported by our utility and energy partners. And we saw there was an estimated 200% increase in total approved utility customer incentive program funding in North America over the last 12 months. In Europe, our team is engaged with more than a dozen energy retailers and utilities, developing strong partners that want to leverage our technology.

We continue to work with the industry to enable drivers to roam across networks without penalty of access fees. The number of roaming ports accessible from a ChargePoint account now tops 175,000. These are just a few examples of what it takes to generate new customer growth, service existing customers, and deliver a great experience for drivers.

The EV and EV charging markets continue to gain momentum. Vehicles are essential to this category. According to BloombergNEF, there were 378,000 EVs sold in North America in 2020. They expect nearly 540,000 to be sold in 2021, an increase of 43%. The European market is large and growing rapidly. BloombergNEF expects over 1.9

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million vehicles will be sold in 2021, thanks to the addition of over 165 new vehicle models. Vehicle announcements in both markets are accelerating as OEMs commit to electrification. Supply chain willing, the new vehicle sales market is poised for a breakout.

We believe ChargePoint's unmatched scale and industry-leading platform uniquely position us to win business in this fast-growing market across lines of business. This was evident in our impressive first quarter results. As we saw over the past year, our segment diversity helped us to mitigate the impact of COVID-related slowdowns in the commercial business, thanks to strengths in our fleet and residential business. We saw a recovery in our commercial business this quarter, which I will address in more detail shortly.

Before we continue, I would like to welcome Susan Heystee to our board of directors. Susan brings technology and revenue leadership to our board. She currently serves as a strategic advisor and director of Ouster, Inc., a public LIDAR company. Previously, she led Verizon Telematics Global OEM Business. And I would also like to thank Neil Suslak for his many years of service as a board member. Neil made an early commitment to electric mobility as an early investor in ChargePoint and has been a board member since March of 2014.

Moving on to the first quarter, we reported revenue of $40.5 million, a 24% year-over-year increase and slightly ahead of the high end of our guidance range. We saw strong trends in all three lines of business: commercial, fleet, and residential, and across North America and Europe. Commercial billings increased by 50% year over year in the first quarter against a quarter last year that was only nominally impacted by COVID. We added a record number of new customers in Q1, bringing the total to more than 5,000. Existing customers expanded ports as EV penetration increased, and this drove top-line growth in the quarter, with a customer rebuy rate at well over 60% in both North America and Europe.

We ended the quarter with over 112,000 active public and private charging spots on our network, up from approximately 106,000 last quarter. This reflects activated port growth of 28% year-over-year. We provide active port count as it reflects the ports that are available for use and generating recurring high-margin software subscription revenue. As a reminder, our hardware is always accompanied by our software. We offer both Level 2 and DC fast charging solutions. While we continue to observe that the majority of fueling is Level 2, we offer higher power DC fast charge solutions for a range of use cases, including those occasions when drivers need to fuel up quickly, such as in fast fill settings and fleet depots. Today, more than 3,500 of our active ports are DC fast charge.

We continue to enable a winning driver experience with ChargePoint integrated on a range of screens, from our highly rated mobile app to in-car infotainment systems to proprietary auto OEM apps. We announced our support for Android Auto in April, and this builds on our prior vehicle integration announcements, including Apple CarPlay, Volvo, and Polestar among others.

Now I will discuss in more detail two of our focus areas for growth: our fleet business and Europe operations. Our fleet business includes delivery and logistics, sales, service and motor pool, and shared mobility verticals in both North America and Europe. This was a strong fleet quarter, with billings up 172% year-over-year. Fleet billings in the quarter were comprised of a diverse group of clients with a wide array of needs, which speaks to the breadth of our solution offering. We are working with big box and other large retailers to design and implement charging solutions for the delivery fleets. IKEA is a great example from this quarter. We are seeing more shared mobility business. With a growing portion of public transit electrified, we are working closely with leading transit authorities, with first quarter engagements including Orange County Transportation Authority in California and Pierce Transit in Washington. New York City continues to deploy EV charging, including ChargePoint solutions to support its nation-leading municipal EV fleet, and is on track to deploy additional network DC fast chargers by the end of 2021 for both fleet and public use.

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We've seen strong demand for ChargePoint Home Flex, our solution for drivers in single-family residences. We are also seeing corporate customers buying ChargePoint Home solutions for take home fleets, including through auto leasing and fleet management company LeasePlan in North America.

In Europe, we are working with leading lease management companies like ALD Automotive for whom we enable automated home reimbursement, public charging, workplace and fleet charging to provide one seamless approach.

Our fleet work with utilities continues this past quarter. We collaborated with Xcel Energy to provide ChargePoint solutions for public charging for its customers at home and across their fleet of utility service vehicles. Fleet is a category that historically understood the significant economic benefit of electrification but has been hampered by the availability of vehicles. We see tremendous potential for growth as more vehicles begin to ship in volume and in a wide range of form factors.

Now, moving on to Europe. As discussed on our last call, Europe is a key part of our growth strategy. It leads in market adoption of EVs and has progressive policy electrification mandates. The charging ecosystem in Europe is fragmented and has suffered reliability issues as compared to the options in North America. Our ground-up technology and field-tested solutions address these reliability issues and are selling well. We continue to invest in our European team. Our European head count has doubled since the start of 2020 and is just shy of 150. With sales leadership well-established, we continue to grow our sales team, and we've made significant hires in engineering, as well as product and services.

Our recent investments are paying off. We had our strongest financial quarter on record in Europe across essentially all metrics. Revenue growth in Europe in the first quarter was over 140% year-over-year, and activated ports increased 24% sequentially from Q4 to over 4,700.

In summary, we believe we are well-positioned to pursue growth opportunities in commercial, fleet and residential in North America and Europe. On the policy front, we are encouraged by the inclusion of EV charging in President Biden's proposed American Jobs Plan for infrastructure funding. We are actively engaged with parties in Washington, D.C., with states across the US and Canada and the EU to provide guidance in shaping policy to support our vision to move all people and goods on electric power.

Our balance sheet remains strong with over $610 million in cash at the end of the quarter. Our capital-light business model provides us the flexibility to execute on our long-term growth plans. And for more, Rex, over to you.

Rex S. Jackson

Chief Financial Officer, ChargePoint Holdings, Inc.

Thanks, Pasquale, and good afternoon, everyone. First, my comments are non-GAAP. In our non-GAAP results, we principally exclude stock-based compensation and the effect of the valuation of our preferred stock warrants. We reconcile to GAAP in our earnings release. Second, after a quick review of our results, I will provide revenue estimates for Q2 and for the year. Third, consistent with our March call, and as you could see in our earnings release, we report revenue along three lines: Networked charging systems, subscriptions, and other.

Networked charging systems represent our networked hardware. Subscriptions include our cloud services, our share warranties, and our ChargePoint-as-a-Service offerings where we bundle our solutions into a recurring subscription. Other includes energy credits, professional services, and certain non-material revenue streams.

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Q1 revenue was $40.5 million, up 24% year-over-year and slightly above the high end of our guidance range of $35 million to $40 million. Networked charging systems revenue was up 36% year-over-year as commercial began its recovery, and fleet and residential posted strong results. North American commercial outperformed our fourth quarter, an encouraging signal from a return to work perspective. Subscription revenue was also up 20% from Q1 of last year. Other revenue declined largely because of lower energy credit-related revenue.

Billings by category for the first quarter were commercial 73%, fleet, 12%, residential 11%; and other 4%. Billings by percentage for the fourth quarter were commercial 68%, fleet 17%, residential, 12%, and other 3%. Fleet had its second best billings quarter ever after a particularly strong Q4.

From a geographic perspective, Q1 revenue from North America was 91% and Europe was 9% compared to 96% and 4%, respectively, in Q1 of last year, demonstrating early returns on our continued investments in the European market. Our subscription ChargePoint-as-a-Service offerings, which yield ratable recurring revenue, turned in a solid quarter, growing 64% year-over-year. As Pasquale indicated, new customer acquisition was particularly strong. And repeat customer business, the cornerstone of our strategy, was in line at over 60% of total billings, demonstrating the power of our land and expand model, as small first purchases create sticky relationships and a significant repeat rate.

Turning to gross margin. Non-GAAP gross margin for Q1 was 23%, up sequentially from the fourth quarter's 22% on similar mix, which continue to favor our lower margin DC and residential products. The improvement principally reflects ongoing component cost reduction activities and operational improvements.

Turning to operating expenses. In the first quarter, our non-GAAP operating expenses were $47.2 million, an increase of 32% from the first quarter of last year. As a leader in this space, we're investing heavily in sales and marketing to support our land and expand model in North America and Europe, in R&D and operations to support significant new product development and a rapidly expanding customer base, and across the company to meet the unique demands of this new space and of being a fast-scaling newly public company.

During the quarter, we repaid $35 million in debt. Also during the quarter, holders exercised $11.9 million of our public and private warrants associated with the merger. These warrants were cash exercised and contributed $74 million to our balance sheet. We finished the quarter with $610 million in cash and cash equivalents, and are well capitalized to fund our business plan. In the quarter, we issued approximately 18 million shares associated with two or three merger earnout tranches, and we ended the quarter with 305 million shares outstanding.

Turning now to guidance. For the second quarter, we expect revenue of $46 million to $51 million. At midpoint, an increase of 39% versus Q2 of last year, and representing a strong first half of this year. As we look beyond Q2, we're continuing to assess ongoing developments regarding the reopening of economies in North America and Europe and the challenges and opportunities they present. Accordingly, we continue to expect revenue of $195 million to $205 million for the year, consistent with the guidance we provided on our last call and at midpoint reflecting a 37% year-over-year increase.

I'll now pass the call back to Pasquale for closing remarks.

Pasquale Romano

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

Thanks, Rex. Based on these results, it is clear we are focused on execution, and we believe we are exceptionally well-positioned as more fleet and passenger vehicles ship. To support that position, we have exciting R&D work

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underway to continue delivering innovative products. At ChargePoint, we know that every charging port counts towards a more sustainable future. Our analytics and reporting features make it easy for customers to understand and measure the environmental impact of their charging program. We are proud of our contribution as a company to mitigating climate change. As we shared on Earth Day on April 22, ChargePoint drivers had driven over 2.6 billion electric miles and avoided 107 million gallons of fossil fuels.

Drivers on our network have avoided roughly 387,000 metric tons of greenhouse gas emissions. We expect customers to increase their focus on the ESG benefits of EV charging going forward. North American and European markets are more environmentally focused by the day. Commercial, fleet and residential electrification is accelerating organically. This past quarter continues to demonstrate that ChargePoint growth scales with EV adoption. We are an index for the electrification of mobility, a transition which we believe promises many years of growth ahead.

We will now open the call to your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you very much. [Operator Instructions] Our first question comes from Colin Rusch from Oppenheimer & Co. Please go ahead, your line is open. Colin, your line is open. Please go ahead. Colin, you may be on mute. Please unmute your line.

Colin Rusch — Q

Analyst, Oppenheimer & Co., Inc.

Guys, can you hear me okay? Apologies for the trouble.

Pasquale Romano — A

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

Yeah. We got you, Colin.

Rex S. Jackson — A

Chief Financial Officer, ChargePoint Holdings, Inc.

[ph] How are you (20:28), Colin? We can hear you.

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Colin Rusch

Q

Analyst, Oppenheimer & Co., Inc.

Okay. Perfect. Hey, can you talk about the competitive dynamics with all the capital that's been raised on the market and how you think about consolidation as we see all of these deployments go out and potentially work and potentially not work?

Pasquale Romano

A

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

Colin, could you clarify that? With respect to...

Colin Rusch

Q

Analyst, Oppenheimer & Co., Inc.

Yeah. I mean, so we're...

Pasquale Romano

A

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

[indiscernible] (20:52).

Colin Rusch

Q

Analyst, Oppenheimer & Co., Inc.

Yeah. We're expecting a bunch of your competitors to roll out some pretty healthy networks, and some of those business models may or may not survive. So, I'm wondering about how you think about navigating that environment where there's a lot of capital going into the infrastructure and preparing for potential consolidation in the space, defending your market share along the way.

Pasquale Romano

A

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

Well, I mean, as you know very well, we've developed a lot of our business models over a decade of real world experience in the EV charging market. So, we're confident in our approach. We're not, frankly, spending a whole lot of time pondering that particular question. We're heads down and executing. And if you look at the numbers that we've just reported for the quarter, we're getting the results we think that are commensurate with the model working that we've been refining over a decade, as I've said. And with respect to capital coming in, this is a capital-light model, so the amount of capital that's coming into different players in the market, it doesn't

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necessarily affect us because we're not dependent on a capital-heavy model. And in fact, I think capital-heavy models definitely have a challenge in that there is that governor, so to speak, on forward velocity based on the need for continued capital where we don't have that.

Colin Rusch Q

Analyst, Oppenheimer & Co., Inc.

Perfect. And then just around the supply chain and how you guys are managing some of the risks on that side, can you talk about any sort of safety stock that you guys are keeping, or feel like you need to keep potentially at this point? Or is it sort of environment where you're able to get what you need and pass on any incremental expenses on to customers?

Pasquale Romano A

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

I'll make some comments, and I'll let Rex comment as well. We obviously are watching that entire set of issues very, very, very closely. Our operations team has doubled down significantly in making sure that we've got good assurance of supply. We're working with our contract manufacturers to put in safeguards. Nevertheless, we are seeing issues inside as we – inside the quarter as we execute. We've mitigated them. As you've seen in the results, we haven't reported any problems so far with the supply chain hindering our performance. And we're going to continue to put in the necessary mitigation mechanisms to guarantee that we've got a part flow into our contract manufacturers to support our forecast.

Colin Rusch Q

Analyst, Oppenheimer & Co., Inc.

All right. Thanks for that.

Rex S. Jackson A

Chief Financial Officer, ChargePoint Holdings, Inc.

Yeah. Colin, this is Rex. I think if you look back on Q1, we had some impact due to supply chain, but it was immaterial and well-mitigated, as Pat said. It did cost us a little bit of expedite and other fees, but we still managed to improve our gross margins sequentially, so that's good. As we look forward to this quarter, we've taken what we know about supply chain into account in providing our guidance. And then as we look out into the second half of the year which, against our annual guidance, implies very, very nice growth numbers sequentially for Q3 and Q4. We're managing that very, very closely. And so, we don't have any conclusions on that yet. But we're definitely taking the things we see on the supply chain into account.

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Q

Colin Rusch

Analyst, Oppenheimer & Co., Inc.

Okay. Thanks so much, guys. Really appreciate it.

A

Pasquale Romano

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

Thanks, Colin.

Operator: Thank you for your question. Our next question comes from Shreyas Patil from Wolfe Research. Please go ahead, your line is open.

Q

Shreyas Patil

Analyst, Wolfe Research LLC

Hey. Thanks so much. So, I just wanted to ask about the full year guidance. I mean, we're seeing really strong demand for EVs in the US and Europe. US sales are up 100% year-to-date. Europe is up something like 89%. And you talked about previously how correlated the business is to the broader EV demand.

So, just thinking about if we do end up seeing stronger sales, I mean is there anything that we need to think about in terms of either a lag effect or anything like that that would prevent that upside potential if demand does come in stronger?

A

Pasquale Romano

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

So, we definitely believe that we were very nicely correlated to the availability of EVs. No question about that. As we look at the second half of the year from the perspective where we are today, as we said in our prepared remarks, we're watching reopenings here and in Europe. There's always a possibility that goes really well. There's also the possibility that something happens and you step back because you can see what's happening in India for example. So, as we look out – and then of course, there's a supply chain thing that we just mentioned. So, we think it's prudent to be cautious now. I think we're going to be massively smarter in 90 days when we have our next call because we'll have Q2 behind us and really good visibility into those external factors as we look at Q3 and Q4. So, I think it just made sense to confirm guidance this time. And then we'll take a really hard look at this for the Q3 – Q2 call.

Q

Shreyas Patil

Analyst, Wolfe Research LLC

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Okay. Great. And then, on the networked gross margin, so it looks like you saw a good improvement versus Q4. Looked like it was up maybe 140 basis points, and obviously up meaningfully year-over-year. How should we think about the main drivers of margin improvement on the network side? And where do you see margins eventually reaching?

A

Rex S. Jackson

Chief Financial Officer, ChargePoint Holdings, Inc.

So, clearly, as we said our prepared remarks, there is a meaningful mix component in our business. So, with the advent of the whole pandemic, workplace has been solid, but it hasn't had the growth that it's had historically over the last, I don't know, X number of quarters. DC has performed – fleets performed very well which includes DC, there's also fast fill. And our home business is going extremely strongly over the last two quarters. Those are on the lower end of the gross margin curve for us individually. We don't give out gross margin by product, but to understand mix, you could tell those are the two guardrails. As we look, we did have a good performance internally I think this quarter, so the biggest drivers of gross margin are mix. And then as we go up both the operational improvement curve, the cost reduction efforts that we're doing on components, and then obviously growth in workplace and commercial. Those are all very, very positive influences on gross margin as we look out. I still believe that we should be comfortably in the mid to high 30s as we look out a couple, three years from now, and I think we have steady improvements ahead of us for this year.

Q

Shreyas Patil

Analyst, Wolfe Research LLC

Okay. Great. And if I could just sneak one last one in. It's just obviously you talked about fleet earlier in the call, and it's – we've seen a number of companies talking about the fleet charging opportunity and that even includes Ford, which talked about it last week at their Investor Day. So, just trying to think about how – what are some of the areas that differentiate ChargePoint in the fleet space, and how you think about positioning there?

A

Pasquale Romano

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

Well, I think there are two main drivers to our advantage in the fleet space. First, we charge anything that rolls. So, there's no OEM specifics in our solution. It is completely OEM neutral, so. Also we're a very complete solution in the fleet space. It's an all encompassing broad product line on the software side in both the charger control, the energy management, and the vehicle scheduling, as well as a full complementary line of hardware products of all the different speeds and feeds necessary to adequately service fleet customers. Most fleets have a good mix of vehicle types and vehicle sizes and vehicle charging needs, and we can do that all with one solution. So, we're real bullish on our fleet products, and we're not sitting still either. There's a tremendous amount going into R&D there.

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Q

Shreyas Patil

Analyst, Wolfe Research LLC

Okay. Great. Thanks so much.

Operator: Thank you for your question. Our next question comes from Gabe Daoud from Cowen. Please go ahead, your line is open.

Q

Gabriel J. Daoud

Analyst, Cowen & Co. LLC

Hey. Afternoon, guys. I was wondering if you can maybe give us a little color around R&D spend on a run rate basis, the $25 million this quarter. How does that trend as we move throughout the balance of this year?

A

Rex S. Jackson

Chief Financial Officer, ChargePoint Holdings, Inc.

So, I would answer that. Both on R&D and more broadly, we are definitely looking at the trends in the market right now and where we think investments need to go to take advantage of higher vehicle availability not only in the passenger but in the fleet space. So, we've made an affirmative decision in the company to put additional energy behind our efforts. So, it has gone up. And I would expect our OpEx generally to trend a little north this year. And again, it's because we've got a lot of product introductions that we want to do within not-too distant future. There's a lot of customer support that touches both R&D and operations and customer support. The sales and marketing side, we're going heavier there generally, and particularly in Europe because our land and expand model just proves itself every quarter with the customer additions we showed this quarter and also a very consistent 60-plus percent of organic rebuy business.

So, we – as we look at the environment externally and given the fact that we have the scale we have already, it just makes all the sense in the world to us to put energy behind this. What you'll see longer-term is that our operating expenses as percentage of revenue will trend down. But on – in the very short run, from a dollars perspective, I expect it to trend up.

Q

Gabriel J. Daoud

Analyst, Cowen & Co. LLC

Thanks, Rex. That's helpful. I guess as a...

[indiscernible] (31:49)

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Gabriel J. Daoud

Q

Analyst, Cowen & Co. LLC

Got it. Got it. Okay. That's helpful. And then as a follow-up, you kind of hit on it, but last quarter you'd also mentioned the potential rollout of a new product offering focused on Europe. Is there any update there? Anything you could talk to around that?

Pasquale Romano

A

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

No, just stay tuned for general product updates in the future. And the minute we're ready to announce them, you'll be one of the first to know.

Gabriel J. Daoud

Q

Analyst, Cowen & Co. LLC

Great. Okay. Thanks, guys.

Rex S. Jackson

A

Chief Financial Officer, ChargePoint Holdings, Inc.

Thank you.

Operator: Thank you for your question. Our next question comes from Craig Irwin from ROTH Capital Partners. Please go ahead, your line is open.

Craig Irwin

Q

Analyst, ROTH Capital Partners LLC

Hi. Good evening. I wanted to ask a little bit about the DC fast-charging products. Can you maybe update us on the margin plan there? Where you are as far as your longer-term plan for increasing margins? Do we need to see some of these product introductions for fleets in other markets for you to meet your longer-term targets there?

Pasquale Romano

A

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

So, as Rex mentioned, we don't talk about the particulars of gross margin by product. We don't break that out. What I can say is that the quarter saw – this past quarter saw some great work in margin improvement specifically

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on the existing product line. So to your question, are we waiting for a breakthrough on a new product line, or are we continuing to make improvements on the existing product line as it matures? It's definitely the latter. We're seeing planned, as we execute, margin improvements, not just in the fast charge products but across the board.

I'll repeat one point that Rex made, because I think it's pretty indicative, we've improved the margin quarter-over quarter, as Rex mentioned, and that was in the face of having to expend a little bit more on COGS because of some of the supply chain mitigations we had to put in place. So, we outperformed and only had that outperformance drag down a little, but still outperformed. It was only dragged down a little by the mitigation costs on the supply chain. So we're comfortable.

Craig Irwin Q

Analyst, ROTH Capital Partners LLC

Okay. So most investors really want to pick through the margin discussion fairly – in a fairly detailed manner. So one of the things that has been said in the past is that the mix of products into the end of the year and obviously the revenue are a large part of the expectations for a strong margin rebound, particularly as back-to-work gets commercial market really moving again. As I understand, those are your highest margin products. Can you maybe walk us through what we should be looking at there to see if something in the 30% or 30%-plus range is achievable as we exit your fiscal year?

Rex S. Jackson A

Chief Financial Officer, ChargePoint Holdings, Inc.

That sounds a lot like a question for annual gross margin guidance. But what I can tell you is, to amplify one thing that Pat said, we've really had some very, very good improvements this past quarter across the board and particularly in a couple of places where it was very impactful and very much needed.

I think the – if you look at this in the second half of the year, clearly if we get back to work and the mix starts to shift back to a more normalized mix for the company, that's going to have a very positive impact on the result in gross margin. I would say with that, interestingly enough, we think commercial should come back. But that doesn't mean that the other products are going to roll off. So we're not – we feel like the trends for those – the part of the business that's slightly in the lower margin side is going to continue. But net-net, I feel very good about continued improvement in gross margins throughout the balance of this year. Hesitate to call a number at the end of the year just because that would be guidance.

Craig Irwin Q

Analyst, ROTH Capital Partners LLC

Understood. And last question, if I may, I'll slip this one in, so you guys are doing exactly what you said you would do, executing well both in North America and Europe. You've got fleets handled, you've got a roadmap with new products that's expected. Many of the SPAC IPOs are looking at the competitive environment and trying to pull forward the opportunity. Probably the biggest opportunity for ChargePoint would be Europe, and the new products for Europe and the more aggressive market positioning there. Is there a possibility we could see ChargePoint take a more aggressive stance as far as expansion in Europe? Or are you moving at a measured rate based on a preexisting plan to ensure no unforeseen challenges?

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Pasquale Romano

A

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

Well, I mean, I think philosophically, we've been actually in an aggressive posture with respect to our investment in Europe for quite some time now, because we believe in the geography as being incredibly relevant for us globally. So I don't think we need to change our posture there. But again, I don't think – that's not an indication that we are not being aggressive already. I think we're being adequately aggressive. Rex, any other comment?

Rex S. Jackson

A

Chief Financial Officer, ChargePoint Holdings, Inc.

Yeah. The only other thing I would add is we have in effect doubled – almost doubled our head count in Europe over the last two, three quarters. And we're not finished with the hiring plan that we have there for this year. So, we're really putting a lot of players in the field. One of the things I have said internally is from a head count perspective and a reach perspective in Europe, we're one of the largest companies in our space in Europe when it comes to the number of people that we have attacking that market. And that doesn't count any of the incredibly long list of things that they get from our operations in North America. So it's an extension and yet it's still larger. So I think our coverage there is – it has improved markedly and will be a competitive advantage. And I think the things that we've done on the roaming front are excellent. Our focus on network and software, we think, is the right strategy. And then obviously, as you referenced, there's a lot of additional solutions we would be providing attached to that over the next several quarters.

Pasquale Romano

A

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

And one more thing to note, which I think is a significant issue, I think, through your modeling, is the scale – achieving global scale helps tremendously in gross margin. So our scale in North America on a market share basis is great, but it's an overall still relatively small unit volume market as compared to where it's going. As that continues and as there's cross-regional product line leverage in supply chain and support operations and other elements of gross margin, we should see an advantage there, if we can execute on the vision, which is to be significant in Europe, significant in fleet, and significant in our North American commercial business.

Craig Irwin

Q

Analyst, ROTH Capital Partners LLC

So a point of clarification, right? Significant in the North American business, 70%-plus share of the networked endpoints, is that a logical goal for you to chase in Europe? Is that something that the level of investment is sufficient, or you would be happy with a much lower share?

Rex S. Jackson

A

Chief Financial Officer, ChargePoint Holdings, Inc.

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So when we look out with our financial lens over a multiyear period, and I'm not going to put a number to that, but our assumptions are that we get comfortably into the 20s in Europe. I'd like to do better than that, but there's not a North America-styled assumption in how we view our financials over the next several years.

Pasquale Romano

A

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

And that's out of pure planning conservatism on our part...

Craig Irwin

Q

Analyst, ROTH Capital Partners LLC

Understood. Thank you, Rex. Thank you, Pasquale.

Pasquale Romano

A

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

Thank you.

Rex S. Jackson

A

Chief Financial Officer, ChargePoint Holdings, Inc.

Thanks.

Operator: Thank you for your question. We have a question from Itay Michaeli from Citi. Please go ahead. Your line is open.

Itay Michaeli

Q

Analyst, Citi

Great. Thanks, everybody. Good afternoon. I apologize if I missed this. I did join the call a little bit late. But in terms of the revenue in the quarter, I was hoping you can just dimension the contribution from new customers versus existing customers. I'm just trying to think about kind of the land and expand model and kind of the evidence you're seeing of that kind of playing out in your revenue in terms of customers that have been with you for longer versus new customers, and how that kind of seasoning is progressing.

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Rex S. Jackson

A

Chief Financial Officer, ChargePoint Holdings, Inc.

Sure. Sure, Itay. It's Rex. I'm happy to help you there. So, Q1 revenue was $40.5 million. One of the things that we were super pleased about this quarter, there were a lot of them, but super pleased about was the customer additions that we had this quarter were remarkable. To say that it was an uptick from last quarter would be an understatement, not useful to give you percentages, but it was a super strong customer in terms of new customer acquisition. And then the thing that has been remarkably consistent over every quarter that I've looked at over the last three years is about 60% of our business comes from existing customers. It's a rebuy. So the land and expand thing, you nailed it. It is literally the cornerstone of the company. And it's one of the reasons why I've said, we do want to continue with the investments, in particular for example in sales and marketing, because it's a hell a lot easier to keep a customer than it is to get one. So we're putting an enormous amount of energy into customer acquisition because it just pays down the road.

Itay Michaeli

Q

Analyst, Citi

That's very helpful. Onto the new customers, are you finding that the onboarding process is happening even faster? I think it was – typically my understanding, it's a sort of few month process. But just given what's happening with EV, are you seeing that process even go quickly, or maybe in other words, was the customer adds better than what you had internally expected?

Pasquale Romano

A

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

Wait, can you clarify what you mean by onboarding? Is that...

[indiscernible] (42:45)

Pasquale Romano

A

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

...or is that time in pipeline?

Itay Michaeli

Q

Analyst, Citi

Time in pipeline.

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Pasquale Romano

A

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

Oh, do you want to take that one, Rex?

Rex S. Jackson

A

Chief Financial Officer, ChargePoint Holdings, Inc.

Let's see. Well, so first of all, the nice thing about the land and expand thing that we just discussed is a lot of that – all that is really faster in business. Sometimes you see it coming; sometimes you don't. But that's pretty fast turn. If it's a brand new customer, I think our sales process lasts anywhere from getting a phone call up to about six months, and it just depends on what the process looks like on the other side. I do think it's trending down and getting quicker, but it really depends on the situation with the customer and the size of what they want to install and the necessary understanding of what the make-ready and other things that would be necessary in order to put in these solutions. So I don't know if that answers your questions, but I would say it's anywhere from a month to outside six months, and it's getting shorter.

Itay Michaeli

Q

Analyst, Citi

Yes, I got it. That's very helpful. And just lastly as a point of clarification for the Q2 revenue guidance, should we assume that the revenue mix in Q2 is pretty similar to what you experienced in Q1 in terms of DC and residential?

Rex S. Jackson

A

Chief Financial Officer, ChargePoint Holdings, Inc.

That's a tough one, but I would expect it to be a little better on the commercial side than it was in Q1.

Itay Michaeli

Q

Analyst, Citi

Great. That's all very helpful. Thank you.

Rex S. Jackson

A

Chief Financial Officer, ChargePoint Holdings, Inc.

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And because we had a really nice sort of year-over-year resurgence in North America commercial, and then we had a great quarter in Europe generally, so I think the reopening and people getting back to work and the whole recovery of the commercial side had really nice signs in Q1, and I would expect that to continue in Q2.

Itay Michaeli

Analyst, Citi

[ph] Me, too (44:45). Great. That's very helpful. Thank you.

Operator: Thank you for your question. It appears we have no further questions from the audience, so I hand back over to the management team for any closing remarks.

Pasquale Romano

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

Well, first of all, thanks for attending, everyone, and thank you for all the thoughtful questions. To summarize, I think some of the points that Rex and I made in the prepared remarks, we are heavily focused on execution right now. We're very pleased with the results across all our lines of business, and I think we're well-positioned to execute on the long-term growth plans. So really look forward to the next earning call with all of you. And have a wonderful afternoon.

Rex S. Jackson

Chief Financial Officer, ChargePoint Holdings, Inc.

Thanks, everyone.

Patrick Hamer

Vice President, Head-Capital Markets & Investor Relations, ChargePoint Holdings, Inc.

Thank you.

Operator: Ladies and gentlemen, that concludes today's call. Thank you to the management team for joining. You may now disconnect your lines.

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