

ChargePoint

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Bill Peterson: Good afternoon, and welcome to J.P. Morgan's 21st Annual CES Tech and Auto Forum. My name is Bill Peterson, the transportation and fuel transformation analyst here at the firm.
Really pleased to have Pat Romano here from ChargePoint. ChargePoint is at CES, I think, for the first time, at least as far as I remember.

Pat Romano: Oh, no. We've been at CES for literally every year running except for COVID years.

Bill: Except for last year.

Pat: Yeah.

Bill: OK. Welcome back. Obviously, you had a big announcement earlier today along with Mercedes Benz. Hoping we can start off with that, but maybe also just for the audience here, just a bit about ChargePoint, intro comments, and maybe an update on the business as you race to the end of your fiscal year. Again, thanks for joining the conference.

Pat: Yeah. First of all, thank you and all the folks at J.P. Morgan for hosting us. We do this all the time with you and always enjoy it and always enjoy the investors in the audience.

A little bit about ChargePoint. We're coming up on our second anniversary of being a public company. That'll be March 1. We are a Jan 31 company. Our fiscal year end is approaching. We're ending 2022. We are, surprisingly, I think, a 15-year-old company that hasn't pivoted for 15 years from a business model perspective.

It's been certainly growing geographically. It's been growing in the subverticals that it's been attacking, but it's had one consistent theme. That is we want to provide all the tech and services, software, hardware, consulting services, professional services, design-build services, etc., for our customers in all verticals.

We're talking home multifamily, workplace, all forms of retail, public and private parking, all the subverticals in fleet, everything from light commercial all the way through transit and heavy-duty vehicles. We want all those customers to be able to come to us and buy tech and then pay us a recurring fee that's not proportional to utilization or energy.

We stay out of the business model that the end customer wants to portray to their customers or their employees.

The reason for that is we want to be relevant to drivers everywhere. Our customer's customer or our customer's employee may have a different relationship with the site owner that's on the parking lot that we're at, and you have to be in every parking lot to be relevant, to make your service, your mobile app get the network effect out there, etc.

Our business model is quite simple. It's anchored on the fact that we sell subscriptions to keep a port of charging on the ChargePoint network depending on the vertical you're in. There's different packages you can buy [inaudible] details there. You can optionally buy hardware from us. Most of our customers do.

In many cases, you can wrap that hardware into a higher subscription payment if you want to buy it all together. We do not sell hardware separately from software. We will sell software only with third-party hardware on it, if that's what the customer wants. It's a one-way ratchet there.

That's a little bit about the company. In terms of financials, what you're seeing is us maturing the company now, given that the market is increasingly more fluid with makes and models coming online in both the fleet and the commercial segment for passenger cars. Every day, there's a new announcement.

What we're converging on, cash flow break even sometime in 2024. We're seeing the operating leverage that we forecasted in the business. The growth rate of OPEX is obviously very much less than the growth rate of the revenue, because we think we've reached a buildout stage with our infrastructure as a company as a whole to be able to address the markets we're in.

We're in Europe as well as North America. We're covering two continents. Again, we're in every vertical that we can think of anyway.

That's a little bit about the company. Midpoint of our guidance that we put out in the last earnings

call is nearly double year-over-year, and that's inside the worst supply chain environment we've ever seen, so we're pretty proud of what we've been able to accomplish.

Bill: Then the second part, Mercedes Benz announcement. You guys also put out a press release, I want to say maybe about an hour ago. Maybe you can tell us a little bit about that announcement.

What does it mean for ChargePoint? How should we think about it progressing? What does it mean for the financials? What is the broader statement about what it means when Mercedes Benz chooses to work with ChargePoint among others for this charging expansion?

Pat: I think the headline of why is we have a very distinct viewpoint that Mercedes Benz is of like mind on, in that the charging experience is not the experience the driver is looking for. It's the experience while we're queuing, what else is there to do?

In the particular use case of this announcement, this announcement is to cover when you're driving beyond your battery range. Most of your fuel does not come on board at a fast charger. Most of your fuel comes on board at home, at work, when you're shopping, when you're around town when you're parked. We've covered that market for years, and years, and years, and years.

We've also been in fast charge for a long time. One of the things we've lamented is that the players in the 30-minute retail economy, something to do for about 20, 30 minutes, which is how long it takes to reload enough fuel to be able to get to your next way point or your ultimate destination, we've always said that drivers really care about where they're stopping when they have to refuel.

That's the more important thing to get right, is bathroom security, something to do aligned with the parking duration that you're likely to be sitting around. We've always felt that way.

Mercedes came at it from, hey, we're a premium brand. We want to make sure that the experience is aligned with a premium brand. In their own words, in the press conference we just had, what they said is "Chargers next to a dumpster in the Back 40 of a big-box lot is not what we envision as aligned with our customers."

What you've seen today, and this is something important, very diligently to try to not have happen, is the placement. The location of the chargers needs to be aligned with those amenity brands. It has to be. It's not going to charge and making money on power. That's something

we've never touched.

The reason we've never touched it is amenity brand has a whole other set of avenues to get money and gross margin out of the driver. If you buy a coffee, the gross margin on a coffee when you're captive, you don't mind paying seven bucks for a double-pump caramel macchiato on your way to your grandmother's for Christmas dinner.

You might have a seven-dollar caramel macchiato, which, I don't know, costs a buck, if that, and a seven-dollar charging session, which has 15 percent gross margin maybe. The amenity brand doesn't care about the gross margin on that charging session. They care about the gross margin on this, because it's their combined business.

The driver cares that, hey, I needed to stop and I'm safe. There's lights. There's a camera. There's a bathroom, that I could get a coffee.

It's a nice experience, and by the time two macchiatos come out for yourself, and your spouse, and maybe your kids, you're back to your car, your car is almost charged, you sit down, you rearrange the seats a little bit, and by the time you're done, you're off and doing what you want to do.

That's Mercedes Benz's view. It's aligned with what they're doing with respect to all the other things with autonomy improvements, with in-dash entertainment improvement, etc. That's the reason.

Bill: Don't need a macchiato after that. That's a great overview. Want us to take a step back. We've obviously seen a lot of gyrations in the market. There's now concerns about [inaudible] think about here, last year especially, rapid growth. We still expect rapid growth of EVs in your core markets, but there are some concerns.

Does ChargePoint have a view on the demand growth that we take a step back and look at the North American and European markets, your core markets?

Pat: Yeah. Demand growth for our infrastructure or cost?

Bill: EVs and the infrastructure side.

Pat: The infrastructure demand follows cost. To give you an interesting active, when I first joined

ChargePoint, I wish I was the founder, but I wasn't. I joined at about almost 12 years ago. It will be 12 years first week February. The company is about 15-year-old company.

When I first joined, the federal government in the Obama administration had the American Reinvestment and Recovery Act, ARRA, and ChargePoint had a grant out of the ARRA. We had a companion grant from the CEC and the State of California.

When you combine the two grants, it covered the full cost plus the installation of a charger. There were very limited cars. There was a Nissan Leaf and the Chevy Volt at the time. Not the Bolt, the Volt. I get the two confused.

They were trickling out, but there wasn't a lot of them on road because they were new cars. It was hard to give away a charger. To give away a charger. Why? Because I don't want to tie up a parking space with this thing and put up a sign saying EV only when the parking space next to the building is not something I want to give up right now, because there's no EVs. Where am I going with this?

There's zero demand for chargers unless there's cars. There's no build ahead. There's limited build ahead you can stimulate a little bit, but it all comes from cars.

Let's look at cars. What drives demand for vehicles broadly in the consumer sector is make, model, availability. If all you're offering in the early days of EVs is a Volt and a Leaf, two fine cars, no issue with either one of those vehicles in the early days. They were where the state of the art was at the time.

If you drive a pickup truck and you really want an electric pickup truck but there isn't one available, I could give you one of those other two formats for an incredible discount, and you still won't want it because it doesn't fit your lifestyle. Cars are like fashion. You have to have enough to fit your lifestyle. You need all sizes, shapes, price points, you need a used market on it, etc.

Where am I going with this? We are seeing, regardless of the macro, we are seeing a proliferation of releases because auto manufacturers take five to seven years to get a new platform out. The decisions that you're seeing today, they made a long time ago.

The macro changing dynamically, they're not going to say, oh, we're going back to gas. They can't. They've disabled all the investment in ICE vehicles. It's disabled. There is not a rich, robust pipeline of new stuff. European emission standards are not relaxing. They're not relaxing.

It's a global market so you have to sell everywhere. You can't afford the R&D and the support for two platforms, an ICE one and a BEV one. They're going to roll a larger percentage of their model base as EVs. What does that mean?

If you have a declining auto market because of the macro, but you have an increasing percentage of EVs out of the total number of cars sold, car sales aren't going to go to zero because of the macro. They may take a hit, but they're not going to go to zero.

We believe that the increase in EVs as a percentage of new cars sold will offset substantially the decrease in the total number of cars sold, so we should still see growth to the degree...

We haven't forecasted next year yet for markets, so we can't comment on that, but we believe that there's a substantial offset there in the penetration rate of EV growth to the decline in new car sales in the macro. We think there should still be growth.

Bill: By the way, I should mention, if there's anybody who has a question, please let me know. You can use a microphone since this is being webcasted.

Maybe just wrapping up that point, you've always discussed charging growth tracking EV growth. With that in mind, we think about the mid and the long-term, how should we think about that, but maybe in addition, marrying on things like the NEVI Program or IRA. How do they augment that mid to long-term growth for you?

Pat: I think relative to the example that I used in the beginning days or early days of ChargePoint, where you could have a subsidy program that substantially offset the cost, but if there wasn't real demand, no one is going to put the chargers in anyway, I think things like the IRA will have a durable and lasting effect on greasing the skids for a need that's there.

It's not going to drive the need. It's going to grease the skids for a need that's there. You need the cars to be there. You do have vehicle incentives as part of the equation here, so that's a good thing. I think NEVI, it helps subsidize things like the announcement we just made this morning is not mutually exclusive with NEVI.

We're hopefully going to be able to work with Mercedes Benz to put proposals together for states that have programs that they've defined around NEVI and use some of that as subsidy money to get even more sense or to move the bar of where things pencil, the hurdle rate as to where things

pencil, move it in because there's some subsidy there.

For the early days, NEVI is a great program to jump-start the early days to get more and more structured coverage of long-haul corridors in North America. That's what it's good for. Awesome.

If that was the only thing you got, you'd be out of business, because in a few years, by the time that money is flowing, let's say you even won all of it, it's going to be relatively to an equipment and services company, which not all of that will go to equipment and services. A lot of it will go to O&M. A lot of it will go to construction, etc.

You'll be irrelevant relative to the size of the charging market three years out, because it's a constant amount of money each year for five years, but the market is growing. It is a wonderful early-day enhancement, and it is a terrible thing if that's the only thing you got.

Bill: When you come back to the business model, and you alluded to it earlier of why do you sell hardware and software wrapped around, rather than trying to monetize electrons. Why do you think that's the best model compared to others with either an operator model, or maybe potentially a hybrid model, or in some cases even ad-based model?

Pat: Let's take it in reverse order. The ad-based model, we have partners that take our stuff into that market. There's a finite number of sites and a finite number of parking spaces within those sites where an ad-supported model would pencil.

Our partners that are in that space typically have more than one [inaudible] for ad-supporting so they can build the infrastructure for ad-supporting across a lot of different [inaudible] one of them may be the charging. Then when the customer wants to add more ports, they can add more ChargePoint conventional business model ports, because as they need to grow and they expand, you can't ad-support everything.

Our partners enable with us a wonderful, you can seed it with some ad support and then you can expand it with not, etc. It provides the fluidity there.

The overarching answer to your question as to why our business model is you have to be in every vertical and you can't get in the way of what your customer wants to do. Our customer is the business, not the driver.

If our workplace customers want to give power as an employee benefit, and I'm making money on

energy, I'm in conflict with their desire.

If a retailer wants to giver free power to a rewards card holder, or change the hours of operation at a site to not make the chargers available after hours, because they don't want to encourage people that aren't customers to be in those for liability reasons in the parking lot at night, you're in conflict with me as an asset owner.

I need that asset utilization to be as high as possible. We want to be in every vertical relevant to drivers, but we don't want to be in conflict with the business model. We don't want it to be a vending machine for electrons exclusively.

There are some scenarios where that's a fine thing, in which case, our customers can use our technology and they can make it a vending machine for electrons, and that's just fine, but we don't want to limit ourselves to that. The only way to be pervasive, we think, is to approach it the way we are.

Bill: Want to talk, spending on, you said the competition. First of all, you're the most [inaudible] to one large DC fast. How does that help you with the land and expand strategy and customers? On the competition side, who do you view as the key competitors? Then maybe wrap it up, why would they want to choose ChargePoint over either direct competitor or maybe even a different model?

Pat: The different [inaudible] model is an easy one to answer simply. If the other models were more attractive than ours, they'd have our port growth. Pretty simple. We report our port growth every quarter. That's activated ports under management, by the way. That's not sold. It's when they're in the ground, fully constructed, commissioned, and activated.

You're seeing our growth rate in arrears when you do that, and we report that number because the sale of that unit happened months before its construction. You have to get things in the ground.

That's how I would answer that, is if the other models were driving volume and were more attractive broadly, then they would have our port growth and we would've pivoted to that. That's why we didn't.

With respect to...What was the other?

Bill: Direct competitors.

Pat: The direct is we think to be relevant to drivers, to create a network effect. Businesses look at ChargePoint and say, I want to put ChargePoint in, because I know it works. I know drivers understand it. I know it's integrated with in-dash navigation systems, auto OEM, mobile apps. I can do my take-home fleets with it.

I've got fuel card integration. We've already got fuel card integration. We're ecosystem-integrated, CarPlay and Android Auto, Apple Maps and Google Maps integrated. The numbers of integrations are broad.

If you choose ChargePoint, I know it works with everything or as many things as possible. If I choose someone else, it probably works with only a subset of those things. Charging in my parking lot is either an amenity or added to my customer experience, but it is not my sole customer experience.

Therefore, I want to make sure that every driver has the lowest-friction experience. That's the network effect, is the more verticals we're in, the more use cases we cover, the more drivers say, I just know what to do, or the more the car already knows what to do. Like in the Mercedes Benz case, it knows to reserve it and it knows, on a long trip, what to do.

That is the driver right there, no pun intended. That is what drives the stickiness. That's what drives the competitive differentiation.

Bill: Maybe just going a lot deeper on that, the question we get a lot of times is what's differentiated about ChargePoint's offerings, which would be the software, hardware company. It's quote, and you alluded to it earlier, the broadness and the depth of the engagements. Any other examples of what can give confidence that there's more differentiated things in the [inaudible] ?

Pat: Man, how long have we got?

Bill: About nine minutes.

Pat: I think at the end of the day, it's one cloud system and one parts of hardware, one set of chargers and different platform configurations that can serve all verticals. That's the biggest differentiator. The feature set super revised. We're down in the nitty-gritty of real support ability, real ability to do software integrations with ecosystem partners, etc. It is just so fluid a system with

so many real-world features.

The way I liken it is if you look at a company like, say, Salesforce, and you're running your sales force on Salesforce, it's integrated with your ERP system. There's a million tool providers out there that have Salesforce integrated, deal with your support staff or with third parties that are dealing with support systems, etc.

It's just integrated. Even ChargePoint, we use Salesforce. If you went to our IT people or our sales ops people and you said we're going to extract that and change it, they're like, get out of town. It's glued into everything. That's really what it is with ChargePoint. It's glued in everything.

Bill: That makes sense. Just want to make that clear. Again, if anybody has any questions, please let me know. Certainly happy to take them.

Want to pivot to one vertical in particular and that's fleet. It's a really broad term.

Pat: Yeah. It's got a lot of verticals.

Bill: It does represent a unique opportunity set for ChargePoint. I think it's probably not well understood. There's multiple facets to it. Can you help us understand the kind of fleet applications you address and what are the main drivers to growth? Especially in [inaudible] and most of the vehicles coming to market.

Pat: Yeah. The easiest way to sum up fleet for investors is it's vehicle-limited, just like the passenger car EV market was a few years ago. It's behind for a whole bunch of reasons I won't get into. The platform utilization is much higher in general than the passenger car. It's only four-percent utilized. You got higher utilization. The TCO of electrifying is much better.

My prediction is that even though it started later, it will get to substantively full electrification before we get all passenger cars to substantively full electrification. You probably got a 10-ish, maybe 12-year stretch. If you look at a transit bus, for example, [inaudible] , etc. About half of transit bus orders now are electric, and that's going to flip to a hundred percent electric pretty quickly.

You've got 10 to 15 years, and that 10 to 15-year window is fully electrified. There's a smart buyer on the other side with a lot of analysis and aspiration to turn green. It's going in all verticals. Light commercial is vehicle-limited, because it uses passenger cars generally, pickup trucks, things like

that. Pickup trucks are, by the way, half the fleet [inaudible] in the US.

You're vehicle-limited there, but we're seeing big uptake there, especially with take-home fleet sales, medical device sales, general sales for delivery, etc. You got the mid-range delivery and logistics. That's electrifying as fast as it can. It's super vehicle-limited there, just can't get enough of them.

In medium and heavy, for construction, things like that, super vehicle-limited. Transit buses, it's the only segment that has some maturity. You're on, in many cases, the second, if not the third platform, and you're seeing it pretty balanced between Europe and North America with respect to penetration there.

Transit buses is the most mature subvertical but it's one of the smaller subverticals. As these others mature, that business is going to grow disproportionately fast on a percentage basis relative to our commercial business, because it will electrify so fast.

Bill: Before the holidays, maybe some investors missed it, United States Postal Service talked about pledging to build all electric. I'm not sure you guys are involved. How could ChargePoint potentially benefit from huge fleet opportunity like that?

Pat: It's pretty obvious. That's the perfect application for electric. They don't go very far. Platform life's pretty long, but you get it even longer. It's quiet. That's a perfect use case for our depot management software in terms of how we manage charger scheduling to optimize cost into the vehicle.

The dwell time gives you a lot of flexibility there so you can software-optimize it. A lot of our vehicle monitoring and management services, we do it either natively or in conjunction with telematics partners all placed straight in to an example like that.

We'd love to go postal.

Bill: We'll stay...

[crosstalk]

Bill: We'll see if there's any announcements like Mercedes Benz. One thing just coming back fleet and maybe even broadly, you mentioned vehicle [inaudible] . One of the things we hear

about more and more is grid limitations. ChargePoint is not solving that problem. A lot of things have to happen to prove the reliability [inaudible] put chargers in the ground for these really heavy-duty usages.

Any thoughts or insights on how that plays out over the next few years?

Pat: A couple of data points. First of all, what you're seeing in terms of our DC port growth, which we report separately every quarter is a function of what we sold in arrears.

The time delay on that, because of the construction delays associated with everything from just bigger construction projects along with utility upgrades, etc., give you potentially a longer delay there depending on how much power you want. If it's a high-powered passenger car site, sure, it's going to take longer to get the utility infrastructure.

The key is to have a continuous pipeline so your business doesn't stall. What you're just looking at is you're looking at a delay in the growth curve, but the growth curve, you're feeding on top of the funnel with your new sales rate and your new customer acquisition rate.

You're just seeing a delay there. It doesn't hurt the continuity of the business, and it's only one segment, and it's only 10 percent of the fuel is going to go in that way. Look at the percentage of DC fast ports as a percentage of the total number of ports on a network. In the 10 to 15 percent range is where we think it's going to settle out for the foreseeable future.

While there's disproportionately higher revenue, there's disproportionately lower port count. We've got a very diverse business. There's going to be some natural buffeting in how long it takes utilities to get more labor and some great reorganization, but it's a slow-moving variable.

We're so vehicle-limited right now, this isn't going to happen. This is 20, 25-year phenomena. This is not a, oh, we're done with solving climate change from a transportation perspective in five years, OK then, let's move on. We're going to be having this fireside chat till we retire.

Bill: Yeah, absolutely.

Pat: He's really looking forward to that, by the way.

Bill: Coming back to the start, and you talked about it. You're showing this almost nearly doubling your annual growth, but on the same token, you're starting to tighten operating

expenses. How do you balance that without compromising the growth as you look at it [inaudible] business?

Pat: We haven't done anything structural operating-expense-wise. There's nothing unnatural. It's what we've said and being very consistent with what we have said on earnings calls over the last two years being a public company.

We were spending ahead because the market is vehicle-limited. The expense to go after a vertical or a geography doesn't change. If your TAM is 100,000 cars, I made the number.

If it's 100,000 cars or if it's 10 million cars, the cost to develop a product, to sell it, to build the channel, to build all the collateral material and all the supporting infrastructure around that is about the same. It's not that different.

We're spending way in advance of where vehicles were, knowing that we had to be there and that there was a long gestation period. Why you're seeing a flattening...It's not flat, but why you're seeing the slope change is that we finally got to the point where we've put enough infrastructure into the company to be able to handle our current scope.

We're not saying that the operating expense isn't going to grow. It's just growth slope is going to be much, much less than the growth slope of revenue, and we've always forecasted that. There is no fundamental strategic change in how we're managing operations.

Bill: With that, we're out of time. We're looking forward to following progress here this year, your [inaudible] as well, but thanks for joining us again. Appreciated.

Pat: Thank you very much.

[applause]

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