

ChargePoint Holdings, Inc.

First Quarter Fiscal 2023 Earnings Conference Call

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James West, *Evercore ISI*

Shreyas Patil, *Wolfe Research LLC*

Colin Rusch, *Oppenheimer & Co., Inc.*

Craig Irwin, *ROTH Capital Partners LLC*

Ryan Greenwald, *Bank of America Securities, Inc.*

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PRESENTATION

Operator

At this time, I would like to welcome everyone to ChargePoint's First Quarter Fiscal 2023 Earnings Conference Call and Webcast.

All participants' lines have been placed in a listen-only mode to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

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

Patrick Hamer

Good afternoon, and thank you for joining us on today's conference call to discuss ChargePoint's First Quarter Fiscal 2023 results.

This 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 be found on our website.

We'd like to remind you that during the conference call Management will be making forward-looking statements, including our fiscal second quarter and full fiscal year 2023 outlook, and our expected investments and growth initiatives. 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 April 4, 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.

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, Pat.

To start off, we are happy to report that our first quarter revenue of $82 million exceeded the high end of the quarterly guidance provided on the last call. Consistent with recent quarters, we performed well from a demand perspective across all verticals. We achieved record growth in Europe with 67% sequential quarterly revenue growth, a great indicator that our strategy to establish ourselves as a leader in that geography is working. Our year-over-year quarterly growth was 102%, and we grew sequentially from Q4 to Q1, beating the seasonal revenue decline we typically see between Q4 and Q1. Even more remarkable, is we overcame supply chain headwinds to achieve that level of growth.

We remain steadfast in prioritizing assurance of supply amidst the challenging macroenvironment. The increased inventory level on our balance sheet reflects our critical raw materials acquisition program. We are not accumulating finished product, having shipped what we could build during the quarter. Our Operations Team did a great job assuring supply this quarter to deliver our top line, but supply shifted mix to a degree and demand again outstripped supply, with backlog up 35% over the prior quarter.

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As we discussed on our previous earnings call, we expected supply chain issues to continue to negatively impact gross margin. The impacts were higher than expected this quarter for both newer products from a cost perspective and for higher margin mature products from both a cost and availability perspective, resulting in a 17% gross margin for the quarter. Under more normal conditions, gross margins would have been higher, and Rex will share more on this.

On the product side, we continue to ramp manufacturing and deployment of our previously announced fast charge product family and our new commercial AC charging platform, the latter replacing white-label products we have used in select geographies for the commercial vertical. We expect these platforms to deliver scale and margin efficiencies in both fleet and commercial applications. These R&D advances not only satisfy customer requirements in both fleet and commercial verticals in both North America and Europe, but also represent technology-driven margin upside enabled by well designed, highly flexible architectures.

Our experience with customers this quarter is both consistent with historical ratios and supports our investment in the land component of our land-and-expand strategy. On the land side, we added over 1,000 new customers this quarter, with new customer billings at approximately 30% for the period. Because of orders from new customers initiate a revenue stream that grows consistently into the future, we anticipate most of the revenue generated over the life of customers added this quarter will occur in a future environment in which supply chain conditions will have returned to normalcy. Hence, the decision to accept a lower margin for the quarter to support the acquisition of new customers and the expansion from the install base. Supporting this strategy, consistent expansion with existing customers was over 65% of our billings for the quarter.

On the commercial front, we now support 52% of the Fortune 500. The success is broad and growing rapidly within existing relationships. Our fleet business continues to outpace vehicle arrival and had a strong quarter with billings up 157% year-over-year and 8% sequentially, supported by our partnerships and channel relationships.

In residential, demand for our solutions was strong in the quarter. Billings for the vertical was up 47% versus fourth quarter and up 193% from first quarter of last year, and would have been higher if it weren't for supply chain constraints. We are in the early stages of adding recurring revenue for single-family residences, in addition to existing recurring revenue in multi-family. We have numerous pilots underway on this front and have dozens of utility home-charging programs in place in North America.

We ended the quarter with over 188,000 active ports under management, a sequential increase of 8% and a year-over-year increase of 67%. Of those, approximately 57,000 are in Europe and over 12,000 are DC fast. I'll remind you that ports under management is one way to track our commercial and fleet verticals, as each of these ports pay an annual software subscription. We do not include home charges of single-family residences in this count, where we continue to have strong demand, as well. In addition to our network, our roaming reach is now over 320,000 additional ports in North America and Europe, bringing the total number of ports accessible to over 500,000 for ChargePoint drivers.

During the quarter, we celebrated another scaling milestone. A driver now plugs into ChargePoint every second or less. On the strategic front, we've long believed that combining the road trip amenities drivers want with fast charging is critical to making driving electric beyond a driver's battery range a great experience.

Our recent progress includes: our partnership with Starbucks and Volvo; financing alternatives, including our partnership with Goldman Sachs Renewable Power; and public/private partnerships, such as the completion of the first of six highway corridors the Colorado Energy Office awarded to ChargePoint to

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enable long distance EV travel across the state. These examples illustrate how our business model sets us up to operationalize the U.S. National Electric Vehicle Infrastructure Program, known in short as the NEVI Program. This is a tremendous opportunity to accelerate the buildout of charging along highways and in our communities in a way that delights drivers and the businesses that want to serve them. As we have commented on previously, this new stimulus should begin to manifest in calendar year 2023, rolling for five years. More broadly, both in the U.S., Canada and Europe, there are other federal, state and utility programs being formed and in place today, all of which indicate broad commitment to the electric future.

I'll close with some important environmental statistics. Our network has fueled over 4 billion electric miles to date, and, by our estimates, drivers have avoided over 160 million cumulative gallons of gasoline and over 700 metric tons of greenhouse gas emissions. The scale of these numbers is climbing quickly, demonstrating that we can make what is good for business good for the planet, as well.

Now, I'll turn this over to Rex to discuss financials, before we move to Q&A. Rex, over to you.

Rex Jackson

Thanks, Pasquale, and good afternoon, everyone.

As you all know, 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 a reconciliation of our non-GAAP results to GAAP.

As Pasquale indicated, we had a solid Q1. For the quarter, revenue was $82 million, up 102% year-on-year, above our previously announced guidance range of $72 million to $77 million, and beating our Q4 finish. We are particularly pleased with this performance given supply chain challenges that worsened in Q1, driving up costs and backlog, as we fundamentally shift what we could build.

Last quarter, we spoke about our robust backlog and demand continues to outstrip supply. Our backlog at the end of April grew 35% sequentially, from a record backlog in the fourth quarter.

Network charging systems at $60 million was 73% of Q1 revenue, consistent with Q4, and up 122% year-on-year.

Subscription revenue at $18 million was 22% of total revenue and up 63% year-on-year, and also up sequentially.

Our deferred revenue, which is future recurring subscription revenue from existing customer commitments and payments, continues to grow, finishing the quarter at $157 million, up from $147 million at the end of Q4.

Other revenue at $4 million, and 5% of total revenue, increased 54% year-on-year.

Turning to verticals, as you know, we report them from a billings perspective, which approximates the revenue split. Q1 billings percentages were commercial 67%, fleet 16%, residential 15%, and other 1%. While fleet and residential are strong, commercial contribution in Q1 was seven points lower sequentially due to supply constraints impacting shipments.

From a geographic perspective, Q1 revenue from North America was 80% and Europe was 20%, representing great progress in Europe driven by organic growth and by our acquisitions that continue to deliver to plan. In the first quarter, Europe delivered $16 million in revenue, growing 353% year-on-year and 67% sequentially.

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Turning to gross margin, non-GAAP gross margin for Q1 was 17%. We remain focused on assurance of supply to land new customers and to expand with existing ones, but margin was challenged this quarter as our non-GAAP results included higher purchase price variances and logistics costs, representing approximately six margin points, and shortage of supply of higher margin mature products, which was new this quarter, representing approximately three margin points of impact in Q1. We expect gross margin to recover through the rest of the year from three main factors: first, fewer supply constraints for mature products; second, continued technology-driven margin improvements for our newer products; and third, continued efforts to pass on higher component costs.

Demand continues to be strong, as evidenced by our revenue outperformance and higher backlog, and our price points continue to be well received by the market.

To summarize, our key margin challenges remain on the supply chain side, as we continue to work with vendors to ensure continuity of supply and to get back to a more normalized product mix and mitigate increased costs.

Non-GAAP operating expenses for Q1 were $84 million, a year-on-year increase of 78% and a sequential increase of 9%, as we continue to invest to support our growth. Opex was also impacted by supply chain issues, as higher purchase prices and higher logistics costs also impacted the materials purchased by our Hardware Engineering Teams for the introductions of new products important to our second half growth, and beyond.

Stock-based compensation in Q1 was $16 million.

Looking at cash, we finished the quarter with $541 million, following the April close of a $300 million five-year convertible note offering. These notes carry a cash coupon of 3.5% and are convertible at a stock price of $24.03. We have approximately 337 million shares outstanding as of April 30, 2022.

Turning to guidance, for the second quarter of Fiscal 2023, we expect revenue to be $96 million to $106 million, up 80% year-on-year at the midpoint, and reflecting broad-based demand and the challenging supply chain environment we expect to persist in Q2. We are confirming our annual guidance given on our last call and we remain committed to being cash flow positive in calendar 2024.

With that, I'll turn the call back to the Operator for Q&A.

Operator

We'll pause for just a moment to compile the Q&A roster.

Our first question will come from Bill Peterson with JPMorgan. Please go ahead.

Bill Peterson

Yes, thanks for taking the questions, and nice job in getting all these shipments out in light of the supply constraint environment.

I guess my first question is what drove the revenue beat in the first quarter, I guess, and how was it different than what you had anticipated?

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Then, lining that up with the mix impacts you said to gross margins, it looked like commercial was actually down somewhat sequentially based off your billings, and then residential was up, and how much did that play a factor in that?

Rex Jackson

From a numerical perspective, obviously, we did a little bit better than we expected. From a mix perspective, it's shifted even a little bit more in the direction it's done for the last two or three quarters, which is strongly in the direction of some of the corridor and fast-charging things that we're doing. Obviously, fleet was strong. Europe was strong. Home was strong, which is part of residential, obviously. But, some of the commercial was impacted by, first, supply, couldn't get it out the door, and also people aren't back to work yet. It wasn't meaningfully different than what we expected, it was just a slight product mix shift in a direction that you've seen over the last two quarters.

Bill Peterson

That's great. You mentioned that the backlog was up pretty substantially in the quarter, so that bodes well for visibility for the year, but, I guess, what is the backlog coverage between now and, I guess, to reach the midpoint of full year revenue guidance? Is it you pretty much have visibility for the full year, or how much business is yet to be won? I'm just trying to get a feel for visibility, especially in light of at least some of the verticals you have out there might be becoming a bit more cautious on their own end demand and it kind of may come down to you guys.

Rex Jackson

Obviously, we don't give out a backlog number. I can tell you that—and, also, frankly, we're not actually a backlog company. We're sort of a backlog company now because of the supply constraints, and inventory, we're not building inventory of raw materials, so we just pop stuff out. All I can say is—well, one thing I'd say is if we blew out our entire backlog in Q2, you'd be hearing a different guidance number. But, it's a very, very strong backbone for what we expect to happen for the rest of the year.

Operator

Our next question will come from James West with Evercore ISI. Please go ahead.

James West

Hey, good afternoon, guys.

Pasquale Romano

Hi, James.

Rex Jackson

Good afternoon.

James West

Hey, I'm curious, with the rollout of the new technology, the new products, could you maybe talk to the enhancements or the enhanced products that you're rolling out today? I know you said that they are margin-accretive. Maybe, if you could give some color around that, as well.

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Pasquale Romano

Yes, James, so there's a—I don't know where—there's so many places I could start on that one.

First of all, what we've done is, as we transition products, we're aligning the modularity against a fewer and fewer number of serviceable components, so we can improve the long-term velocity and our ability to support the SLAs necessary in a lot of commercial and fleet applications in a very cost-effective way. So, you're seeing us transition to new platforms. That's one point.

The second point, in terms of enhancement, if you look at—I'll just highlight a few. If you look at the new AC platform, the new AC platform is a universal AC platform, it is exactly the same hardware for Europe and North America, and it's metering onboard, is world-certified—is on its way to be fully world-certified in all applications. If you think about how complex that is, that's a very complex thing. But, outside the mundane, we have moved to a processing environment in our chargers which is identical across all chargers. It has incredible capabilities from a latent software capability downstream. Because, remember, we're constantly rolling the software on our network and software functionality, and so we think that we've set ourselves up now for not only a very high velocity of release, because we've commonized that platform, which is very important when you're managing software, but also enabled us not become hardware-limited, from a resource perspective.

For many future generations—the last point I'll make, and then I'll leave you alone. Our smart cable environment in all our new products, DC and AC, enables us to change connector types dynamically in the field and has future-proofed us against evolving interface types. So, the ability to mix and match connector types on DC and AC is really, I think, benchmark-setting. There's a lot more … (cross talking).

James West

I'm sure there are. One more for me. With the National Electric Vehicle Infrastructure Program, it seems to me, given your sales and software model, plus the financing arrangement you have with Goldman, you guys are particularly well suited or set up for this because of your business model. Is that a fair statement?

Pasquale Romano

Well, I think it's a fair statement, but to unpack it a little bit more, I think when it—the statement I made in my remarks earlier, I think is most important to your question, which is charging has to be married to the amenities drivers want when they're driving beyond their battery range, and the NEVI Program is focused on that particular use case, driving beyond your battery range, which we fully support. Because our business model is all about enabling and marrying a business to charging and not about owning charging ourselves, everyone's our friend in the F&C business, in the fueling and convenience business.

Operator

Our next question will come from Shreyas Patil with Wolfe Research. Please go ahead.

Shreyas Patil

Thanks so much. You talked about a few of the drivers of margin improvement for the rest of the year and I was hoping you could give us maybe a little more—maybe just talk a little bit more about the supply chain component of that. It sounds like you have some visibility on the fact that you expect some of those

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constraints to ease through the year. Maybe, what was the magnitude of the impact in Q1, if you can remind us, and then what gives you that confidence that the supply chain constraints will get better?

Rex Jackson

Regarding Q1, the total impact was nine points, six of it from just stuff being more expensive or much more difficult to get them here, and the other three was on some of our more mature products, we weren't able to ship them. That would have positively impacted margin, to get those out the door, but we were not able to do that in Q1.

As you might recall in our guidance, which is 22% to 26% for the year, that's got baked into an estimate looking forward of about six points per quarter. It's never perfect, it could be five one quarter, seven the next. So, we've dug a three-point hole here on that average in Q1. But, as we look towards the back half of the year, and thinking about the three factors that I mentioned, a couple of which we actually control, right—one of the ones we control is we have technology improvements we're doing that will actually bring the costs down even within this environment, if you look at that one. We do think—and then the other was passing along some of the costs, and you know what that means. We feel like we've got the moves in place necessary to significantly improve things, particularly in the second half. So, we want to see a nice uptick in Q2, and then meaningful upticks in Q3 and Q4, and our goal is to get the three points we lost this quarter back.

Shreyas Patil

Okay. Then, secondly, I was—yes, you mentioned mix and that's been a factor over the last few quarters with regards, in part, to DCFC, and can you talk about some of the drivers that will help bring the product margins there up to sort of maybe the target levels that you've talked about previously? I would imagine volume and scale is one component, but how should we be thinking about margin improvement in that category?

Rex Jackson

The first thing I would say is that we are trying to make life better so that we're not as mix-dependent as we are today. I mean, those are factors I just talked about. I think that mix sensitivity won't go away, but won't be nearly as sensitive as we are today, so I think that's going to be very helpful. The new product introductions that Pat talked about, one of which is the universal AC platform, that's going to help us do better in Europe, because right now we use third-party products that we white label, and as you can imagine, it's harder to make margin on something white label than it is something you do yourself. Then, we see a lot of sunshine coming as we are successful in the fleet space, to which we offer the entire portfolio of our products. No two fleets are created the same, so we sell AC to one, DC to another, and most will do both, including higher software, etc. I think, if you look at how the business is going to evolve this year, our confidence in an improving gross margin is pretty solid.

Operator

Our next question will come from Colin Rusch with Oppenheimer. Please go ahead.

Colin Rusch

Thanks so much, guys. With the Goldman Sachs finance partner and the infrastructure funding expected to come through this fall, can you talk a little bit about the customer dynamics that you're seeing right now in terms of your competitive position. With a robust suite of solutions, financing at the table with some compelling folks, and the service offering, is this the sort of thing where you're seeing your win go

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substantially higher and we're going to see a lot of that as we get into the last half of the year with some of that funding flowing, or what's the nuance around some of the North American customers around these dynamics?

Pasquale Romano

Colin, first of all, win rates historically have been quite high, as we can measure it, on fueling and convenience brands, in general, especially if you remember now, which is something that most people have forgotten about, the VW settlement that actually had money awarded to states, much in the same way that—or in analogous way, I should say, that the NEVI Program is awarding money to states. We've built some muscle understanding how to manage programs like that and how to coordinate effectively the collection of amenity brands that drivers want to avail themselves to along a corridor and how to organize that and bring that to a state. If you look at marrying that to financing options that can lever that money, combine it with other sources of capital, everything from LCFS programs in states where that is available and utility programs in states where that's available, where, frankly, we're already playing, it really—we've built a tremendous amount of muscle and relationships that we think we can leverage well into the selection process once it's all fully known and once the states take what they've learned from the VW Appendix D Program, apply it to NEVI, and keep it in accordance, obviously, with guidelines that the federal government is control of, but we expect those to be in pretty reasonable alignment with our expectations. So, I think we're in good shape, but it's not over till it's over.

Colin Rusch

Okay, that's helpful. Then, just in terms of the technology development and the move from L2 to faster charging L3, and other forms, can you talk a little bit about what you're seeing in terms of commercialization of banners that can actually accept some of the higher voltage charging on an ongoing basis?

Pasquale Romano

Sure. The short answer to that question is you're starting to see more and more vehicles either come to market or be announced with higher voltage battery packs, that's really the key, because the limit at the current connector standard for fast charging is about 200 kilowatts or 400 volts, which is the traditional battery pack voltage you see out there for passenger cars, anyway. Heavy vehicles are a little bit different, but stick to passenger cards.

We expected to move in the higher voltage direction, and because we saw that as a necessary element to get to the settle point for mass market adoption, really drop the friction for mass market adoption, due to just the time it takes to dwell at a fast charger, as a general consumer, not an early adopter, we've made our all fast charge products from the beginning capable of up to 1,000 volts, which is the limit of a connector. Every single thing we've shipped from day zero in our fast charge product line, that's been under our design control, is capable of that. So, for us, we don't have to do anything.

Operator

Our next question will come from Craig Irwin with ROTH Capital. Please go ahead.

Craig Irwin

Good evening, and thanks for taking my question. In your remarks, it sounds like you're prioritizing new customer capture, and really doing an impeccable job there going after and landing those customers with available product. Can you maybe talk a little bit about the breadth of new customer additions? Then,

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then, if you could give additional color around sort of the relative costs on the front end, maybe the first 100 or 200 charges to a customer, versus the next 2,000, you know, what the relative costs look like over the course of a multi-year relationship?

Rex Jackson

It depends on the customer's mix, in terms of what their initial buy looks like, in terms of dollar figure, and what the ongoing buys look like, so it's hard to—it's very use-case-specific. Even within one vertical, like commercial, it's very use-case-specific. Here's what I can tell you to give you a little bit of color. You've got, as referenced in my remarks, over 1,000 new customers coming in in one quarter, and that's about 30 percent-ish of our billings for the quarter. So, you can imagine what the average deal size is just looking at those two numbers for new customer acquisitions. It's usually on the smaller side, unless it's a fleet customer that is a bit more unfettered with respect to vehicle availability, which is depending on the fleet customer, also, potentially constrained. So, the initial deal sizes are small, but you're getting that customer up and running on our software environment. They're learning how to tie that into their business, create whatever incentives they want for their employees, their customers, figure out how to operationalize their fleet. That is the time where you spend all your energy getting that customer onboarded, and then, on a go-forward basis, they know how we help them, of course, but they begin to learn how to budget, how to plan, how to scale that infrastructure. So, the later buys are almost, to a tee, always greater than those initial buys, and they keep accumulating because those match the vehicle arrival rates in the parking lots of those customers, whether they be a fleet or a commercial customer.

Craig Irwin

Understood, understood. My second question is about fleet. When we look at the vehicle, the electric vehicle providers out there, there's quite a lot of volatility as far as the success rate and the sales rate that is making it out there into the channel. Fleet's obviously really working for you. Can you maybe comment a little bit about what area of fleet this might be? Is this really last-mile delivery, is it (inaudible) school buses, box trucks? You have quite a range of products to serve these different markets, but can you maybe help us understand what's working for ChargePoint?

Pasquale Romano

Yes, what works for—so, there's two things, I think, that are directly mappable to our success in fleet. One, we don't make the customer the integrator, okay? It sounds simple, but having a comprehensive portfolio, along with the ability to consult, and potentially even project manage the buildout, all under one roof, with all the technology elements, from software to services, all there, that's huge when they're starting to come up to speed in what is a very meaningful transition from liquid fuel—thought about very differently—to electricity as fuel, and so I think it's a great—that's one of the reasons.

The other, in terms of relative success by vehicle type, we are—because we are literally in every sub-vertical within fleet, from light commercial, take-home, small form factor light commercial vehicles used by salesforces, etc., we're in a position—because most fleets have a variety of vehicle classes and applications, we're in a position to be one-stop-shopping, again, dimensionally, across all those sub-verticals.

If you cross those two things, one, we don't make the customer be the integrator and, two, you don't have to go to a bunch of different solution providers to solve your needs for, say, last-mile versus take-home fleet versus etc., it's all integrated on one software platform, one thing to integrate, with one throat to choke, all of those things above, I think that speaks to why we are, in this early market, able to establish ourselves so effectively in that segment.

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Operator

Our next question will come from Ryan Greenwald with Bank of America. Please go ahead.

Ryan Greenwald

Hey, good afternoon, guys.

Pasquale Romano

Good afternoon, Ryan.

Ryan Greenwald

Hey, there. Appreciate the time. Maybe starting first with the ASPs and the ability to pass through the higher costs, can you talk a bit about any success thus far and how you're kind of expecting this to evolve through the rest of the year given the levels of demand?

Rex Jackson

Yes, that's actually a great question. We took a couple of measures earlier this year on the pricing front, and then briefly did a few things on the logistics front. Those changes will start rolling through visibly in Q2, I would say, and then we're taking some other measures now that will roll through in the second half. That's the measure side of it.

On the ASP side of it, and Pat alluded to this—I think I may have alluded to it, too—the ASPs are holding up very nicely. As you can imagine, in a supply constrained environment, if we can't build it, probably nobody else can, either. What we're finding is we don't have to discount as much, we don't have to—and there is some elasticity in terms of our ability to manage from a price perspective. I think you'll see the meaningful impact of all of this mostly in the—there'll be a little bit in Q2 and then stronger in the second half.

One thing we're not seeing, we're not—when Pat says we could go with shortage of supply, we are not buying business at all.

Ryan Greenwald

Got it, that's helpful, and maybe just to close the loop on margins, any way to provide a bit more color on how you're thinking about the magnitude of the step-up into Q2, specifically, kind of given these moving pieces, and any implications from the lockdowns in China?

Rex Jackson

So, back to front, lockdowns in China are incredibly annoying, so our Ops Team has had to manage around a bunch of that, so that's no good. We don't give guidance in terms of gross margin by quarter, but clearly, if we're looking at the full year, having confirmed guidance for the year, which included gross margin at 22% to 26%, we have some ground to make up, so I would be sorely disappointed if we didn't manage to start the march northward. I just can't give you a number.

Operator

Our next question will come from David Kelley with Jefferies. Please go ahead.

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Gavin Kennedy

Hi, this is Gavin Kennedy on for David Kelley. I believe your prior full year guidance for this year didn't incorporate, or did not incorporate a reversal of work-from-home trends in Fiscal Year '23. Have you guys seen any changes in workplace demand from customers to date, and if so, can you just talk about how that business is trending?

Rex Jackson

Workplace sits inside of our commercial segment, and as I said in my prepared remarks, commercial as a percentage of our billings was down sequentially from Q4. As you know, that's a really important part of the business. So, from a pure sales perspective, it's been tough, because, to your point, people aren't back to work. I would say that we do see pipeline build as we sit here today, so I'm very guardedly optimistic that that's going to be coming back soon, but it really does boil down to people have to get back to work. Obviously, there are other components to commercial, like retail, hospitality, all of those things that basically will all start waking up the more people move around. With the world opening up and masks not being required, yet the pandemic's not gone forever, but we do see positive motion in the pipeline. Obviously, we use salesforce and we track all that stuff, so I'm thinking we—I don't think this is the rest of the year, it's going to be a dampened kind of thing. I think we're thinking it's going to pick up.

Gavin Kennedy

Got it. Then, just as a follow-up, switching gears, how should we think about R&D as a percentage of sales per year end? I believe last quarter you mentioned that R&D would remain elevated, but maybe taper off a little bit faster than G&A. Is that still a fair statement?

Rex Jackson

It has bounced around quite a bit. One of the things we run into, and I think I mentioned in my script, when you have several million dollars within NPI expenses, it looks like you've got this sort of sustainable rate that you're doing, so we got popped pretty good in Q1 on that. But, from a percentage standpoint, it should taper this year. I can't give you a number, obviously, but I do think as we look at how we end the year in terms of all three components, and opex, overall, as a percentage of revenue, you should see meaningful improvement there as the Company scales through the year.

Operator

Our next question will come from Kashy Harrison with Piper Sandler. Please go ahead.

Kashy Harrison

Good afternoon, and thank you for taking the questions. From a big picture perspective, I was just curious when you expect to start seeing the impact from the Goldman Sachs agreement. Do you see that as more of a 2023 catalyst, or do you think we'd start seeing revenue pick up from that deal maybe later in 2022, and then I have a follow-up?

Pasquale Romano

We'll see some projects underway inside of this year, likely, but given the complexity of the projects typically associated with financing arrangements, like the one provided by GSRP, most of that benefit will show up in the next calendar year—or the next fiscal year, I should say. The primary reason for that is

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developing the project, getting all the civils done, permitting, and then getting through construction and installation, just naturally takes time in a more complex project, especially on the fleet side. I know we've had some commentary on this call with respect to passenger car, but fleet is a big focus for that partnership, as well.

Kashy Harrison

Got it, that's helpful, and then my next question is maybe just a little bit more of a quick modeling reconciliation question. I was looking at—maybe a question for Rex—I was looking at the increase in deferred revenues for Q1, and it looked like the increase was less than what we saw in Q4 of last fiscal year, and subscription revenues recognized during the period were flat, and so I was just wondering was there something unique that happened, the deceleration in deferred revenue growth? That's it for me. Thank you.

Rex Jackson

Most of our deferred revenue is subscriptions, and that's both our cloud software and our Assure warrantees, and those burn off over time. Therefore, they're very predictable, they don't gyrate around. Occasionally, we'll get a project—and I expect this actually will probably pick up a bit as we continue in the fleet space—where you get something this chunky and you get 98% of it done and you go, "Well, shoot, I can't take the revenue for that." We did have one project, it wasn't a material number, but we had one project in the quarter that we completed, that had been held up for a few months. So, you will see some of that. I would encourage you, from a modeling perspective, to smooth that stuff out.

The other thing that you should make sure that you understand from the subscription line is when we talk about mix, mix also heavily impacts not the dollars in our subscription line, necessarily, (inaudible), but it does affect percentages, because, if you look at an AC product versus a DC product versus the home product, and then you look at different verticals, you get different software content on a percentage basis across our product line. So, right now, if you buy it, the percentage of a DC product represented by software is much smaller than the percentage you would see on an AC product, and that's a meaningful factor.

So, I just think you need to map to what information we've given you, it may not be enough, to the mix thing and how the subscription thing mapped to that.

Operator

Our next question will come from Vikram Bagri with Needham. Please go ahead.

Male Speaker

Hi, it's (inaudible) on for Vik at Needham. I wanted to ask about potential upside from 30C. It looks like there's blank sections for tax benefits under the 30C section on the Company website. So, I guess, just how do you think about any upside from tax breaks, both directly and also indirectly? Then, how you are thinking about the impact from the higher cap? I think there's the 30% reduction and the base is up to 100K, versus previously up to 30K, and also just the impact of the direct pay option, and then I have one follow-up. Thank you.

Pasquale Romano

We've obviously experienced tax credits in our industry before. We also have a lot of other programs that are simultaneously running, if you look at utility programs, if you look at state programs, if you look at the

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totality of effective subsidies, put that in a pool of effective subsidies. We don't see the tax credit as a meaningful inflection in demand generation for our business, but every little bit helps, because there's already a substantive pool, depending on the state that you live in and the geography, of incentives out there that are helpful.

I think most of our business isn't driven by—it's not really a subsidy-driven business, as a whole. I mean, obviously, if you take the NEVI Program, if you take 30C tax credit, if you take all those different policy components, it's nice to look at a business—nice to think about a business that may have this huge inflection, but look at our growth rate without that stuff, coming out of a pandemic and the worst supply chain environment, with backlog building. The demand is massive, because the pressure from cars that are now finally arriving is driving the bulk of the demand. So, I would not—while these things are nice and they do drop some friction in the customer's mind, depending on where they live, I would not laser-beam focus on any particularly subsidy program as a beyond and end all for any vertical or company.

Male Speaker

Got it, okay, and one related question. I'm pretty sure that the guide doesn't include any impact from 30C, but just wanted to clarify if that's the case.

Pasquale Romano

No, I mean, look, our Policy Team runs a very tight process with our salesforce. I think you referenced some things on our website, but we have even more tools behind the scenes that our salesforce can use with customers and our channel partners can use with customers. We've already looked at—we've already experienced enough friction adjustment to know how to look forward in our numbers, and while we haven't adjusted for what we think might be friction removal from 30C, I just don't think that that's going to—I don't think we're going to be able to see such a meaningful thing we can absolutely point to and say that's because of the 30C tax credit, versus something a customer would have already done, anyway. There's some there, but it's hard to quantify.

Operator

Our next question will come from Matt Summerville with D.A. Davidson. Please go ahead.

Matt Summerville

Thanks. Just a couple quick ones. Pat, in your prepared remarks, you mentioned single-family recurring revenue opportunity. Can you talk about maybe the timing, the economics, your approach, whether this would be something you'd attempt to do with existing installations or just on go-forward purchases? Can you maybe talk a little bit more in detail around that? Thanks.

Pasquale Romano

Sure. Yes, I mean—well, I'll go in backwards order. In terms of existing installations, it depends on the program and whether you can grandfather in an existing ChargePoint customer. We've already done that with a couple of utility programs. I'll just reference one in our patch, but there's a lot of utility programs running. If you look at the PG&E program that we're part of at home, there have been emails going out to existing ChargePoint home customers that did not start under that program to potentially enroll them in the program. So, it will depend on the rules that, frankly, we don't set, but the incentives are certainly there for—if it's a utility, to recruit the existing customers that are in their patch, if the program is favorable to them, which why would they do it if it wasn't. So, that's one.

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In terms of—we have pilots rolling across the country and some active utility programs running for home charging.

The one thing I can tell you is the utilities are a very deliberate bunch, so there is a what is slower than normal business process to evolve a program to a broader and broader level. I think there's plenty of time given that we're a little north of 1% penetration in North America and Europe into the install base of cars. There's plenty of time to evolve those programs to full-blown programs by the time we get into the really steep parts of this growth curve, and I know it's hard to believe because we are in a very steep growth curve right now, but the growth for this industry is going to get steeper, and so I think there's time there, and it bodes well, because there's a tremendous amount of load management benefits to utilities in managing overnight charging and bringing those cost savings to rate payers across their network.

Matt Summerville

Got it, and then just with respect to supply chain—I guess, maybe, Rex, this one's for you—in the $450 million to $500 million revenue assumption, how much, if any, of the backlog conversion do you actually anticipate? I guess what I'm asking, or maybe another way to put it, Rex, is do you expect to have a bigger backlog at fiscal year end than you're sitting here with today?

Rex Jackson

That's a great question, because I had an answer in my head, until you asked the tail end of the question. As I mentioned earlier, I don't think of this as a major sort of backlog type company. We tend to sell, and we've got great CM (phon) relationships. We don't build up a lot of inventory, so we're really good about selling through. The backlog that we have today, as I mentioned earlier, is a really nice boost between here and the guidance that we've given for the year from a revenue perspective, but if I had to commit to something, I think I would say if the weather clears, I'd actually expect the backlog to maybe be slightly smaller. The place where we can end up with a lot of backlog, potentially, is in fleet, but that remains to be seen. That's not contemplated anywhere in any of the big guidance numbers that we've done, but just because it's so early there. But, net/net, I wouldn't be surprised if it's at or below the level it is today as we get into Q3 and Q4, but that assumes we have supply.

Operator

Our next question will come from Stephen Gengaro with Stifel. Please go ahead.

Stephen Gengaro

Thanks. Good afternoon, everybody. Two things for me. Rex, you mentioned earlier, I think you said the percentage of subscription revenues from DC versus AC, and how that mix impacts subscription revenue going forward. Can you just add a little color to that? I'm not sure I completely understood the concept.

Pasquale Romano

Yes, a couple of quick comments on that. As Rex mentioned, if you look at the ASP of a DC port, whether it be for fleet or commercial, it's much, much higher than the ASP for even the highest end AC commercial products that we have on a per port basis. Now, on a per port basis, a DC product, especially in fleet, generates, on an absolute dollar basis, a higher amount of recurring dollars, but on a percentage basis, it does not, on a percentage basis, only because the initial port sale is so much more expensive than it would be for even the highest end AC product. Does it make sense?

Stephen Gengaro

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Yes.

Pasquale Romano

So, that's the fundamental—that's really the fundamental driver. I'll make a second point just to reinforce it for any new listeners out there that haven't tracked our earnings calls before.

Every single port of hardware we sell, outside of single-family residents, and even there we're starting to see recurring, right, but every single port has an attached software subscription, subscription that is recurring. We will not sell hardware without that software subscription. We will sell the software subscription against third-party hardware if we don't have a hardware solution or the customer prefers other third-party hardware. So, there is no real way to have those two curves split there.

Lastly, what I'll point out is that on a percentage basis, what is commonly confusing, is that the port growth being so high on an absolute basis on new port adds, and accelerating that, because the revenue is recognized in the period and the revenue associated with the software is rated, until the install base is significantly larger on the existing ports under management—that's why we quote that number, because that existing ports under management is the install base that's paying us on an annual basis—until that install base is higher, the port growth rate, as it accelerates, can drive the ratio of the hardware line to the software line on our P&L in any given quarter in the wrong direction from an optics perspective, but it's actually goodness, because it says we're adding to the install base faster.

Stephen Gengaro

Got you. No, that clarifies things, I appreciate that. Then, the other quick one, and I know you addressed this a little bit a little bit earlier, but when you think about just the visibility—I mean, obviously, you reiterated gross margin guidance—the confidence level is reasonably high based on what you see today and how things are flushing out from a supply chain perspective, but what do you think it takes to kind of get to the upper end versus the lower end, as we think about the biggest moving pieces for the rest of the year?

Rex Jackson

I couldn't shade either way, you know, high end or low end, but fundamentally, what we've done is we have—for one thing, we have a very good Sales Team. I've been here for four years, and even when we were private, they hit their numbers. When we sit down with them and go through now, Q2, Q3, Q4, they've got a lot of credibility with Pat and a lot of credibility with me. So, the fact that they have such a good track record is very encouraging. We've got a lot of new products coming online here this year that I think are going to help. So, really, it all comes down, in my mind, to can we build it, and as we've talked on several of the questions on this call, "What's your backlog look like?", we've got a really nice backlog, it keeps building, even in what would seasonally be our worst quarter, which is Q1. We think the demand looks really, really good, and so our main handicap as we look through the rest of the year is can we get the parts, put them together and get them out to our customers. So, I feel pretty good about the number.

Operator

Our final question will come from Steven Fox with Fox Advisors. Please go ahead.

Steven Fox

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Hi, good afternoon. Just one for me, please. Can you maybe address—there's been some talk about just frustration in the field about how quickly, or not so quickly, state and federal dollars are rolling out. You guys just highlighted that you completed one corridor in Colorado, with five to go. So, I was just curious if you could talk about your experience with that corridor, how it is dealing with some of these expectations for funding, and I know it's not in your numbers, but I'm just wondering if you think it's proceeding to advertisement, or maybe it's going to take a little longer. Thanks.

Pasquale Romano

Historically, when we've been asked questions on stuff like this in other forums about our expectations around public funding, we've always actually modulated the questioner to a less bullish time-wise position, only because we have 15 years of experience understanding how long programs take to operationalize. It's no fault of any state government, or what have you. It's just there's a lot of moving parts, and when you're dealing with policy and things of that nature, it just takes longer to operationalize than it does to spell out in a press release when those things are initially uncovered. So, I think we've built in a natural level of expectation at ChargePoint that is pretty matched to what actually happens, and we find ourselves in a continuous position of having to modulate down external parties that I think have over-sized expectations as to the rapidity of onset.

Once a program onsets, then it tends to go along an obvious path. In every program, for example, if it's a five-year program, the first year's a little bit smaller, because there's a bigger reserve for some things outside of equipment and services, but, at a top level, it's $1 billion a year for five years rolling to states, and we expect that to go kind of like the VW Appendix D Programs did, with the proviso that the state commissions that are dealing with these programs now have the benefit of the experience that they've already had. So, we think they will go faster on the back of the fact that they can copy/paste a lot of learnings from those previous things, but still, it still takes a while to get operationalized, and then once a program is even awarded and operationalized, you still have to get through construction, all of the utility provisioning, etc., so there's just a natural delay. This will take—this will come in over years, and that's okay, that's a good thing, it's not a bad thing. We all have to set our lenses accurately.

Steven Fox

Great, I appreciate that color. Thank you.

Operator

That will conclude today's question-and-answer session. I would now like to turn the call back over to Pasquale Romano for closing remarks.

Pasquale Romano

I'll just close by again thanking the team here at ChargePoint, first and foremost, as a team pulling together to get through what was a very demanding quarter on the Company, given all the constraints and the growth rate. So, thanks to all of you out there listening.

The most encouraging thing for us, I'll leave you all with this, is that for several quarters now we've reported that, really, all our verticals are firing. There's no single hot spot in the business. That was what we, if you rewound the tape 10 years ago, what we were designing the Company for. It's nice to see reality match theory for now what is a bunch of quarters where that's been the case. So, we're really encouraged that we've got a diverse business here, and now diverse geographies. It was great to see Europe do as well as it did, despite the supply chain constraints last quarter for us. So, we're very optimistic about our ability to continue to be a leader in this space, and we're looking forward to a world

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when the supply chain issues subside and we can really manage our business with the full benefit of knowing that we can get everything we need. Because, that, at that point, as Rex mentioned, then we're at the limit of our growth, which doesn't seem to be much of a limiter these days.

So, thank you all, and we'll see you next time.

Operator

This will conclude today's conference, thank you for your participation, and you may now disconnect.

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