ChargePoint Holdings, Inc. (Q4)

March 02, 2023

Corporate Speakers:

- Patrick Hamer; ChargePoint Holdings; Head of IR
- Pasquale Romano; ChargePoint Holdings; CEO
- Rex Jackson; ChargePoint Holdings; CFO

Participants:

- Colin Rusch; Oppenheimer; Analyst
- James West; Evercore ISI; Analyst
- Gabriel Daoud; Cowen & Co.; Analyst
- Bill Peterson; JPMorgan Chase; Analyst
- Kashy Harrison; Piper Sandler & Co.; Analyst
- David Kelley; Jefferies; Analyst
- Stephen Gengaro; Stifel; Analyst
- Matt Summerville; D.A. Davidson & Co.; Analyst
- Maheep Mandloi; Credit Suisse; Analyst
- Oliver Huang; Tudor, Pickering, Holt & Co. Securities; Analyst
- Steven Fox; Fox Advisors LLC; Analyst
- Alex Vrabel; BofA Securities; Analyst

PRESENTATION

Operator^ Ladies and gentlemen, good afternoon. (Operator Instructions)

At this time I would like to welcome everyone to the ChargePoint Fourth Quarter Fiscal 2023 Earnings Conference Call and Webcast. (Operator Instructions)

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. Thank you for joining us on today's conference call to discuss ChargePoint's fourth quarter and full fiscal 2023 earnings 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 and full year ended January 31, 2023, which can also 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 outlook for the first quarter fiscal 2024.

These forward-looking statements involve risks and uncertainties and 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 December 8, 2022 and our earnings release posted today on our website and filed with the SEC on Form 8-K.

Also, please note that we use certain non-GAAP financial measures on this call, which we reconcile to GAAP in our earnings release for certain 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 the call over to Pasquale.

Pasquale Romano^ Thank you, Patrick, and thanks to everyone for joining us today. Yesterday marked our second anniversary of being a public company, and I'd like to start by recognizing the team here at ChargePoint that has worked tirelessly to continue to evolve the company to fulfill the enormous role we play in the energy transition.

Before I get into a bit of retrospective on the full year and what the road ahead holds for us, I'll review the fourth quarter results for fiscal 2023. Our fourth quarter grew 93% year-on-year and 22% sequentially, making another record quarterly revenue level for the company, while improving non-GAAP margins by 3 points to 23%, delivering on our expectations set on our last call that we would sequentially improve gross margin.

However, on that same call, we effectively raised the midpoint of our full year guidance by $5 million. The revenue results for the full year were slightly below the original guidance midpoint and 2.5% below the revised guidance midpoint. Fourth quarter revenue results were below the guidance range and 7% short of the midpoint. This was due to a combination of special circumstances. The first is a decrease in North American commercial demand during the month of December; the second, while overall supply chain limitations have eased, they persist for certain hardware products; and lastly, we just missed shipment cutoffs for some customers that caused a larger gap between billings and revenue than historical norms.

To put that in perspective, the full year revenue was $468 million. Our business grew 94% this year versus last and over 90% year-on-year each quarter. We managed operating expenses through the year to achieve the improving operating leverage you see. And this is foundational to becoming cash flow positive in calendar 2024. We are exceptionally proud of crossing through an annualized subscription revenue benchmark of $100 million. We also demonstrated growth in fleet as a major vertical globally in our European business across all verticals. Both of these outpaced the 94% growth rate of the company to gain ground as a percentage of overall revenue.

A good example of our progress in fleet and the power of our ecosystem is the recent announcement of the United States Postal Service Award with our distribution partner, Rexel. Partnerships like these are critical pieces of our differentiated business model. In the fourth quarter, over 70% of billings were through our channel partners, consistent with historical results. And even with limitations on vehicle supply, in the vertical, fleet is already a significant component of our revenue and a coiled spring when the vehicles are readily available.

This is an essential part of our growth strategy. Participating in nearly every vertical of EV charging in both Europe and North America not only fuels our growth, but also provides resilience in the face of short-term emphasis shift across verticals and geographies. We benefited from this in COVID years and expect this diversity to be an asset as the market continues to develop for years to come.

Let me give you a sense of where we have been this past year to help you gauge how well we are positioned for the future. We operate at the center of an expanding ecosystem that's highly invested in the electrification and mobility. We are now seeing that investment accelerate from those force multipliers. And this indicates that the ecosystem, not just the auto industry, is past the point of no return. Some examples, ChargePoint now has over a dozen automotive partnerships live where ChargePoint cloud service aggregates access to all major public charging networks in Europe and North America via the OEMs Dash system or companion app. Partners added this year include Lexus, Mazda, Toyota and Fisker this year.

Additionally, many auto OEMs offer our ChargePoint home charger and recommend us to their dealers for their charging needs. We added numerous fleet OEMs as partners as well. We continue to work with the iOS and Android platforms as well as the native Google car experience. We added UTA, a leading European fuel card provider to our long list of payment partners. We added STEM and other partners to enable charging to be integrated into broader site-wide energy management. We continue to grow our channel partner network and launched our mobile application for installers as our first step in creating an education and support platform for these key players.

We continue to work with governments in North America and Europe to shape policy and programs such as Neve to remove barriers and ensure a vibrant and consistent charging market. And lastly, we announced partnerships with Volvo and Starbucks as well as Mercedes-Benz and [Emanate] Energy to enable great brands serving the 30-minute retail economy with the EV charging to create a fantastic road trip experience for EV drivers.

Turning to network, general customer and environmental statistics. We finished the quarter with over 225,000 active ports under management, including over 18,900 DC ports. With just under 1/3 of our overall ports in Europe. We also provided our drivers access to over 465,000 roaming ports with over 445,000 of those ports in Europe significantly strengthening our EU offerings for site hosts. We now call 80% of the 2021 Fortune 50 and 55% of the 2021 Fortune 500 customers and over 70% of billings from existing customers consistent with historical norms and our land-and-expand strategy.

As of the end of the quarter, we estimate that our network has now fueled approximately 5.6 billion electric miles avoiding approximately 224 million cumulative gallons of gasoline and over 1 million metric tons of greenhouse gas emissions. While we are facing many of the same headwinds as the rest of the space, the momentum of the ecosystem in which we operate and our differentiated business model, were not only driving the near-term results we've seen, but position us to capitalize on what is clearly an inevitable long-term growth cycle.

I'm proud of the ChargePoint team and our partners who made this year possible. Together, we are uniquely positioned to pursue this remarkable market opportunity, and I'm confident we are on the right trajectory heading into this year. Rex, over to you.

Rex Jackson^ Thanks, Pasquale. As a reminder, please see our earnings release where we reconcile our non-GAAP results to GAAP, our principal exclusions or stock-based compensation, amortization of intangible assets and certain costs related to restructuring and to acquisitions. Also, we continue to report revenue of along 3 lines: network charging systems, subscriptions and other. Network charging systems represents our connected hardware. Subscriptions include our cloud services, connecting that hardware. Our assure warranties and our ChargePoint is the service offerings where we bundle our solutions into recurring subscriptions. Other consists of energy credits, professional services and certain nonmaterial revenue items.

Moving to results. Fourth quarter revenue was strong at $153 million, up 93% year-on-year and 22% sequentially, but below our previously announced guidance range of $160 million to $170 million, as Pasquale noted. Again, the shortfall was principally due to supply issues with our DC product lines as availability was better, but still not sufficient to hit the significant ramp from the third quarter to the fourth quarter. A lack of linearity to 4 shipments too late in the quarter to meet our revenue cutoff criteria and softer North American commercial demand than expected also contributed. Network charging systems at $122 million was 80% of fourth quarter revenue, up 109% year-on-year and 25% sequentially.

Subscription revenue at $26 million was 17% of total revenue in line with its third quarter percentage contribution, up 50% year-on-year and 19% sequentially. Importantly, as Pat mentioned, this quarter, we hit a significant milestone of $100 million in annual run rate for this revenue line. Further, our deferred revenue from subscriptions representing future recurring revenue from existing customer commitments and payments continued to grow nicely, finishing the quarter at $199 million, up from $175 million at the end of the third quarter. Other revenue was $5 million and 3% of total revenue, increased 37% year-on-year but was down 22% sequentially, largely due to decreased values of LCFS credits.

Turning to verticals. We continue to report them from a billings perspective, which approximates the revenue split. Fourth quarter billings percentages were commercial 69%, fleet 19%, residential 11% and other at less than 1%, and representing a several point gain for our fleet business versus last year. From a geographic perspective, fourth quarter North America revenue was 86%, Europe was 14% as our European business continues to expand. In the fourth quarter, Europe delivered $22 million in revenue, growing 129% year-on-year and 26% sequentially.

Turning to gross margin. Non-GAAP gross margin for the fourth quarter was 23%, up from the third quarter at 20%. We were particularly pleased with this progress as cost reductions, higher ASPs and incrementally lower supply chain headwinds more than offset certain product transition costs. Specifically, we saw a 4-point drag from supply chain impact during the quarter. Non-GAAP operating expenses for the fourth quarter were $81 million, a year-on-year increase of 5% and a sequential increase of 2%.

We continue to manage operating expenses carefully and with several key product releases achieved earlier in 2022, new product introduction costs were lower in the fourth quarter. Stock-based compensation in the fourth quarter was $26 million. Recall that our annual refresh cycle will be in our second fiscal quarter.

Looking at cash and equivalents. We finished the quarter with $400 million, slightly higher than $398 million at the end of the third quarter as we use our ATM or at-the-market offering program to raise $50 million in December. At the end of the fourth quarter, we had approximately 348 million shares outstanding. Turning to the year. Annual revenue was $468 million, up 94% year-on-year. Network charging systems, at $364 million or 78% of total revenue for the year and up 109% year-on-year. Subscription revenue of $85 million was 18% of total revenue and up 59% year-on-year. Other represented the balance of 4%.

Quickly covering verticals for the year, billings by vertical. For the full year, we're commercial 69%, fleet 17%, residential 12% and other 1% and like the fourth quarter reflecting particular strength in fleet. From a geographic perspective, full year revenue from North America was 84% and Europe was 16% as Europe outpaces our overall growth rate. In fiscal 2023, our European business delivered $73 million in revenue of 190% year-on-year.

Turning to gross margin. Non-GAAP gross margin for the year was 20%, down from 24% in the previous year, principally due to a higher mix of DC products and to an approximately 5 percentage point supply chain and logistics impact. Non-GAAP operating expenses for the year were $324 million, a year-on-year increase of 35% and managed well below our original targets for the year. Again, we are focused on delivering Improved operating leverage as non-GAAP operating expenses as a percentage of revenue went from 103% in the first quarter to 53% in the fourth quarter.

To maintain our path to profitability, we responded to fiscal 2023 gross margin shortfalls by spending $35 million less in non-GAAP operating expenses relative to our original annual guidance and essentially kept quarterly non-GAAP OpEx flat each quarter of the year. Turning to guidance. As you all know, we guided for the full year last year on revenue, gross margin and operating expenses. We did this because we were a newly public company and analyst estimates varied from our expectations too greatly across these measures. As we look at fiscal 2024, there's far less dispersion and external estimates. Accordingly, we believe annual guidance is not necessary this year.

For the first quarter of fiscal 2024, we expect revenue to be $122 million to $132 million, a year-over-year increase of 56% at the midpoint. As you may recall, we typically see a seasonal drop in revenue from the fourth quarter to the first quarter as site hosts reload budgets and construction slows in the winter. However, keep in mind that in addition to being seasonally down from the fourth quarter, our first quarter historically contributes a significantly lower percentage of our annual revenue than quarters 2 through 4.

On other measures, we expect continued sequential improvement in gross margin this year as supply chain challenges continue to ease, our cost-down efforts continue and we get the benefit of volume on newer products.

Regarding operating expenses, we expect leverage to be lower in the first quarter on lower revenue, but then to improve through the balance of the year and for the year. Advances in these metrics are key to our commitments to turning cash flow positive in the fourth quarter of 2024.

Reaching this milestone next year with the North American EV passenger fleet estimated by Bloomberg in at under 5% and under 8% in Europe, should position the company well early in the industry's growth cycle.

Operator, let's move to Q&A.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) We'll go first to Colin Rusch, Oppenheimer.

Colin Rusch^ I wanted to dig into the seasonality piece of this because we see this in a variety of industries. And what it looks like it's happened in the first quarter of your fiscal year as you end up pens out about 18% to 20% of the annual revenue and you're guiding to something a little bit north of 50% here.

I guess what can you say about the backlog and your visibility into the balance of the year? And how you're thinking about the seasonal trajectory of revenue throughout the balance of the fiscal year?

Rex Jackson^ Colin, thanks for the question.

So if you look at our Q1 outlook, as I said in the prepared remarks, it's a we're a growth company, right? So you end up with a lower percentage in Q1 relative to the percentage just for Qs 2 through 4. So you can extrapolate, I think, successfully from there. Looking at your models and our historical performance, I think that's something that you guys can do.

From a backlog perspective, we actually did a nice job in Q4 of burning off some of the historical backlog. As we've said in prior quarters, we don't actually think that backlog is necessarily a virtue.

We're not a backlog business, particularly maybe that changes as fleet continues to become a broader part of the company's business. But we're a land and expand business. We want product out the door and then people's hands it in the ground. So we're going to burn that down. And it was a nice backstop for Q4. It's a decent backstop for Q1, but we're going to work that off as we go through next year.

Colin Rusch^ Okay. And then just in terms of the texture of the client engagement right now, can you talk a little bit about what trends you're seeing in terms of incremental customers that you're adding into that land part of the land and expand strategy and the velocity of sales in terms of whether it's accelerating or decelerating with the existing customers as you get into the first part of this year?

Pasquale Romano^ So Colin, I think the easiest way to answer that is to point you at a statistic in our prepared remarks. The rebuy rate as a percentage of our revenue in the quarter was very consistent with historical norms, which indicates that the customer add rate is holding. So there's no further color to add.

Operator^ Next, we'll hear from James West, Evercore ISI.

James West^ So Rex, a question -- so a question for you, Rex, just to clarify the revenue shortfall versus your guidance for the quarter. if you had -- if those shipments have gone out in time, would you still have been within or even above your guidance range because it's not really revenue, you're not going to get it because it comes just at a different time?

Rex Jackson^ Yes. I mean that's a good question, right? So first thing I would say is we put a lot of pressure on ourselves be from Q3 to Q4, a big uptick, and we accomplished most of it. But I don't actually know the number, but I think the -- at the end of the quarter, the semi trucks were sort of lined up around the block. So we fundamentally just had a back-end linearity issue of getting products either built from a DC standpoint because you ran out of gas on that from a supply chain standpoint and then on the trucks in time at the end of the quarter. So would we have made it -- the short answer is yes.

James West^ Okay. Okay. Got it. That's very helpful. And then another question maybe for Pat is with your customer and the customer engagement right now, do you have a sense for how much of your business is new customers, putting up carding stations versus existing customers adding to their charging networks.

Pasquale Romano^ Yes. I mean I think that's just a different way of asking the same question that Colin asked previously. About 30% of the quarter was new customers, and there was no deal size anomaly in that. So if the revenue split percentage is very consistent with historical norms, the new customer ad rate is consistent with that.

Operator^ Our next question is Gabe Daoud, Cowen.

Gabriel Daoud^ Maybe just starting on the margin side. You obviously showed sequential improvement on a non-GAAP basis. Could you Rex, maybe -- just give us a little bit of color on the trajectory there and maybe what some of the puts and takes are with respect to margin. Is it fair to assume maybe you continue to turn out like 100 basis point improvement sequentially throughout the rest of the year?

Rex Jackson^ Yes. So if you look at the year, we were at 17, 19, 20 and 23% non-GAAP, of course, through the year. We're hard at work in terms of driving that forward.

The supply chain thing has been as high as 6% or 7%. Now it's more like 4 that helps.

We bang through the fact that mix shifted this year meaningfully in favor of D.C., which is one good from a resilience standpoint, but it's not the highest margin product that we do. So we manage to bang through that and those margins have come up nicely here upstream, delivering meaningful cost downs and then the price increases that we did last year.

So mix makes it hard for all these other factors are contributing to being able to add to the number.

As you look to next year, led in my prepared remarks, I gave IG, we had lower revenue in Q1. Therefore, the operating expense leverage is going to go the wrong way for Q1, but the next go back the right way in Qs 2, 3 and 4. But I did say sequential improvement in gross margins throughout the year next year. So I wouldn't put a number on it, like is it 1 or is it 2 don't know or can't guide, but I do think there's going to be a steady progression next year.

Gabriel Daoud^ Okay. Okay. That's helpful. And then maybe, Pasquale, just going to your comment around seeing a little bit less demand in December. I mean is that just seasonality? Obviously, been setting up a seasonally weak 1Q? Or are you concerned at all with like a lot of your maybe tech giant customers in California kind of tightening the strings a bit on spending. Is that creeping into demand issues as well? Could you maybe help us think about that?

Pasquale Romano^ Yes. So I think the easiest way to put -- get some overarching color on that is the revenue diversity has increased meaningfully over time in the company. I made some comments in my prepared remarks about the increased percentage on fleet and Europe overall as a percentage of revenue.

I'll remind you that it had to outpace what was already a blistering year-over-year growth rate for the company. So it's just fundamentally very hard for subsegments like that to overcome a growth rate in the core business, which is very mature in North America, and we managed to do that.

And so what that's leading to is we do see some softness in effectively businesses that have more of a discretionary stance with respect to when they -- the timing around when they put in charging, and I want to emphasize this, eventually, the attach rates prevail. And so in a set of verticals more so in North America than in Europe, you are seeing some delays or delays of ordering. But we don't see it as a fundamental shift at all. We see it as effectively aligned with the macro -- and with the increased resilience in the business with respect to just the spread, there's no hotspots.

If you look at the residential business, commercial, fleet, when you look at the geographies, you've seen us make meaningful progress in all those fronts. So while there's definitely an economic overhang in a couple of verticals, I'm really very pleased that the business doesn't have any significant overweight because if that were the case, I would comment otherwise.

Operator^ Our next question comes from Bill Peterson, JPMorgan.

Bill Peterson^ I apologize for the background noise. I wanted to ask what your thoughts were around cash flow (inaudible) network. I would think that it wouldn't have a lot of impact on -- you talked about the verticals you just said that home feed work areas like Level 2 for front of a store or a restaurant. I wouldn't think there would be really any impact, but maybe large retail locations and maybe some DC fast. Just trying to understand the threat of pet or maybe other car companies that have it on networks, of course, Europe start subset yourselves. But in terms of the competitive environment, how do -- how could that play out?

Pasquale Romano^ Yes. So no. I get the question often. In fact, I think I got it on several previous earnings calls.

So the overarching response to that is -- the fast charge market in the passenger car sector serves a very narrow use case. It's for when you're driving beyond your battery range. So it is not the significant driver for our revenue.

Now let's not be making any excuses or saying that you're right on Tesla opening up their network either. We're also seeing now a tremendous sudden attention from what we refer to as players in the 30-minute retail economy that traditionally serve people on road trips they now want to embrace because the broader EV market has shown up.

It's not one OEM now. It's a multiplicity of OEMs. They're all moving in the right direction with electrifying their offerings in fact, completely disinvesting in their ICE cars, that's given the players in the 30-minute retail economy, a lot of confidence that they can start to move the ball down the field with respect to investments at their own properties. So we see this as a massive opportunity with respect to placing fast chargers along with partners.

If you see how Mercedes-Benz and Volvo -- two announcements we made this year -- have worked into a 30-minute retail economy sort of aligned network announcement, we think that's going to continue.

Bill Peterson^ Yes. You like the suite of opportunity to coil spring and lack of vehicles. And we've talked about this, but are you seeing any signs that this should accelerate through the year? I guess, I know it's already a meaningful part of your business, but how should we think about your fleet opportunity as this stream uncoils.

Pasquale Romano^ So how you should think about fleet is that it's more land than expand right now. I mean, honestly, it doesn't have the expansion rate within customers that we've won that the more granular commercial business has because passenger cars are increasing in diversity and availability from a lot of OEMs, while on the fleet side, we are severely vehicle limited maybe with the exception of transit buses, but transit buses represent a very small on a vehicle count basis, percentage of fleets globally. So hence the coiled spring analogy, if you're landing more than you're expanding, but the expanding has to follow, we're in good position when our customer base decides to actually get -- well, when they can actually get vehicles and can expand.

And if you look at the announcement we just made with USPS, for example, you're starting to see the cloud break, so to speak, with respect to a very large fleet that's positioned across the United States start to get commitments from vehicle manufacturers that they're going to see those vehicles come in earnest. So as that -- as things like that start to happen, I think you're going to see a much more balanced expand versus land mix, and it should result in an acceleration of revenue even within our customer base.

Operator^ Next will hear from Kashy Harrison, Piper Sandler.

Kashy Harrison^ So just the first one for me. So the liquidity position improved a few million of $400 million in cash and short-term investments, $400 million. You mentioned the $50 million ATM offering. Could you speak to the driver behind the utilization of the ATM in December, just given that you already had a pretty strong liquidity position before that? And then maybe just talk about how we should be thinking about like strategically the strategy behind the ATM in the future?

Rex Jackson^ Sure. So as I mentioned, yes. We definitely tapped the ATM in December for $50 million. One of the things that is paramount for this company is we have a strong balance sheet, and we want to keep it that way. And when you map that to what it's been, and we hope continues to be a very strong growth rate. We need to be able to support the business. The thing that I would focus you on as we've talked about or path to profitability, the burn that you see, call it, adjusted EBITDA, call it, whatever you want to call it, that's going to decline meaningfully over time over the next year or 2 because getting to 0 across the over something that's super important.

So I think that the need to address that will decline over time as those metrics get better -- but the bottom line is we just need to maintain a strong balance sheet and relative -- I think we have the best in the industry, and we need to stay there. And then bottom line from a -- would we use it again it's opportunistic. It's based on price and circumstances and timing and everything else. So we're just going to keep an eye on it.

Kashy Harrison^ Okay. Fair enough. And then just my follow-up question. As you pointed out, I think both of you pointed out in the prepared remarks, you effectively held the non-GAAP OpEx flat all year roughly $80 million and that as a percentage of sales, down to 50% from 100% earlier in the year. Can you talk about your operating expense strategy for 2020 -- calendar '23 as well? Should we expect flattish OpEx again? Or should we expect a little bit of an uplift as the business is growing and there's also wage inflation. So just some thoughts on OpEx would be great.

Rex Jackson^ Yes. You sort of answered your own question. So yes, there will be an uptick in Q1. The combination of an uptick in Q1 relative to Q4. The fact is that we're seasonally lower on revenue, it's going to make our operating expense leverage them were in the wrong way for the first time in 3 or 4 quarters. But the drivers are exactly what you just said. It's -- we've got -- our annual rate cycle is now and then we'll have the full impact in Q1 of new hires in Q4. So those are the main components that will drive it up a bit. But then what you'll see there's sort of this uptick in and it doesn't keep doing that Q2, Q3, Q4 is a very -- our view currently is a very, very modest series of increases throughout the year. So take an uptick in Q1 and slowly higher for the rest of the year.

Operator^ We will now hear from David Kelley, Jefferies.

David Kelley^ I was hoping maybe to start -- if you could update us on momentum in Europe. You delivered really meaningful growth in fiscal 2023 and the markets coming off of a really robust EV penetration ramp last year. So how are you thinking about the regional opportunity across the pond in 2024?

Pasquale Romano^ We think about it the same way we think about the opportunity in North America, frankly, and it's driven by, as you said, the differential is driven a little bit by a differential in car penetration from a new car sales perspective. But our strategy is virtually identical in Europe as it is in North America with respect to product in offering, business model, et cetera. And I'll just remind you that we've said on many earnings calls that at the root of our forecasting and modeling, it's all factored off of new car projections, net new vehicles in the installed base in the markets we serve.

You had a kind of sub question in there about the subregions. We are serving predominant markets in Europe. We're not in every country, but the ones we're not in are small. And so we are we're just assuming that across the entire continent of Europe, we should be able to continue to be successful with the product line that we've been successful with on the previous year. There was no real difference.

David Kelley^ Okay. Got it. That's helpful. And then one quick follow-up on the supply chain situation. I guess are you seeing improvement Q1 to date relative to the fourth quarter? And how should we think about that 4-point margin headwind, I think you referenced, does that continue to lessen here into 2024?

Pasquale Romano^ Well, no -- I mean, as we've said many times, no one has a perfect crystal ball on that one. So taking -- maintaining a vigilant stance with respect to supply chain is what we're doing. What we have said before and what I can repeat now based on our experience in Q4 is that the supply chain hotspots have narrowed considerably from the peak of the crisis. So we have all our management bandwidth looking at a much smaller set of problems. The problems you couldn't you may still have issues with availability of supply of a fewer number of components that still limits your build, but it's certainly a lot easier to put in mitigation strategies around right now. And we hope that over the year, supply comes into alignment with demand. And it's too hard to call exactly what quarter we can say that all of it's gone.

Operator^ Stephen Gengaro from Stifel is next.

Stephen Gengaro^ Two for me. The first, Rex, you -- you mentioned how full -- consensus numbers for the year seem relatively tight, but you're not giving full year guidance. But it sort of suggests to me that you think the consensus is reasonable by making that comment. Am I thinking about that correctly?

Rex Jackson^ I'm chuckling just because I did not say consensus. What I said was, and this is an important distinction, analysts develop their models and then they make judgments based on why I believe this. I think this is going to be better. This is going to be worse and they come to a conclusion, and we use the word dispersion.

Last year through no fault of their own because we were a newly public company and who could have modeled us from the outside last year, I wouldn't expect you guys to be able to do that. So the numbers are all over the place. So I felt like we needed to help get it centered. But I think the dialogue we've had with analysts over the last year and people's understanding of the business and their ability to form their own conclusions about what the outlook should be is vastly improved versus last year. And so I just think -- I just -- I think having you be 100% the author of where you are is the right answer.

Stephen Gengaro^ Okay. No, that's it. The other question I was curious if you could add some color to is any thoughts on the NEVI program and your strategy and how you benefit from that over the next couple of years and how you're positioned there?

Pasquale Romano^ So as we look at the NEVI program, not unlike how we approached many other programs that are similar in color. It's a very corridor-oriented program. It's implemented by each state. So each state has its own take on the federal guidelines and we're quite used to that. Our policy team has been instrumental in commenting and helping to shape the program. So it offers what we think is a good platform for a broad range of our customers to be able to take advantage of it, and that's the key there is the broad range of our customers. So how do we approach it? Because we don't own and operate stations ourselves and how we have approached similar programs in the past. So this is not a departure and approach it all is we look into our current customer base and our potential future customer base -- we do deep analysis.

We have this capability internally, deep analysis on the state's requirements of where exactly they want chargers -- we look at the correlation between available utility capacity, availability of partners that we have that are in good locations, spacing, et cetera, construction ease or lack thereof of construction. And we put together a set of partners and jointly bid into the programs.

And in many cases, there are multiple bidders that are based on our technology. We've already seen that in Ohio in -- because that -- those bids we already do, and we expect to see that on a go-forward basis. And that's not unlike how we've accessed previous programs that, again, have had similar structure in the past. So we're sort of kind of the bones behind the organization of the collection of players sites, technologies, et cetera, that can go into a bid. So that's how we approach it. We think the formula works for us.

We think most importantly, formula works for drivers. What we've advised states on and the federal government is that these things need to be in good locations. There has to be good alignment, not 100% across the board because you could have some or locations where this statement isn't appropriate, but it needs to be well aligned with quick-serve brands, both food services and retail, et cetera. So we create a vibrant and enjoyable experience for EV drivers because that enables more and more EV adoption to accelerate, which enables the balance of our business. So we care about it deeply.

Operator^ We'll take our next question from Matt Summerville, D.A. Davidson.

Matt Summerville^ Just a kind of follow-up on the Q4 to Q1 kind of seasonality and realizing we don't have a huge amount of historical data to kind of work with here. But Q4 to Q1 last year was actually higher. I know a little bit of that would have been acquisitive related prior year, down slightly, maybe acquisitive nuance there, too, maybe helping. But moving from the 153 or whatever it was in Q4 down to 127 at the midpoint, I guess I'm just having a hard time really understanding why there's roughly a $25 million sequential reduction there? Maybe a little more help.

Rex Jackson^ That's a fair question. The thing I would represent to you is if you go back in history with the company in like private land. We've been very consistent. Two things have been consistent. One, as low Q4. Last year was unusual as the first time. I think for 5 years for sorting that's happened. So Q1 is always lighter. It varies in terms of percentage. I don't think this year's dip from Q4 to Q1 is extraordinary or surprising. It's just kind of what we're used to. And we know the reasons for which we explained. And then, as you know, we think of ourselves as a growth company. So when you take Q1 and you look at that and go, okay, that's a baseline for the year and how does it grow from there. There's pretty decent information in our history that would allow you to extrapolate -- so I guess, the net of it is, I'm not concerned by Q1.

Matt Summerville^ You kind of think about the portfolio position of the balance sheet, how should we be thinking about M&A over the course of your fiscal '24 and maybe what sort of technological or otherwise innovation, intellectual property you may be looking to add to the portfolio. Do you have things that are actionable in your pipeline? How should we be thinking about M&A over the next 12 months or so?

Pasquale Romano^ M&A, are you to referring mergers and acquisitions.

Matt Summerville^ Yes.

Pasquale Romano^ Yes, I'm sorry to discern that. We heard -- we have a partner called MN8. So I heard it that way. Please go ahead, Pat.

Pasquale Romano^ Yes. The way we think about acquisitions is we have a very full technology portfolio and lots of very good stuff in the pipeline. What I've commented on before is that we -- due to the fact that our portfolio is well built out with the exception of a few things that have not emerged yet that are deep in R&D -- we have the ability now to rebalance where we put the R&D resources to look at the scale technologies necessary to deal with streamlining customer onboarding, ongoing customer interaction and the like. And remember, we have a very, very, very deep channel business -- so we have to do -- we have to have core product services technologies that enable that all the way through the channel. And I made some references to that in my remarks. So as a result, we don't see a deep need from an M&A perspective at all on a technology basis.

The way we look at M&A opportunity is customer acquisition capabilities. So if there's a good customer base with low liabilities on the installed base and it's a practical integration, we would certainly consider it. But that's really the lens that we're looking at from it is not a technology lens.

Operator^ Next up from Credit Suisse is Maheep Mandloi.

Maheep Mandloi^ I may have missed this earlier, maybe squeeze on gross margins. I'm sorry if I missed this earlier. Can you just talk about how should we think about the gross margins in Q1 and through the year, specifically as you have this higher mix of DC, should we expect this continue your trend here?

Rex Jackson^ Yes. So I think -- so first thing is, as I said earlier, DC mix historically last year was a challenge, but actually, we are improving things markedly on the DC front. So it's going to be less of a problem. And that's everything from cost reductions, volume our major new ExpressPlus platform is brand new and very small volumes. But there's a combination of things that are going to make that better. We also think that the supply chain side of the picture is going to continue to ease -- so I haven't put a number on it, but I have said I think it's just going to progress steadily throughout the year. I would be severely disappointed if it was flat or down in any given quarter.

So -- but I think our outlook is quite positive that we can continue to drive the margins sequentially up this year given a lot of the operational initiatives that we have in the company.

Maheep Mandloi^ Got you. And just one on the balance sheet. On Kashy's question, you talked about maintaining balance sheet at a healthy level as the prime driver here for the -- just curious if you could characterize the -- like how should we think about that? Is it like a minimum cash balance or some of the metric to think about that?

Rex Jackson^ Honestly, I haven't fixed the number. I don't mind the $400 million number, but I haven't fixed a number in stone on that. As we grow the business, we may look at other financing opportunities. And then the nice thing is -- we expect our quarterly loss position to continue to decline nicely between now and cash flow positive next year. So there's a balance there. But if we continue to grow the company and it gets meaningfully bigger than it is today, you're going to want to have a decent balance sheet. And I kind of think that's where we are now. So how we maintain that and what we do to maintain, that's the question, but we're in a pretty good spot right now.

Operator^ We will take the next question from Oliver Huang, TPH.

Oliver Huang^ Just had one sort of a multipronged question, but I just wanted to try and get an update with more details around progression of your build cycle over the past quarter? Is it something that still remains fairly back end of the quarter weighted or think that started to really smooth itself out given how there is a backlog to kind of get through -- and when thinking about the ability to manufacture these charges at the factory, how close have you all progressed towards full utilization relative to what unconstrained capacity sits at today?

Pasquale Romano^ So I'll take the second part of that question first. We use external contract manufacturers as partners from a build perspective. So utilization of capacity is not a factor here. We use CMs that have substantially broad capacity capabilities. So access to capacity on the upside is not an issue because we'll see that need coming with adequate lead times. And the excess capacity is not a factor in our financials from a factory perspective. With respect to build linearity, we have much better build linearity now and our build linearity previously was largely driven not by factory issues, so to speak. It was driven mostly by supply chain and getting adequate parts, adequate fully populated kits to assembly lines in a smooth manner.

And because the supply chain crisis has certainly smoothed out. But I think equally importantly, our investments in supply chain management, not only in our own staff, but process improvements with our CMs, that's dramatically improved the linearity of build. So that's much less of a factor now. With a few hotspots, and the last comment I'll make is while Rex commented on continued limitations, the limitation ceiling keeps rising. It's just that the growth rate has continued to rise.

So we maintain some limitations because we have to mitigate limitations on a few components that limit us, but we also have to exceed our growth rate. And that's -- I'll remind you, when you're doubling effectively, which is what we did year-over-year. And we had a very consistent growth rate quarter-over-quarter, if you look at a given quarter to the year prior. That's a huge issue. You have to overcome a growth rate and do better on top of that. which we think we're putting in all the mechanisms necessary to do it going into this year.

Operator^ We'll go next to Steven Fox, Fox Advisors.

Steven Fox^ I just had one question. After listening to the prepared remarks, I mean, you made a lot of progress on the ecosystem in the past year. And so with a lot of major names, and I'm just curious why at this point, not more on the expand piece of land and expand as opposed to adding smaller customers that on a time line basis, maybe you do better with scaling established customers and also helping improve the margins, et cetera. I was just curious how you would react to that question.

Pasquale Romano^ So it doesn't improve the margins because cost of sales is not a component in margins. And with the expand piece is limited by, again, the attach rate to vehicles. So we're expanding effectively with the net new vehicles in the serving sphere of our customers within any geography. And you can't push them past the utilization boundary. They're not going to lean in -- they're not going to -- we can't push the lean in to an arbitrary degree. Also, if you look at the dividend that pays forward, the new customers, the dividend that pays forward. We have an incredibly low churn rate.

On customers, and that's been a historical asset for the company. And since we do want to take a -- we don't want to stall our future growth. So we're not going to shift emphasis. We're going to maintain the emphasis on a balance between new customer add and expansion in the similar proportions that we've had before.

I will tell you that our channel sophistication is improving continuously. It's something we've invested in since the beginning of the company. And that should, over time, remove a lot of the pressure on both sides of that equation, both the land and the expand. The USPS deal was a good one. That was done in conjunction with one of our distribution partners. And it really helps on an ongoing basis to have partners that are co-investing in big deals like that.

Operator^ We will now hear from Alex Vrabel, Bank of America.

Alex Vrabel^ Just I guess to follow up one more time on this sort of coiled spring idea or the difference landing and expanding growth. I mean, I guess, doubling that back into this idea of operating leverage, when we think about the trajectory here kind of later into the year, early into '24 as you guys get closer to that cash inflection. Is there, I guess, an expand element that sort of helps you out on the OpEx line? I guess I'm just sort of thinking like lower S&M per unit or however you want to think about that, given sort of this dormant fleet story that's sort of waiting in the background, if you will.

Pasquale Romano^ So the way we think about the -- as you referred to it, the effectively the untapped potential in fleet because our customers are vehicle limited in fleet for the most part. As I also mentioned before, but in a different context, we can afford the investment in fleet because it has a lot of commonality with respect to the investment from an OpEx perspective in the balance of the verticals that we go after in the balance of the geographies. Now there are some fleet-specific features that we have to invest in. But for us, it's incremental, very incremental, even the same hardware platforms, sometimes different configuration with same hardware platforms. So where am I going with this?

Operating leverage over the year we just closed, we think is pretty phenomenal because it is showing that the trajectory of the OpEx, that's everything from R&D to sales and marketing, G&A, everything is it's on a very different trajectory as we add revenue. We weren't putting the company in peril this year. In fact, we're making some very strategic investments to improve what we think is our long-term ability to have a great customer experience at even larger scale this year.

So we think that the continued things that you saw from a directional perspective, in the year we just closed, will continue through this year and Rex made one notable exception in that because the Q1 revenue is seasonally down for the company. You may see a small retreat in operating leverage only in that quarter, but it should return to normal increase in operating leverage or a similar one that you saw in the previous year.

Alex Vrabel^ Got it. Very clear. And then just on, I guess, sort of the growth outlook generally, like is there anything that you would sort of think about downstream beyond sort of the utilization rate or just sort of getting vehicles in people's hands, that's constraining you guys today. I'm thinking about utility interconnection, anything that's sort of hampering your abilities that's a little outside of your control that we should be aware of?

Pasquale Romano^ So the utility interconnect question is a very good one, and it's hard to model because the utility interconnect delays certainly are there. and they vary depending on the circumstances of the site, right, how much spare capacity is there? And what are you trying to do with that site.

What -- the way I think you should think about it is the active ports under management, it normalizes out the pipeline delay from initial order and shipment to actual installation and activation, which we do see variance.

We do see a big variance. But because we have a long pipeline with effectively no air gaps, what you see show up today is the result of utility interconnect deadlines that are coming to an end, right, on projects that we effectively sold maybe 6 months ago in some instances, but then we can't actually ship the product until they actually need it and it goes into the ground. So some amount of delay and if you look at the new port ad rate, you can kind of sort of see the shadows of it. That delay is built into our numbers already.

Operator^ Everyone, at this time there are no further questions.

I'll hand the conference back to our speakers for any additional or closing remarks.

Patrick Hamer^ Thanks for your time today. Ladies and gentlemen, that does conclude today's conference. Thank you all for your participation.

You may now disconnect.