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ChargePoint Holdings, Inc.

First Quarter 2023 Earnings

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PRESENTATION:

Operator^ Ladies and gentlemen, good afternoon. (Operator Instructions) At this time I would like to welcome everyone to the ChargePoint First Quarter Fiscal 2024 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. And thank you for joining us on today's conference call to discuss ChargePoint's first quarter fiscal 2024 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 ended April 30, 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 second quarter of fiscal 2024. 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-K filed with the SEC on April 3, 2023, 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 reconcile to GAAP in our earnings release and for certain historical periods in the investor presentation posted on the Investors section of our website.

And finally, we'll be posting the transcript of this call to our Investor Relations website under the quarterly results section. And with that, I'll turn it over to Pasquale.

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Pasquale Romano^ Thank you, Patrick, and thank you all for joining us today. We delivered a strong first quarter. Revenue was at the high end of our guidance range at $130 million, and non-GAAP gross margin sequentially improved two points to 25%. To put these results into perspective, we achieved a 59% year-over-year growth rate in the first quarter and had the second largest quarter in ChargePoint's history. We did that while the EV installed base in North America and Europe are still in single digits and the EV market is only at the beginning of a decade's long growth cycle.

We also achieved this growth in the midst of a challenging macroeconomic environment. Diversification across verticals and geographies continues to contribute resilience to our business. So while we saw less growth in North American commercial and residential than we would have liked due to what we believe is a delay in discretionary purchases, we continue to see overall growth and margin improvement.

Rex will address guidance for the second quarter. But just to give you a sense of the magnitude of the long-term opportunity ahead of us, the midpoint of that guidance would make Q2 the largest quarter in ChargePoint's history. You'll also hear Rex talk about non-GAAP adjusted EBITDA.

To give some context, we use non-GAAP adjusted EBITDA as a key measure of the health of our business as we drive towards profitability. And as we disclosed in our proxy statement filed last week, this metric is one of the two components of our annual management bonus program.

Beneath the top line results, we're continually improving our operations and investing for future scale. We've consistently improved gross margins while recovering from supply chain issues, making meaningful changes to the cost of our products and optimizing our operations.

Also, as we scale, we're carefully managing our operating expenses while making the necessary investments in our support operations and internal business systems. We are committed to delivering dependable infrastructure to our customers, so drivers can find it, use it and depend on it everywhere.

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Turning back to Q1. We saw two areas of particularly strong growth, Europe and fleet. For the first time in our history, Europe delivered over 20% of ChargePoint's quarterly revenue. Meanwhile, Q1 fleet billings more than doubled year-over-year despite supply limitations on vehicles entering the segment relative to demand and as a percentage of billings, fleet increased from Q4.

We're encouraged to see continued resilience in these growth areas. Beyond the financials, we continue to focus on our products. We offer industry-leading hardware and software for nearly every fueling vertical.

Our solutions help our customers deliver the kind of EV driver experience that will continue to accelerate EV adoption across North America and Europe. In brief, better charging infrastructure delivers a better driver experience, which drives more value across the entire EV ecosystem. The positive feedback loop for growth that benefits ChargePoint, our partners and EV drivers in the environment.

We are betting on the continued changeover from fossil fuels to electric drive regardless of OEM or vertical. And as a result, we believe we are an index for the electrification of mobility.

Before handing off to Rex, let me update you on a few key statistics to give you a little more color on our continued growth. On the network side, we give drivers and ecosystem partners access to approximately 745,000 EV ports in North America and Europe.

243,000 of these are active ports under management on the ChargePoint network, up from 225,000 ports last quarter and we recently passed a milestone of over 500,000 roaming ports. These roaming ports are critical to delivering a world-class ecosystem to ChargePoint drivers, site host customers and strategic partners such as OEMs and fuel card providers.

Approximately 21,000 of the 243,000 ports on the ChargePoint network are DC fast charging, up from approximately 19,000 at the end of Q4 and approximately 1/3 of our overall ports are located in Europe. We count 76% of the 2022 Fortune 50 and 56% of

the 2022 Fortune 500 as our customers. This reflects excellent penetration given our land and expand strategy, the stickiness of our solutions and our strong rebuy rates.

From an environmental perspective, as of the end of the quarter, we estimate that our network now has fueled approximately 6.3 billion electric miles, avoiding approximately 252 million cumulative gallons of gasoline and over 1.25 million metric tons of greenhouse gas emissions. So when you put all that together, it shows that despite the current economic environment, ChargePoint growth continues. We made significant progress against our long-term road map, ensuring that ChargePoint scales ahead of this remarkable market opportunity.

We're running a highly differentiated business that is not CapEx intensive. And as you'll hear from Rex, we're heading into the black while we turn the world green in the early innings of the EV transition. Rex, over to you for financials.

Rex Jackson^ Thanks, Pasquale. As reminders, please see our earnings release where we reconcile our non-GAAP results to GAAP and recall that we continue to report revenue along three lines, network charging systems, subscriptions and other.

Network charging systems is our connected hardware. Subscriptions include our cloud services, connecting that hardware or insure warranties and our ChargePoint-as-a-service offerings where we bundle hardware, software and warranty coverage into recurring subscriptions. Other consists of professional services and certain nonmaterial revenue items.

As Pasquale indicated, we had a solid Q1 with revenue of $130 million, up 59% year-on-year and above the midpoint of our previously announced guidance range of $122 million to $132 million. Down seasonally as expected from Q4, Q1 was notably the company's second largest quarter ever and a good start for the year when compared to Q1 contributions over the past 2 years.

Network charging systems at $98 million was 76% of Q1 revenue, down from $122 million and 80% in Q4 due to typical seasonality. Q1 revenue from network charging systems grew 65% year-on-year.

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Subscription revenue at $26 million was 20% of total revenue, up 49% year-on-year, up sequentially and again above the $100 million annual run rate we referenced in our last call.

Our deferred revenue, which is future recurring subscription revenue from existing customer commitments and payments continues to grow, finishing the quarter at $205 million, up from $199 million at the end of Q4. We're especially encouraged to see this continued growth in our recurring revenues in the very early days of what we believe is a decades long EV adoption curve. Other revenue at $5 million and 4% of total revenue, increased 20% year-on-year.

Turning to verticals. First quarter billings percentages were commercial 63%, fleet 24%, residential 11%, and other 2%, reflecting a particularly strong performance in fleet. Commercial grew 44% year-on-year, while fleet was up 129%. Residential grew at 13% year-on-year and maintained its generally consistent billings percentage.

From a geographic perspective, Q1 revenue from North America was 79% and Europe was 21%. As Pasquale mentioned, Europe continues to outpace North America on a percentage basis, up 70% year-on-year.

Turning to gross margin. Non-GAAP for Q1 was 25%, up sequentially from Q4's to 23% and up 8 points from 17% in Q1 of last year. This improvement is primarily a combination of diminishing supply chain and logistics expense pressures, significant operational improvements and better scale. We continue our considerable investment in our driver and host support infrastructure because we believe support and reliability are critical differentiators for both drivers and our customers. We expect continued improvement in non-GAAP gross margin this year.

Non-GAAP operating expenses for Q1 were $85 million, a year-on-year increase of 2% and a sequential increase of 6%, primarily reflecting payroll taxes as well as annual compensation increases effective April 1.

As we look out to the rest of 2023, we will manage expenses carefully and expect to deliver improvements in operating leverage. As you may recall, in calendar 2020, -- in

2021, our OpEx, which reflects significant forward investments in our business was at approximately 100% of our revenue.

In 2022, we took that down to 53% for Q4 and 69% for the year. In Q1, we were at 66%, given revenue seasonality, but again, expect continued improvements this year, particularly in the second half.

Given this trajectory, I'd also like to expand on Pasquale's comments regarding non-GAAP adjusted EBITDA. We added this metric and the associated reconciliation today in our press release with the goal of better illustrating our path to profitability. To calculate adjusted EBITDA, we take our non-GAAP net income loss and add back interest, taxes and depreciation. The depreciation component is low, thanks to our business model.

Using this metric, Q1 non-GAAP adjusted EBITDA was a loss of $49 million, a year-on-year improvement of 27%. We look to cut this loss further by approximately 2/3 by Q4 of this year.

Looking at cash, we finished the quarter with $314 million, down from $400 million last quarter. As in prior quarters, the primary driver of our negative cash flow is operating loss. In Q1, we also managed to break free on a number of supply chain issues and move our inventory solidly from raw materials and (inaudible) or work in progress to finished goods, meaningfully increasing our inventory level, which helped us avoid leaving business on the table as we have been forced to do in recent quarters. This build helped us in Q1 and sets us up well for Q2 and for Q3.

Inventory will vary as we look forward, but we expect it will grow with the business. We used our ATM very lightly in Q1, adding $18 million in cash through the program. We will evaluate use of the ATM on a quarter-by-quarter basis and also continue to assess non-dilutive liquidity options.

To close on a couple of other key figures, stock-based compensation in Q1 was $24 million, consistent with the past three quarters. Our annual compensation cycle includes equity, so we expect our annual step-up in stock-based compensation in Q2 to

be approximately $8 million and to be fairly constant for the ensuing 3 quarters. We had approximately 353 million shares outstanding as of April 30, 2023.

Turning to guidance. For the second quarter of fiscal 2024, we expect revenue to be $148 million to $158 million, up 41% year-on-year at the midpoint. We are committed to being adjusted EBITDA positive in Q4 of calendar 2024 and remain committed to being cash flow positive by then as well.

In summary, we've achieved the growth we expected to achieve despite significant headwinds. We continue our march to profitability, even while we invest in operational excellence at scale. Our differentiated business model is not CapEx-intensive and our adjusted EBITDA metric, which we consider to be a strong indicator of the overall health of our business gives us confidence in our trajectory. With that, I'll turn the call back to the operator for questions.

Operator^ (Operator Instructions) We'll take our first question from Gabe Daoud with Cowen.

Gabriel Daoud^ Maybe Pasquale, I just wanted to hit on the comment earlier in your prepared remarks just about some of the commercial and residential weakness that you guys noted. Just curious if you could give a bit more color on how that maybe snaps back as we progress through the rest of this year and maybe what's kind of embedded in your own internal forecast?

Pasquale Romano^ So Gabe, it's a very simple answer, actually. The beauty of this market is the utilization pressure sits there because EVs keep -- we keep converting the installed base from fossil fuel to electric vehicle. Businesses right now, all businesses, commercial businesses that have a discretionary need for charging for their employees or their customers can adjust timing to deal with the macroeconomic uncertainty.

So the need doesn't go away, but the optionality to delay addressing that need in some of our commercial customers exist. What I'll point you to, though, is something that we've commented on in previous earnings calls as we went through the pandemic. The mix in our business by vertical shifted pretty meaningfully during the pandemic because we went into an abrupt work-from-home situation and other areas of the

business because we've been broadly placed across verticals and geos. Other places in the business picked up the slack. So we didn't have to deal with a massive discontinuity financially.

You're seeing that, I think, play out here again. So we still, I think, turned in very, very aggressive growth on a quarter-to-quarter basis, Q1 this year to Q1 last year, it's a healthy percentage step-up in the geo diversity, especially given that Europe is now 20% of the business and performing strong and fleet up 200% year-over-year similar -- Q1 to Q1.

It's just evidence that as the macroeconomic water balloon exerts its pressure on the different verticals, that we're diverse enough to take up the slack. So we're not in a position where we think the demand has gone away and its perished, we'll get it back as the macroeconomic situation clears up. I hope that answered it.

Gabriel Daoud^ Yes, that's great color. Maybe as a follow-up, just a -- maybe I'll ask just about the mix shift or just the billings and the price momentum that you reported in fleet in particular. Could you maybe just give us a bit more color on where exactly are you seeing that strong growth and strong demand within fleet?

Is it last mile logistics? Is it I guess, on the light-duty vehicle side, just given how we're still vehicle-constrained on fleet and heavy-duty. But just curious, I guess, what can you say on fleet? What's really driving the momentum there? And then is it also more fleet momentum in Europe versus the U.S.? Or is it fairly similar?

Pasquale Romano^ It's easier to go backwards with your follow-up question. It's pretty balanced between Europe and North America. Fleets, as I said in my prepared remarks, it's vehicle limited right now. If there were -- if OEMs were producing vehicles and quantities to match demand, you'd see faster penetration and conversion from fossil fuel to electric. It's actually well aligned with a softer macro, in that everyone is looking for cost savings, obviously, and these are meaningful -- these vehicles are meaningful components of the cost structures of the businesses that they serve.

And what that's done is it's slants it, as I mentioned, by the way, consistently in previous calls, it slants it to land, but not much expand within a customer. And so that's, I think,

just a good indicator for things to come in the future when that starts to un-coil is complicated, given that there's a bit of a dependency there on vehicle OEMs producing things at scale.

One of the bright spots that I mentioned before regarding fleet is transit because that's the most mature segment. And so we continue to see that segment do quite well, but there has been no general shift in mix between the quarters that's worth -- that's materially worth reporting.

Operator^ We'll take our next question from Colin Rusch with Oppenheimer.

Colin Rusch^ Can you talk a little bit about the dynamics in the U.S. commercial market? Can you give us a bit more detail on what's happening with commercial property owners as they work through cost of capital changes, rental rates and looking at upgrading amenities with the sales cycle looks like conversations you're having with folks around, when and kind of volume of deployments?

Pasquale Romano^ Colin, the conversation is not any different now that it's been in the past. Commercial conversations tend to be a mixed bag of are you dealing with the tenant? Are you dealing with a property manager? Are you dealing with the landlord or are you dealing with all of the above in combination. So it really is situational, and that hasn't changed.

You are seeing property developers and property managers take a more keen interest right now in charging as an amenity more broadly in their portfolio versus in hotspots driven more by tenant -- kind of tenant activities. But I think in general, because the dominant situation there is returned to office. And as you've seen in many statistics that have been reported, we're not -- we're moving through.

We're moving back to a larger component of in office, but we certainly haven't snapped back all the way. So that's probably the biggest component in commercial shift is if people aren't driving to the office, the workplace charging component will continue to basically move down proportionately to effectively the utilization in the parking lot at office buildings.

Doesn't mean that there isn't charging going in. It just goes in proportional to the number of days folks are in the office. What I also remind you is it's not -- if you go in three days or you go in five, it generates the same amount of utilization pressure in the parking lot on the three days if they're synchronized. So there's a lot of puts and takes there. And I think as this continues, as -- and it gets confused by a lot of other things that are going on in the macro as well. It gets -- the complexity goes up. So we're -- we've got good visibility into it, and we're managing it closely.

Colin Rusch^ Excellent. That's super helpful. Then I've got two other things. Just looking for an update and then maybe a little bit disparate. Some of the permitting streamlining efforts that are going on at the state level and even at a national level.

If you could just give us a sense of anything that you're tracking very closely there that could be meaningful for the business? And then also, the potential to consolidate some of these the non-fully network chargers, whether it's in the U.S. or Europe and how that opportunity is changing for your guidance near term?

Pasquale Romano^ It's easier to take that one backwards. If you look at consolidation of non-network chargers, there's a lot of programs, a lot of -- I mean not that our revenue is primarily subsidy dependent. But almost all or all I can think of anyway, subsidy programs have a requirement for the charger to be managed, connected to some sort of network and meet some set of requirements, either at the most basic level for reporting, but usually includes some energy management to give some benefit to the grid.

So what you should think about there is a lot of the unmanaged chargers that are out there will likely get replaced with managed chargers because if they don't have the necessary communication and processing gear, it's easier to just tear them out.

Most of the work, by the way, is in laying the electrical infrastructure leading up to the chargers. So that's a very cost-effective swap out. That's not something that we see as significant yet as a replacement cycle only because the market is scaling so quickly, the growth sort of swamps it, but I would expect that those things would change out over time.

With respect to permitting, I just want to point you to a couple of things in the prepared remarks. If you look at the total ports on our network in terms of activated and under management, and that means they've not only gone through full installation but they've also gone through software activation. That means the customers decide how they want to use it, all that sort of stuff. And we went from 225,000 ports in Q4 to 243,000 ports and I won't -- you can read the remarks, but that was spread pretty uniformly between DC and AC.

What's interesting in that is the pipeline is already built into our numbers because that is not representative of the ports we sold last quarter. That's representative of the ports that we sold at some previous months or a set of months that have gone through the construction and installation process and the activation process, which is not an instantaneous thing in time. So this -- you're seeing in the port growth rate, the shadow of the permitting delays print through.

Now for the big stuff, right? The big corridor fast charging programs, a lot of the big fleet transit programs. Yes, we see permitting delays continue to be a challenge for our customers. But again, that has been a challenge for our customers for a while.

We absolutely would applaud any change in permit streamlining or utility interconnect streamlining because it will certainly help accelerate -- it will accelerate some of the customers' ability to add the necessary infrastructure. So headline, delays are built into our numbers, built into our guide, they're built into our numbers, they're built into everything that you're hearing from us. If we can make it go faster, it's upside.

Operator^ (Operator Instructions) We will take our next question from James West with Evercore ISI.

James West^ (Inaudible) I wanted to ask about the announcement out of Tesla and Ford a couple of days ago, their alignment, the opening of the Supercharger network and what your thoughts were around that? I mean, is it a nothingburger, is it something to be expected? Is it showing us that there's two Superchargers out there? What's the -- what's your take on that?

Pasquale Romano^ I could have bet that one of you would have asked that question. So the shortest way, I think, to crystallize it in your mind is that Tesla has been an outsized player right now. They're still sitting around 70%-ish market share in the United States in terms of vehicles in the installed base.

And that Supercharger network has been around since the beginning of the time that we're in revenue. And if it weren't for Teslas on the road, our customers would have no reason to buy a ChargePoint charger because they're the dominant car there up to now, and they're generating effectively the utilization pressure in the parking lots that are causing across vertical, across all our verticals, customers to want to buy our products and services.

So the net-net is the Supercharger network, whatever effect it's having is built into our numbers. Okay. Now with that said, our fast chargers in particular, because on the AC charger side, Tesla shipped with an AC adapter since the beginning of time, it's easy, it doesn't impair anything. So that's -- there's literally no impact there.

On the AC side -- I mean, on the DC side, our chargers have modular cables and modular holsters. So the ability for us to address, if the need arises, the ability in particular use cases to add a direct Tesla cable versus using an adapter like people use today, is possible. We're now spending time, obviously, thinking about innovative ways to not have to increase what is a very expensive element and extra cable on a charger to be able to get around some of those problems. So stay tuned, we'll be pretty innovative there. But I wouldn't -- I don't read it as a bad thing for us long term at all.

Operator^ We'll take our next question from Morgan Reid with Bank of America.

Morgan Reid^ Nicely done on the growth drivers and fleet in Europe. Just curious if you can maybe elaborate on how we should think about that strength through the rest of the year. Just wanting to understand how those two segments in particular are expected to scale through the year hereafter some nice growth here in the first quarter.

Pasquale Romano^ I would expect fleet to continue to be strong. These are very -- these are customers that are electrifying for hard business reasons. There's no discretion in electrification. That's competitive in the long term for fleets, for most fleets, and that in

the long term drops our cost structure, and there's a long learning curve and optimization cycle, so they need to start it today to not have it be an impediment to their business in the long term.

So we expect that segment regardless of the macroeconomic environment to be very strong on a go-forward basis. Europe is ahead of the U.S. currently in EV adoption. We expect it to continue to be strong.

There is a more consistent policy mandate across all of Europe supporting the transition from electric drive to -- from fossil fuels to electric drive. Now correspondingly in the long term, we don't see any major difference between the U.S. and Europe. Remember, OEMs have to operate internationally.

And supply chains and cost structures will shift favorably to EVs over the not-too-distant future. So I think it's an inevitable conclusion that in both markets, you'll see a conversion rate. But currently, Europe is for all the reasons I mentioned, going to continue to be, I think, very strong for the company. So we would expect that we would see strong growth from that subvertical or sub geo, I should say.

Morgan Reid^ Great. And then also, can you just talk about how we should think about the OpEx discipline through the year? I know you've all talked about kind of scaling operating leverage towards the EBITDA positive inflection later this year. Just curious if you can kind of help quantify the moving pieces there as you look to continue scaling the top line against still a very disciplined OpEx line?

Rex Jackson^ Yes. So the short answer is we have a number in Q1 and we'd like to stay close to that number for each of the -- rest of the next three quarters of this year. Obviously, there'll be some variations last year. We were very consistent going out of the gate and staying close with it. So I think we're going to try to operate within a pretty tight range.

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

Matt Summerville^ First, just a question on gross margins, up 200 bps sequentially. How should we expect that to kind of play out as we move through the year. Should we

expect a similar kind of step function improvement quarter-on-quarter, something a bit more conservative to that? And what are the main levers to gross margin improvement as we sit here for the balance of your fiscal '24?

Rex Jackson^ Yes. So I think that, as we've said, we expect continued improvement. I don't think anyone here would say that 25% is a place that we should be, parking or electric vehicle. So it needs to go up.

Whether it goes up one point or two or whatever quarter-on-quarter remains to be seen as very mix dependent. But I'm confident that we're going to head towards the numbers we've discussed before, towards the end of the year. I don't want to peg it to a number, but it's going to be better in Q4 than it is today. So expect it to continue to climb this year.

Matt Summerville^ And then with respect to the comment you made, Rex, towards the end of your prepared remarks, do you think you can cut the EBITDA loss by roughly 2/3 between now and the fourth quarter. So say going from $49 million to, say, $16 million or thereabouts, is the entirety of that bridge just scale from the revenue growth you're expecting? Or are there actual cost and expense cuts that are contemplated in there?

Rex Jackson^ It's actually all of the above. Clearly, grow the revenue line, which we would hope to do consistent with what we've done in prior years because you start in Q1 and you end up in Q4 and Q4 is a lot better than Q1. So clearly, that helps. We expect gross margin to improve during the year. That definitely helps a lot. And then if we are disciplined on OpEx and keep that in flattish territory, you can make the math work pretty quickly.

Operator^ We'll take our next question from Mark Delaney with Goldman Sachs.

Mark Delaney^ I was hoping to better understand some of the supply chain dynamics. I guess in terms of the P&L impact and sticking to the gross margin theme first, you guys have been talking about how much of a headwind to gross margin supply chain was. I think at one point, it was like 900 basis points of a headwind.

Where does that stand as of this most recent quarter in terms of the impact? And then more broadly on supply chain, if you could speak around how you see that progressing? And do you think supply chain holds you back in terms of hitting your shipment target for the balance of the year?

Rex Jackson^ Yes. So thanks for the question, Mark. So to start, the PPV/supply chain impact that we've been talking about is probably closer to five or six points per quarter. There was logistics, charges. We could take it up another quarter or two, and then we have had a couple of write-offs that we did last year that impacted us. So I just want to frame the percentage points there. It's really closer to five or six that are specifically supply chain.

No question that, that's gotten much, much better from a supply perspective. So we really snapped through this quarter, and I was glad to see. I think I actually said in prior calls, geez, I'd love to build some inventory, right?

Because we've had to leave business on the table in prior quarters and backlog got out of whack everything else. So we're back to a nice rhythm now, I think, from a build perspective, there -- as you can imagine, there are some prior deals that we had to cut to get supply that's now sitting in inventory. So you won't see 100% of the supply chain impact disappear overnight. We have to obviously have to work that through, (inaudible) in inventory and sell that through.

But I would say from an operational perspective, logistics are pretty much back to normal, which is a real-time (inaudible) or you don't. And then the supply chain thing also back to a really good place. So once we work through any existing inventory that had those higher prices previously will be hitting our stride. So -- but I think it's fair to say that we are well past the worst of it.

Operator^ Our next question comes from Stephen Gengaro with Stifel.

Stephen Gengaro^ One thing for me, I wanted to get your read on NEVI funding kind of where we stand and what your thought process is on timing. But also you have insights into kind of where your customers are in the process as far as trying to secure funding?

Pasquale Romano^ Sure, Stephen. So just to give you some hard facts around NEVI. There are exactly four states where applications on NEVI proposals are due back within shortly. In general, a little over half the United States has programs that are effectively live where we're working applications and comments that I've made in the past have not changed and that we work across the board with our customer base where the customers are aligned well positionally with the position requirements, the location requirements within the NEVI program, as well as having the right amenity structure, giving a driver something to do that they would want to do while they're on a road trip.

So combining those two things, we are orchestrating responses to the NEVI program. And sometimes, by the way, we're in multiple applications as a technology provider with different sets of folks from our customer base. That's generally how we approach it. So think of us as trying to put together the set of optimal sites to meet the state's requirements by looking into our customer base or potential customer base and trying to orchestrate that.

Stephen Gengaro^ Okay. Great. That's helpful. And so would you expect like an inflection point when the funds are flowing or you think it will be kind of a more smooth just kind of realization of those revenues over time.

Pasquale Romano^ Yes. So Stephen, this is what I refer to as an all-whoosh-no-bang industry. If you think about what I just said there, right? It's all whoosh and no bang. So the timing of all of this stuff -- while you will see NEVI starting as we get into 2024 to start to build momentum, right?

It's going to build along -- there's not going to be a sharp discontinuity where you're suddenly going to go vertical on something like that. Just this market just doesn't let you, state programs and how state programs are implemented, just doesn't let you look at the VW Appendix D programs that contributed to our revenue, and it contributed to it in a smoothly increasing way over that program. And we would expect NEVI, well, bigger in magnitude to have a similar impact.

So I wouldn't expect some discontinuity out there in the future. The sun and moon and stars could align and that could happen. It's just not consistent with history.

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Operator^ We'll take our next question from Bill Peterson with JPMorgan.

William Peterson^ Nice to see the gross margin improvement. Just I would like to clarify in terms of the guidance for this current quarter. It sounds like what you're saying in some of the trends you saw in the first quarter are to continue, but I just want to make sure, still continued relative strength in Europe and fleet, still some, I guess, discretionary slowdown in commercial and residential.

Is that the right way to think about it? Or are there some other areas that are starting to unlock or I guess when does the commercial and residential start to unlock? Is it -- I mean we're kind of past the (inaudible), what are people, I guess, waiting on at this point from your vantage point?

Rex Jackson^ Yes, Bill, thanks for the question. First of all, in looking forward to Q2, we did not put parameters around that. But to your point, residential is a function of the sale of cars, right? So keep an eye on how fast EVs move from OEMs into the hands of consumers and that's a hard one to gauge, but it does look like the OEMs are catching up on their ability to deliver which is great.

Commercial is tied to mostly the back to work, although there's a lot of new construction and other areas where it's just an imperative because this isn't a nice to have anymore. This is infrastructure you've got to put in. So as the commercial sector -- it's happier and less constrained.

Obviously, I think that will be down back to the benefit of our business. Thank goodness in both -- in the commercial sector for our existing customers because they keep coming back. So they are a very, very nice underpinning for our existing revenue and what we're looking at in Q2.

And then fleets, you didn't mention fleet, but fleets, a little harder to predict because it's -- it's funny on the front end, it tends to be smaller than you would expect. And then on the middle and the back end, it's bigger than you would expect in terms of per customer. So that could be a little (inaudible) but Q2 is just a blend of the stuff that we see. I don't know that it's going to be meaningfully or wildly inconsistent with the stuff we've seen in Q1.

William Peterson^ Yes. Okay. That's a good leading to my second question. So you've given some good parameters that you do expect some gross margin, I guess, expansion kind of keep OpEx for any flattish. So that's really good to back into the 2/3 improvement on the fourth quarter. But I guess, holistically, if we think about third-party forecast, IHS has nearly 60% EV growth in the U.S. this year.

I think it has above 60% EV growth in Europe for the calendar year. Your current quarter kind of 40%, 41% year-on-year growth. But is there any reason to think in the back half of the year that your -- at least your network systems, charging systems growth wouldn't be in that kind of range?

Rex Jackson^ Well, I wouldn't put that -- frankly, I haven't thought about it and exactly that those percentage terms. I do think that -- the one comment I made in my prepared remarks, to look at the shape of the year and our ability and then saying we think we can cut the adjusted EBITDA loss by approximately 2/3.

It tells you we're thinking we're going to have a pretty bad second half, right? So I wouldn't express in percentage terms, but I would say we're obviously looking forward to a very strong second half, which is frankly what we've done in the last two years in a row.

Operator^ We'll take our next question from Alex Potter with Piper Sandler.

Alexander Potter^ Perfect. I had a question, I guess, on customer satisfaction, uptime reliability. I know you've done a big focus for the company, those metrics maybe in the past weren't where you would want them to be. Just interested in knowing maybe what inning you're in, in terms of addressing that, both, I guess, qualitatively, but also to the extent possible to translate that into P&L impact growth would also be useful and interesting.

Pasquale Romano^ A lot to -- a lot of angles on the answer to that question. First of all, I can't speak for other charging manufacturers, but we're very proud of the reliability of our systems and the uptime. We've had a variety of different packages for parts and labor warranty programs since the beginning of the company. We've encouraged

customers to purchase those programs. We have a very high attach rate of those programs, as we've commented on that before.

All our chargers are connected to our network effectively. So we have good visibility as to general uptime on the network and whether the chargers are in a catastrophic state of failure or not. There are a few mechanical failures we cannot spot, but we have drivers that have a nice little mobile app in their pocket and boy, will they tell us when something is broken. They're a good canary in a coal mine from a network hygiene perspective. And with that said, we are doubling down now even harder on network hygiene.

We are -- because of inventory relief, we now can turn around spare parts very, very, very quickly, next business day in most cases. That was not true during the pandemic. There was some delay there because obviously, we were impacted and we had no -- we were hand-to-mouth on inventory. So I think that hurt the entire industry in terms of repair cycle delay, that has subsided now.

We have completely revamped our support operations across the board, driver support, station-owner support, especially in fleet. We have a lot of new programs in fleet for parts and labor warranty, training of self-maintainers, forward stocking of spares, et cetera. So we think we're actually in quite good shape with respect to our ability to handle that. We're not going to get over confident. We're going to continue to watch it closely. And it is, as you've seen in my prepared remarks, multiple times now, it is a big rotation.

There was a question earlier that Rex took with respect to operating expense and operating expense focus areas and any focus area changes. And what we've consistently said over the last several earnings calls, is that we have lived inside what is a flattish envelope for operating expense, but we are not living inside a flattish operating expense with respect to our efforts on reliability, support operations, et cetera.

So we are moving emphasis because we believe that, that is the biggest differentiator you can have right now. Is -- it has to be reliable, and we've commented also previously

the construction of our products are not only from a hardware perspective, looked at from a software point of view inward.

So they're designed for all the features that we think are great, but they're also designed to be repaired at an incredibly rapid rate and also to be able to support forward stocking of spare parts so that there can be effectively a minimum number of subcomponents we build all our charging infrastructure out of, so it can be very easy to support the repair cycle that will need to support to meet the uptime requirements of most of our customers. So huge investment on our side. Absolutely huge.

Operator^ Our next question comes from Shreyas Patil with Wolfe Research.

Shreyas Patil^ You guys have talked about how there is more diversity amongst your verticals as it relates to your revenue. Is there anything to consider in that from a margin perspective? I think in the past, you've talked about the workplace charger business being the strongest, fleet was a little weaker due to higher DC fast charging mix. Just curious how we should think about that.

Rex Jackson^ Yes. So it's actually more product-specific as opposed to vertical specific but -- so single-family home is single-family home, right? And that has a margin. We've talked about that. It tends to be healthy, but not as strong as some of the DC products that we put into our commercial and fleet operations. Strongest margins are long-standing AC products, which we've recently upgraded to higher power and made some other improvements.

But -- so where AC goes, you get a better margin and that can be commercial or fleet. And then obviously, we put a lot of effort behind a very robust DC portfolio, which is everything from (inaudible) that fit in certain applications to what we call our Express Plus, which is modular architecture and the margins on those are getting -- are good and getting better. We actually had really good progress because the brand new products and you've launched at a lower number than you ultimately expect to do.

So I wouldn't say it's by vertical, it's by product because all of our products -- our products go into both of the major verticals, commercial and fleet. So I hope that helps you. But it's -- so think of it more from a product perspective.

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Operator^ We'll take our next question from Brett Castelli with Morningstar.

Brett Castelli^ Just following up actually on that previous question. Rex, you mentioned the rollout of the new CP6000, I think, on the AC side. Can you just kind of talk about sort of the mix between that new product and the more legacy product that you're seeing today? And then also, can you touch on any margin differences between the new product versus the legacy?

Pasquale Romano^ I'll talk about the space that is carved out for itself, so to speak, and Rex can address the margin question in particular. We brought out the 6k not to replace the 4k series. We brought it out as a high-end product. It has a lot of things that obviously roll down over time into lower-cost products but it's the flagship currently and it also -- for applications where it's needed, can provide more power per port and that is not necessary in most medium-duration parking scenarios.

So it is not applicable necessarily to every single vertical, although it may have other features that make it applicable to other verticals because it has features across the board that are superior to the 4k product.

Without getting into too much detail on the mix because it's so vertical specific, what I will say is the fleet segment, if it goes with an AC more in a light commercial situation, is typically using the 6k or are more lightweight products for light commercial, it is not typically using the 4k product, although we do have some fleet scenarios that use that.

So the uptick in fleet, in particular, there's some correlation there. And the 6k is the primary product we use in Europe. So from the commentary that I made -- the primary AC product, I should say, that we use in Europe. So the comments that I made regard to fleet and Europe strength and the corresponding strength in the 6k, those one pulls the other right? The fleet and the Europe business are more 6k dependent than they are 4k dependent. Rex, I'll let you take the margin question.

Rex Jackson^ Yes. So from a margin perspective, the 6k, as Pat said, it's premium product, higher performance, better features, obviously, we're evolving the product portfolio in a positive way. It actually has similar margins in North America to the 4k. It's

not all the way there yet but it's nice to be able to build a next-gen product and to preserve margin on that in the process.

And then what's helping us in Europe, as you may recall, we on the AC side, because of local requirements, et cetera, we've had to leverage third-party hardware, and now we don't have to do that anymore because the 6k is a product that is legal and certifiable and works in both North America and Europe. So that's been a nice improvement from a margin perspective for us in Europe.

Operator^ Our next question comes from Itay Michaeli with Citi.

Itay Michaeli^ Just two quick ones for me. First, I was hoping you could maybe comment roughly on what you're seeing on utilization of your charges, particularly among commercial customers. And I know not every customer is looking to maximize utilization per se, but curious what you're seeing there? And second, for Rex, just in terms of the inventory build in Q1, maybe how should we think about working capital at a high level the rest of the year?

Pasquale Romano^ Two very different questions. I'll take the first, Rex, you take the second. In terms of utilization, our sales team obviously is -- sees utilization data as to our customers. It's a standard reporting feature in our network. And the utilization has to be measured in the context of the hours of operation at the site. I'll give you -- so it's hard to comment on utilization in the network as a whole and have that be meaningful because in any subvertical, the utilization is measured differently because it's measured during hours.

And the easiest example to give you is a stadium. We have a lot of stadium customers. The stadium is only active when there's an event at that stadium. Measured on a utilization basis over a 24 hour, on a 365-day year basis, stadiums have horrible utilization unless there's an event and then they're 100% booked. So it all goes down to how you measure it. And utilization is very, very strong across the board. And if you want to see the best proxy for that, look at comments that we've made in the past about the rebuy rates.

The rebuy rate tends to be the majority of the revenue within a quarter because as Rex mentioned in an answer to one of his questions, the initial buy is smaller than you think it should be and the follow-on buys are bigger than you expect them to be. And that's because the customers start out with some experimentation, especially in the commercial segment where it's more discretionary.

And then they see the utilization and let that drive the expansion. So because the rebuy rate is so strong, it's the best proxy you guys can use for, is the utilization on the network? Is it strong and is it growing?

Rex Jackson^ Yes. And very quickly on the inventory working capital question. No question in Q1, our inventory popped up almost $50 million. In truth, that's actually a blessing not a curse because we went from a lot of long lead time items and a lot of stuff in raw materials to being able to kick things up and get some bills and we have low obsolescence risk on these products.

So getting through that and having a blend to inventory of good finished goods that we can move and therefore, we have pretty back-end loaded quarters like most companies. And so knowing that you can ship, what you need to ship at the end of the quarter to meet demand is a really good thing.

So I think the inventory will come down meaningfully on a percentage basis relative to revenue. If you look at like the size of the company, the question is bigger than it needed to be in Q1, but those the reasons because we're coming out of the supply chain issue. And then working capital generally, we bring in inventory down relative to that, that will help as the company grows. And so I actually think that, that part of the picture will definitely improve later this year.

Operator^ We'll take our next question from Joseph Osha with Guggenheim Partners.

Joseph Osha^ I just have one question. We talked a little bit about NEVI earlier. I'm wondering, given the timetable and the ambition of the CARB Advanced Clean Fleets rule, what your thoughts are about how that might begin to layer into your business?

Pasquale Romano^ I mean you saw the strength in the fleet business. And so also the fleet business is one of -- is interesting. California obviously usually leads the way in the United States with respect to innovation and policy and incentives. But because it's just good for business to electrify your fleet from a cost structure perspective, we're seeing a fleet business that's pretty pervasive across Europe and the United States and not necessarily hotspoted just in California.

And like any program, and this is very in line with the comments on NEVI, it doesn't hit you all at once, it tends to build. So it will contribute. It will contribute over time because it will drive vehicle electrification but again, I don't expect it to drive a [discount]. And remember, you need the vehicles to be able to have demand for the charging infrastructure and that's the biggest variable there. You can have the incentive structure there, but it doesn't necessarily mean that the vehicles are going to follow in perfect order.

Operator^ Thank you, everyone. This concludes today's presentation. We appreciate your participation. And you may now disconnect.