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ChargePoint Holdings, Inc.

Third Quarter ended October 31st, 2023 Results

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PRESENTATION:

Operator^ Good afternoon, ladies and gentlemen. At this time I'd like to welcome everyone to the ChargePoint Third Quarter Fiscal 2024 Earnings Conference Call and Webcast. I would now like to turn the call over to Mr. 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 third 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 Rick Wilmer, our new President and Chief Executive Officer; and Mansi Khetani, our Interim Chief Financial Officer. This afternoon, we issued a press release announcing results for the quarter ended October 31, 2023, which can also be found on the Investors section of our website at investors.chargepoint.com. We'd like to remind you that during the conference call, management will be making forward-looking statements.

These forward-looking statements involve risks and uncertainties many of which are beyond our control and could cause actual results to differ materially from our expectations. These forward-looking statements apply as of today, and we undertake no obligation to update these statements after the call. For a more detailed description of certain factors that could cause actual results to differ, please refer to our Form 10-Q filed with the SEC on September 11, 2023, and our earnings release, which was posted today on our website and was filed today with the SEC on Form 8-K. Also please note that we use certain non-GAAP financial measures on this call, which we reconcile to GAAP in our earnings release. And for certain historical periods in the investor presentation posted on the Investors section of our website.

And finally, we will be posting a transcript of this call to our Investor Relations website within the Quarterly Results section. With that, it's my pleasure to introduce our new President and CEO, Rick Wilmer.

Rick Wilmer^Thank you, Patrick. I'd like to begin this call by introducing myself. My name is Rick Wilmer and I have been CEO of ChargePoint since November 16. I was the company's Chief Operating Officer for the 18 months prior to this. So as I enter my new role, I am quite familiar with the business.

I have previously served as CEO more than once, and I can assure you that the responsibility is not new to me. Since joining ChargePoint, I have introduced a number of key initiatives in the COO capacity, including the following: a more rigorous process for supplier qualification and management. This has led to millions of dollars in cost savings and improved supply assurance, a revamp of the company's manufacturing strategy to optimize cost structure, reduce tariffs and secure multiple sources for the manufacturing of every product we sell. This multiple sourcing

model includes new factories in Southeast Asia, which will be fully online in 2024, at which point we will begin to realize their benefits. Of particular note, I am rebuilding our entire aftersales program.

This is to prioritize customer care ensure predictable deployments and to deliver exceptional support. We are doing this in a manner that can scale for rapid growth while improving response time, shortening total time to resolution and increasing the quality of service, all without increasing our costs. I am also leading ChargePoint's drive towards flawless network reliability. This is an important point to make as many consider it a barrier to EV adoption. It's a challenging problem, especially when it comes to physical station damage that operators cannot easily detect with remote monitoring.

At the core of this is our recently launched network operations center. The operation center features 24/7 proactive station monitoring and predictive analytics to find anomalies before the station owners or drivers notice them. It leverages multiple sources of driver feedback, including our mobile app, calls to our driver support line and social listening, all of which enhance the completeness of actionable insights. This all drives uptime, ChargePoint defines uptime as the percentage of ports which are capable of dispensing energy at any given moment. We believe this is the most transparent reporting of this metric in the industry and exactly what a customer driving up to our station would expect it to mean.

We launched the operations center in August when the ChargePoint network was at 96% uptime, and we have realized incremental improvement since then for an uptime that is currently at 97.65%. I share this increase to communicate our success thus far, but we are not stopping there. We will soon be integrating data sources that will account for physical damage or prevents a driver from charging. We previously could not detect this, and it is critical towards delivering a comprehensive metric for reliability. More importantly, it will deliver the experience to drive rigs expecting when they charge their EV.

This more comprehensive data set will initially lower our uptime, but from this new baseline, we can continue on our quest for 99%-plus reliability and ensure everybody who needs to charge can do so seamlessly. These are just a few of the projects I have initiated to positively impact the business, and I hope to illustrate my track record of results so far at ChargePoint. Now let's move on to talk about the third quarter. As we preannounced on November 16, the quarter was a disappointment for us and had initiated some changes, including my appointment.

While the quarter was nowhere near expectation, the big picture still looks very good.

We have had challenges executing and this is what the new leadership team is here to fix. We are firmly committed to being profitable on an adjusted EBITDA basis in Q4 of calendar 2024. Our CFO, Mansi Khetani, will give the results for Q3 in detail shortly, which are consistent with the preliminary results given on November 16. Here are the top line figures as well as where

things went wrong. Our revenue for the quarter was $110 million, non-GAAP gross margin was negative 18% due to a $42 million noncash impairment charge, and we managed our operating expenses as forecasted at $81 million.

As we stated earlier, this top line revenue figure fell short of our expectations. We attribute the majority of this to three factors. First of all, the arrival of many commercial fleet vehicles has been delayed, or in other cases, these vehicles have been slow to ramp up production. Recent data from the [Bloomberg NEF] dropped the 2023 sales forecast for electric commercial and transit vehicles by 20%. Our customers are eager to receive vehicles that they have ordered, but are not proceeding with investment in the infrastructure necessary to charge them until they have line of sight on vehicle delivery.

As examples, we have a single customer waiting on more than 40 transit buses, others waiting on 100 class six to eight commercial trucks and a third waiting on 500 vans. These begin to add up quickly. The second factor impacting Q3 top line revenue can be summarized as a slowdown in commercial demand combined with supply chain normalization. As we mentioned last quarter, Commercial charter demand has waned in the face of high interest rates and economic uncertainty. How has this been impacted by supply chain normalization?

In simple terms, our channel has moved back to a model where they are carrying lower levels of inventory and placing smaller restocking orders as needed.

While it negatively impacted Q3, we are poised to quickly monetize any uptick in commercial demand with inventory ready to ship. The third factor, which negatively impacted Q3 revenue was something we could not have predicted going into the quarter, hesitation related to the automotive labor disputes in the United States. We do considerable business with the auto OEMs and their dealerships, both of which were delayed due to the well-publicized strike. Regarding the $42 million noncash impairment charge, I'd like to outline what it was taken for and how it differs from the impairment taken in Q2.

The impairment in the second quarter addressed the cost structure of a single first-generation DC charger. That product continues to sell and does so at margin. The noncash impairment taken in the third quarter addresses executional issues related to multiple product transitions and better aligns inventory with current demand. This was a deliberate action that cleans the slate for the business moving forward. We did not execute these new product transitions well, and we have learned from our mistakes.

Two factors that were at the center of these transitional issues: The extreme supply chain shortage brought on by the COVID pandemic and the surge in demand we experienced from 2022 through the first half of 2023 and leading us with surplus inventory at the end of Q3. These issues have been corrected with supply and demand better balanced. To summarize, we have balanced our future supply commitments to realign with current demand and the current product

range. We believe the noncash impairment charge we took in the third quarter places us back on solid ground to build from. As I have said at the beginning of the call, we have had some execution challenges that I began to fix as COO and will finish addressing as CEO.

We believe the noncash impairments taken this quarter are conservative and comprehensive and that we are now in an excellent position to monetize our current inventory. Despite these issues, there were quite a few bright spots in the third quarter, underlying strength in the business has shown itself via market share. We boosted our balance sheet by $232 million and ended the quarter with $397 million cash on hand. We have no debt maturities until 2028, this combines with an undrawn $150 million revolving credit facility, placing us in an excellent cash position. Sales of ChargePoint Home Flex, our consumer home charging station, were up 45% sequentially for its best sales quarter ever.

Home Flex has been the top-selling charger on Amazon for 19 weeks in a row. We take this as a sign that passenger EV sales are not slowing down despite recent media coverage to the contrary.

I would also like to outline what was new from a product perspective in Q3. We saw quite a bit of activity. We began to roll out our NACS cable solutions, which are compatible with Tesla vehicles on time and is first to market.

We released the largest update to our driver app in years, which went live as we reached 1 million quarterly active users. Our fleet software lineup has rounded out to form a unique suite of solutions and in preparation for the forthcoming transit vehicles, we have announced our Pantograph charging system for municipal bus space. Reverting to the products we already have in the field, Q3 saw increased utilization pressure. Energy dispense from our charters went from 258 gigawatt hours in the second quarter to 304 gigawatt hours in the third quarter, an 18% increase in only three months. Year-over-year, that figure was more than 70%.

We believe this rapid increase in utilization will necessitate the customers scale their EV infrastructure soon. On the customer front, we signed another premium German sports car manufacturer for our in-vehicle software to find, use and pay for charging in future vehicles. Lastly, I am extremely proud of the first location for the Mercedes-Benz charging network in North America, which recently went online at Mercedes-Benz USA headquarters in Metro Atlanta. This is the fastest passenger vehicle charging solution in North America, thanks to our powerful and flexible Express Plus DC charging line, along with ChargePoint's full stack software solution. This deployment represents the rollout of a phenomenal user experience enabled by ChargePoint, with capabilities no other company can match including reservations, plug-and charge, and many other features that make the charging experience impeccable.

Lastly, a few general statistics of note. We count 74% of the Fortune 50 and 59% of the Fortune 500 as customers. We finished the quarter with more than 274,000 global active ports under

management on the ChargePoint network, of which approximately 22,000 are DC fast chargers. We now provide drivers with access to more than 567,000 roaming ports worldwide for a total of more than 841,000 ports. All of the port statistics I am reciting should leave you with the second clear takeaway.

Our subscription business is growing rapidly and setting us up for long-term success. It is important for me to also give stats, which means something for the future of our planet, our updated environmental metrics. We have enabled nearly 8 billion electric miles driven enough to drive around the world of 320,000 times or to look at it another way, we estimate this is enough to power more than 245,000 homes for entire year. We estimate this means over 1.6 million metric tons of greenhouse gas emissions were averted by EVs on our network. To summarize my remarks on the business.

Despite our top line numbers for Q3, we believe our product and go-to-market strategy are solid and that the key to our success moving forward is operational rigor with a laser focus on execution. Our strategy success in the near term will be validated by accomplishing our core objective of being adjusted EBITDA positive in the fourth quarter of next year. We are managing our cash with extreme rigor, and we are well capitalized to reach adjusted EBITDA positive. We plan to treat our large inventory balance as an asset ready to ship and deploy faster than the competition.

While I have mentioned product transition challenges of the past, the good news is we have nearly completed the transition to our second-generation product portfolio, which is a leading and comprehensive product lineup across both hardware and software.

We will continue to fine-tune our strategy with a relentless focus on results through excellent execution. In reference to guidance, which I'm sure is top of mind for many of you, we will not be giving Q4 guidance today. As much as I would like to do so, it would not be prudent given my limited tenure in this role and the factors our team is working to counter as we speak. This decision implies nothing about Q4, rather it serves as a signal, we are 100% focused on the job at hand which is rapid recovery and excellent execution. With that being said, we expect to provide top line guidance next quarter as well as outline my strategy for the road to profitability.

I will conclude my remarks with a reminder of who we are, what we do and the opportunity lying ahead of us. We are a leader in this space and continue to grow. We enable the entire EV ecosystem from software integrations in the new EVs themselves, to the software, which will power entire networks for utilities, municipalities and businesses who serve EV drivers. We win by building for those EV drivers, not for a particular market or vertical. It is the singular focus on the driver that shapes our strategy.

Our platform empowers companies to connect with drivers who need to charge. It allows those companies to extend and expand their relationships with their constituents, be an entirely new touch point so they can enhance their brand company, loyalty or operational effectiveness. We are not just about charging an EV to get it back out on the road, but rather to enable the transition to e-mobility. This is not only to help decarbonize our planet but to also create a new realm of possibilities for our customers to better serve their own customers. Thank you all for listening.

And I will now hand over the call to our CFO, Mansi Khetani to review the financials.

Mansi Khetani^ Thanks, Rick.

As a reminder 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 system, subscription and other. Network charging systems refers to our connected hardware, subscription includes our cloud services connecting that hardware, assure warranties and our ChargePoint as a service offering where we bundle hardware, software and warranty coverage into recurring subscriptions. Other consists of professional services and certain nonmaterial revenue items. For Q3, revenue was $110 million, down 12% year-on-year and down 27% sequentially below our guidance range of $150 million to $165 million.

Network charging systems at $74 million with 67% of Q3 revenue, down 24% year-on-year. Subscription revenue at $31 million was 28% of total revenue, up 41% year-on-year. Other revenue at $6 million and 5% of total revenue was down 4% year-on-year. Turning to verticals. As you know, we report verticals by billings, which approximates the revenue split.

Q3 billings percentages were: Commercial 70%, Fleet 16%, Residential 13% and Other 1%. Commercial slowdown for the reasons Rick made out earlier. Fleet was 16% of billings, similar to last quarter. We continue to shift against large programs like the U.S. Postal Service, but as Rick also mentioned, vehicle availability pushed out many of our larger transit deals.

Residential had its largest quarter ever in terms of units sold. To outline our geographic mix, North America made up 79% of Q3 revenue, and Europe was at 21%, consistent with Q2. In the third quarter, Europe delivered $23 million in revenue, growing 30% year-on-year but decreasing sequentially by 28%. This decrease reflects reduced demand from commercial customers due to uncertain economic conditions. This includes changing U.K.

government mandates for electric vehicles as well as lower restocking orders from our channel partners as they work through reducing their high inventory of Non-ChargePoint products. Turning to gross margin, non-GAAP gross margin for Q3 was negative 18%. This reflects a noncash impairment charge of $42 million. Without that impairment charge, non-GAAP gross

margin would have been 20%. This was still below our expected range, mainly due to absorption of fixed costs over fewer units sold in the quarter.

We would have been within the range we had guided to had revenue matched our expectations. Non-GAAP operating expenses for Q3 were $81 million, a year-on-year increase of 2% and a sequential decrease of 9%. This reflects a partial quarter impact from the cost savings initiatives we announced on September 6. We expect to see a continued reduction in operating expenses in Q4 and beyond. Stock-based compensation in Q3 was $33 million, down from $35 million in Q2.

Q3 non-GAAP adjusted EBITDA loss with pre-impairment gross profit was $55 million. This was 7% down year-on-year and higher than our expectations due to the revenue shortfall. Our non-GAAP adjusted EBITDA loss, inclusive of the noncash impairment was $97 million. We built inventory during the quarter. We finished the quarter with $199 million in inventory, which is net of the Q3 noncash impairment discussed earlier and up from $144 million at the end of Q2.

Of note, about half of the impairments impacted the inventory line. The other half, which was related to commitments is reflected as a liability on the balance sheet. We expect inventory to decline in the future as we have slowed down our build rate to adjust for the current demand environment. Our deferred revenue balance, which consists of payments towards future recurring subscription revenue from existing customer commitments was at $227 million, up from $220 million at the end of Q2. Looking at cash.

We finished the quarter with $397 million of cash and cash equivalents. This balance includes $232 million raised through our at-the-market offering facility during the quarter at an average price of $4.37. This was comprised of $175 million raised with an institutional investor in connection with the amendment to our outstanding convertible notes as announced on October one and $57 million in additional funds raised in the quarter. Please refer to our prior filings available with the SEC for a more complete description of the amendments to our convertible notes. We have no further plans to access the aftermarket facility.

We believe we are fully funded through our goal of adjusted EBITDA positive in the fourth quarter of next year. In addition to our cash balance, a $150 million revolving line of credit remains undrawn. Our path to adjusted EBITDA positive in the fourth quarter of next year assumes both modest revenue growth and modest margin expansion. In addition, we will constantly evaluate ways to increase operating efficiency and improve our cost structure. We had approximately 418 million shares outstanding as of October 31, 2023.

Thank you, and we will now move on to Q&A.

Operator^ (Operator Instructions) Our first question comes from the line of James West with Evercore ISI.

James West^ Rick, I wanted to kind of dig in a little more on the slowdown in buying, particularly from what will be fleet customers I recognize that the deliveries of the vehicles are part of the delay. But at what point do they really have to go forward with building the charging infrastructure? Because it's clearly a gating item to using those vehicles, if you will.

Rick Wilmer^I think from our perspective, we see I desire to have the charging infrastructure largely coincident with vehicle delivery, maybe a bit earlier than that. That we're going to allow them to optimize their capital investment, both in vehicles and charging infrastructure such that one doesn't show up in front of the other.

James West^ Okay. And these -- the infrastructure, I'm assuming these are customers that have already either placed purchase orders that haven't been delivered or you've already done extensive work with them, so the designs are done. So it's just a matter of delivery and installing equipment is that correct?

Rick Wilmer^Generally correct. Yes.

Operator^ Our next question comes from the line of Colin Rusch with Oppenheimer & Company.

Colin Rusch^ Can you talk a little bit about the trend lines on utilization on the existing chargers that are out in the field? And then also how much cash you might be able to pull out of working capital here over the next couple of quarters as you optimize the balance sheet?

Rick Wilmer^Sure. I'll let Mansi take the working capital question then I'll come back and address utilization.

Mansi Khetani^ Yes. So Colin, on the working capital front, so in Q3, we did invest in the inventory buildup. You can see from our balance sheet, over the next few quarters, we expect to bring that inventory down because we've already started working with our contract manufacturers on that front. So overall, in terms of general working capital usage, this should trend down also a deferred revenue balance, which kind of brings out the SaaS component of our business significantly helps with working capital as well.

Rick Wilmer^In terms of utilization, Colin, what we're seeing is an increase. I think we've seen this from other data points in the industry as well and we are interested to see how this translates into a pickup in the commercial business because there's no question that pressure is building on the commercial networks regarding utilization and thus, the availability of ports for people to charge their EVs when they want to charge.

Operator^ Our next question comes from the line of Bill Peterson with JPMorgan.

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William Peterson^ Yes. First of all, I'd like to understand more -- I know you're not willing to provide 4Q guidance, but in terms of the visibility you see, I'd like to try to understand what trends you're seeing with channel partners. I guess, specifically for commercial and fleet, I guess how much inventory is at your distribution partners? How much does that vary between L2 and D.C. fast, maybe newer and older products?

I guess I'm kind of trying to wonder is there any more destocking or is there any destocking that needs to occur? And perhaps related, like how have orders trended quarter-to-date maybe relative to prior quarters at the same period of time, first month into the quarter?

Rick Wilmer^Yes. Thanks, Bill. Good question. we're under the impression that channel inventory is largely normalized. And while I hate to continue to use the excuse of the COVID pandemic, it's a real reason why we've experienced this.

During the COVID pandemic, we saw certain components that went into chargers with 2-year lead times. And the supply chain was driven hard due to those types of extended lead times along with very strong demand last year into early this year. That translated through into the channel. Our products were on lead times, so the channel bought ahead, and they ended up with inventory. Our lead times for our components are largely back to normal, and we are now shipping with very short lead time into the channel, which has allowed the channel inventory to normalize.

Operator^ Our next question comes from the line of Craig Irwin with ROTH MKM.

Craig Irwin^ So can you maybe update us on the head count exiting the quarter? And what should we look for to see the current status on the planned $30 million in savings that you guys have talked about? And is that something that is a firm target? Or is that something we can possibly see move around a little bit as you've expressed a really clear commitment about EBITDA profitability by the end of the '24 calendar year?

Mansi Khetani^ I can take that, Craig. So in terms of head count exiting the quarter, you get more details in our 10-Q, but we were a little over 1,800 people. That includes all COGS and OpEx total heads across the company. In terms of the savings targets, we achieved the $30 million that we had talked about in Q2. In fact, if you look at our Q3 OpEx number is lower than what that $30 million would indicate, meaning thereby that we've actually being able to reduce cost a little bit more.

We're constantly looking at areas for improvement. We're looking at facilities costs at external services, consulting and what have you. And we showed that in Q3 by cutting more than the $30 million that we had laid out. And we'll continue to do that. As Rick mentioned, and as I said in my prepared remarks as well, we'll continue to look at that.

That is one area that is in our control. And we will look at it constantly to make sure that we hit our EBITDA positive goal in Q4.

Operator^ Our next question comes from the line of Chris Dendrinos with RBC Capital Markets.

Christopher Dendrinos^ I wanted to go back to that last question and explore a little bit more. I guess maybe just on the EBITDA target for the year-end next year. Can you maybe talk a little bit more about the levers that you have to pull in order to hit that goal? And then sort of maybe what kind of growth you're looking at for next year to get you there?

Mansi Khetani^ Yes. I can take that. So we're not guiding specifically to revenue for next year. But as I said, we are expecting revenue to grow modestly. We're using conservative estimates on large programs that are expected to hit in the second half of next year, especially across auto and fast charge segments.

We're expecting continued delivery on the USPS contract and other large auto and transit contracts that we've already won. We are being also extremely cautious on the transactional and workplace type business since that recovery will depend on economic conditions and the interest rate environment. Another indicator is the heavy business activity, RFP activity and win rates that we're seeing. So that kind of gives us confidence in the modest revenue growth that I've assumed in the second half. In terms of gross margin, I think we will see improvement as well as we second source to Asia manufacturing, as Rick alluded to and as we continue our [cost out] efforts.

And lastly, we will be constantly monitoring and controlling OpEx, and we'll continue to focus on efficiency. There are a number of significant cost improvements we are evaluating, and that is one thing that is definitely more in our control.

Craig Irwin^ And then maybe just building on that comment around the Asia supply chain. Is there any way you could quantify that a bit more, just kind of in terms of what kind of, I guess, margin uplift that might provide and how that supply chain differs, I guess, from what you all have right now?

Rick Wilmer^Yes.

Today the supply chain, we largely have each of our products built by one manufacturing partner. So we have not had a position of competitive tension regarding our manufacturing services. We've changed that and this is what the Asia manufacturing footprint brings to the table. It has every product in our portfolio build in more than one location by two different partners that allows us to put them in competitive tension against product cost, obviously, which is a major priority along with on-time delivery and quality.

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

Stephen Gengaro^ Thanks. Good afternoon, everybody. I guess two for me. One might be a little naive, but I'm kind of curious, when you talk about network reliability and charger uptime, what are the factors that create downtime? Like is it the quality of the of the charger?

Is it lack of maintenance? Is it abuse from customers? Is it all -- what actually is it? And how do you -- what are the steps to kind of improve that really?

Rick Wilmer^Great question, Stephen. Thanks. It all starts with the reliability and durability of the hardware, and we invest a lot of energy and money into building very reliable, very durable hardware. But that by no means is the entire solution to the problem. The next step is to get the hardware installed correctly.

And this is a major area of focus for us going forward into the future. This is an area of investment for us, and this is surrounding training, the electricians of the regions we do business in to work with charging infrastructure correctly. If it's built correctly and it's designed to be reliable and durable, but if it's installed in correctly, you're going to end up with failure modes that we're going to prevent EV drivers from charging. The third piece of this relates to physical damage. These are products that are technically complex.

They're out in the wild everywhere from the far northern reaches where they go well below zero to the deserts where they get way over 100 degrees Fahrenheit and they're expected to last for a decade or longer. And in those environments, in addition to being outdoors, they're also subject to physical damage. It's shameful, but we see vandalism. We see people backing into chargers. We see people running over charger handles, and a lot of that physical damage is difficult to detect through our remote monitoring technology, which is what I alluded to in my opening comments regarding our network operation center enhancements, where we're now going to be crowd sourcing a lot of additional data sources that observe chargers that are down such that we can action those.

So to summarize, if you build reliable hardware, it's installed correctly, and you're able to react to problems that occur that are largely out of our control because it's mostly physical damage, we're going to have a very reliable network.

Stephen Gengaro^ And then just the other one for me, it's -- I know you've touched on this a bit. But as we think about the sort of path to the EBITDA positive target, what should we be watching every quarter? I mean, is it just as simple as controlling your costs and getting your volumes up? Like do you need a certain volume level to get there? Is there any more color you could add to to those pieces of the puzzle?

Mansi Khetani^ So as Rick mentioned, we'll give you more color to our path to profitability in our Q4 call, our next call. But what I can say at this point is with a modest revenue growth and a slow increase in margin sequentially each quarter, we can get there. Of course, the final lever will be operating expenses.

Operator^ Our next question comes from the line of Joseph Osha with Guggenheim.

Joseph Osha^ Understanding that you might not be able to comment in detail, I'm wondering if your review of the business might include looking at some of the segments that you're in, perhaps emphasizing more and perhaps maybe reducing focus on some other business segments? Is that one possible outcome of the work you're doing?

Rick Wilmer^Good question. Thank you for that. My assessment at the moment is that our current go-to-market and product strategy is solid. I'll give credit to our CEO, prior CEO, Pasquale Romano. He did a great job, was a visionary in this industry.

And I'm lucky to have adopted such a well-thought-out insightful product and go-to-market strategy. We'll obviously fine-tune as market conditions change and demand shifts between vertical markets. But largely, we're going to be focused on executing that strategy that exists.

Joseph Osha^ Okay. And then one for Mansi, just listening to what you guys have talked about today in terms of sort of modest revenue growth and getting to EBITDA breakeven. Some simple math suggests that either, A, you've got a heck of a gross margin expansion built in there or that you're going to take a pretty substantial bite out of OpEx even from the current run rate. Am I correct in assuming that one of those levers has to move a lot in order to get to this EBITDA breakeven target you're talking about?

Mansi Khetani^ Joe, all I can say at this point is stay tuned. We will be ready to provide more details at our next call. Sorry, I can't provide additional details right now.

Operator^ Our next question comes from the line of Cameron Lochridge with the Bank of America.

Cameron Lochridge^ So I just kind of wanted to go back and talk about some of these larger macro topics that are kind of delaying orders for you guys. Commercial fleet deliveries, you mentioned, commercial demand, some of these auto labor disputes. I guess really my question is, what kind of line of sight do you guys have into some of these issues that are admittedly out of your hands resolving themselves. And really, the question ties back to -- I hear you guys suggesting modest revenue growth next year. So just trying to get a sense for kind of what's informing that.

If you could just give us some color there would be helpful.

Rick Wilmer^Cameron, we're always working to get better line of sight onto all those factors. I think in the fleet side, it's easier to get line of sight on fleet vehicle delivery. But in the past, commitments have changed as people realize how hard it is to build electric vehicles, at least in the early days. So we keep a very close eye on how any of those delivery commitments of vehicles change. On the commercial side, I would say that's more -- it's a little bit more difficult to understand.

I think what we're facing there is an uncertain economic future in the face of high interest rates with many believing we could have a nice soft landing and others believing a recession is coming. And I think the CFOs in the commercial space view charging as something that is not mandatory, and they are being conservative with their cash and waiting for some of this economic uncertainty to clear up before they start to succumb to the increased utilization pressure we're seeing on ports that's clearly happening out there.

Cameron Lochridge^ And then just in terms of the -- what's kind of given you guys the the line of sight into modest revenue growth. Just any comment there next year?

Mansi Khetani^ So like I said before, where you think conservative estimates based on large programs that either we've already won or we have line of sight into. For the latter part of next year, this includes programs with the auto OEMs and fast charge segments. We'll continue delivery on the USPS contract, as I mentioned. There are some large auto and transit contracts that we won and we've already started executing on. So those are the things that, whatever is already funded, and we have visibility into.

That's what I'm taking into my model right now, being extremely cautious on the transactional workplace side of things because we'll have to see how the macro plays out.

Operator^ Our next question comes from the line of Chris Pierce with Needham & Company.

Christopher Pierce^ I was wondering if you could comment on competition within Level two charging and with Tesla kind of coming down towards Level Two? And then Level three seems to get a lot of the airtime within the industry. Are -- is it potentially that your customers are holding off on Level two and preference in Level Three, and that's kind of putting you at a disadvantage? Or is that kind of not the right way to think about it? Just the competition in Level Two and interplay between Level Two and Level Three.

Rick Wilmer^So I don't think there's a trade-off between the two. I think Level Two and Level Three fit into a customer situation, depending on their use case and the needs that they have. So I don't think there's one stealing from the other. Level Two in home, we obviously saw a record quarter as we reported. When it comes to workplace, this is what we alluded to earlier, where in commercial, in general, not just workplace.

▫

I think we're seeing this viewed as a discretionary purchase, and the CFOs of the world are being cautious with discretionary purchasing but we also see pressure building with the increased utilization, as we mentioned earlier.

Christopher Pierce^ And then if I understand you correctly, on the last two quarters, you've taken the inventory charges, but without revenue margins in the fourth quarter and beyond should kind of revert back to where they were in the last fiscal year? Like what's the right way to think about -- or will there be a little bit of a hang or rent until you burn through inventory? I just want to make sure kind of some guidance on modeling margins maybe.

Mansi Khetani^ So yes, we are not giving guidance to Q4 gross margin, but I can tell you what I'm thinking right now. I think Q4 margins come back in line to the normalized Q3 margins. Obviously, it may be slightly up or down depending on where the final mix plans. And then next year, I think we will start seeing an improvement from Q4 based on the Asia manufacturing strategy, the fact that this impairment has already been taken. So all of our costs are extremely clean now so we should see fewer material variances.

So all those things should help margins improve next year.

Operator^ Our next question comes from the line of Robert Jamieson.

Robert Jamieson^ My questions. I just have a few here. So first, with your deep and broad customer base, just curious, are you -- like with the conservative from the CFOs, are you seeing any kind of headwinds or pressure from like the site preparation side, where maybe the initial installments weren't as costly and now it's becoming a little bit harder to install? Is that anything that's maybe been pressuring demand?

Rick Wilmer^No. I haven't seen any pullback there. But I think in commercial, obviously, the total cost of ownership, which includes not only the charters, but the installation is something that's being considered by the financial decision-makers in the commercial space.

Robert Jamieson^ Okay. And then just from the comments that you all have shared, and I appreciate the color. Just curious, I mean, is your top line becoming a little bit more correlated to near-term deliveries? And it's kind of what I digested [as the] commentary as. And if that's the case, do you expect this as like a near-term kind of headwind?

And then longer term, obviously, the trends are still positive from a growth standpoint, but just curious any thoughts there.

Mansi Khetani^ Yes. We've talked about this before. We've had linearity as an issue, but a majority of the shipments in the quarter happened within the last two weeks. And it's not that

much transactional. But at that point in time, if -- for example, on the fleet side, if our customers want to push out delivery, it gets pushed out in literally the last week.

And so to that extent, we do get a little blindsided even though these are contracts that we've already won. We are on a mission to fix that, and we totally realize that having a more linear business will make our lives a lot easier. We will be able to forecast more efficiently, we'll be able to plan our operation strategy in a better way. So it's more that back-end-loaded kind of structure of our shipments that's causing more of the uncertainty, which we are on our way of fix.

Robert Jamieson^ Okay. No. That helps. And sorry, just one last one, if I can squeeze it in. Just conceptually when you're thinking about -- and I'm not asking for guidance here, but when you're talking about like the OpEx cuts that you're going to have to make next year, how do you think about balancing in a high-growth market, obviously, your sales and marketing staff and conserving talent and keeping employees happy. Like how do you think about balancing those items as you move forward when you're going to be making some of these cuts?

Mansi Khetani^ Again, we will give you a lot more color in the next call, but that is definitely top of mind. We need to balance a lot of things while we make these kind of decisions. We had to do the same thing in September. And so this is top of mind, we are all evaluating all the nuances of every action. We have other levers like facilities costs, like external spend, like prioritizing our R&D rollouts, prioritizing our sales and marketing, investments in areas where we see revenue today, et cetera.

So a lot of significant, a lot of efficiency improvements that we're constantly evaluating, but we will be able to give you more color at our next call.

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

Shreyas Patil^ I guess just on this issue of reliability of the chargers, I mean, how are you addressing the reality that you don't own and operate the network, so you are [having] to ultimately either absorb cost of repair yourself or you have to try and encourage the station owners to do that. And either that has to be done through some kind of payment or some model that you have to use to get them to do that. How do -- just trying to understand how you could actually address some of the reliability issues as a result?

Rick Wilmer^Yes. So in terms of covering a station that is subject to a problem after it's been energized and discharged vehicles, we have a very rich suite of aftermarket service offerings that cover that for our customers. And it all depends on their specific use case with respect to the service level that we can provide. So that -- they pay for that as part of our services and support line on our P&L, and that's a part of our recurring revenue and that allows our

customers to have peace of mind that their stations are going to be repaired and issues resolved quickly, but it also allows us to afford to do that for them.

Shreyas Patil^ Okay. And maybe just on the material cost side, I think we had heard from prior management repeatedly about how new product introductions were going to result in significant cost reduction initiatives or significant cost reduction opportunities. And we've sort of -- it doesn't seem to be actually happening. I mean the numbers don't seem to suggest that there have been material cost savings. So I'm trying to understand how to frame the kind of magnitude of savings you could realize from either this new supply chain strategy or the new product introductions that you talked about that have flown through.

Rick Wilmer^I can assure you they're worth pursuing. And part of the timing on this is related to our inventory position. We need to work through that inventory, not only that we have on hand, but it's in the supply chain before we can enjoy lower cost on both piece parts themselves as well as the manufacturing value add that we are charged by our manufacturing partners. This is why we've indicated that by the time we get to the end of 2024, we will be very cost optimized around product cost.

Operator^ Our next question comes from the line of Steven Fox with Fox Advisors LLC.

Steven Fox^ I just had two clarifications. One, on the manufacturing strategy, would you say that there's still in-house final assembly that the company is doing that they could also look at to reduce fixed costs? And then secondly, on the gross margins, I know you're not talking specifically, but I would imagine there's a benefit to gross margins as you flow through some low or no cost written down inventory through the income statement in coming quarters? Is that a reasonable assumption?

Rick Wilmer^So let me take the first half of that, Steven. In terms of in-house assembly, we do very little of that. But one core tenet of our product design principle is around the concept of modularity. This is very important for inventory and working capital management. Essentially, what that means is even though we have a myriad of configurations that a customer can order.

For example, you can have different lengths of cables. You can have NACS connectors, you can have all kinds of different configurations in the product itself. We do all that in a very modular way, which allows us to stock relatively generic inventory, which helped us keep our inventory position down in our working capital up. I'll let Mansi take the second half of that question.

Mansi Khetani^ Yes. With respect to the inventory impairment piece and the impact on margins, so the Q3 impairment was related to product transition. So we impaired all the slow-moving product that we are not actively selling today. So while there is no direct margin impact from sell-through of that product, where it does have margin is the material variances that we would

be taking slowly over time and we find ourselves dealing with slower moving inventory. Every quarter, we'll write off a little portion.

That part is taken care of because we've taken all of that upfront. So to that extent, there will be some impact or some benefit to margin. But in terms of the actual reduction in COGS, the inventory that we now have comprises of the newer products, the next-gen products and those are at full value.

Operator^ Our final question comes from the line of Brett Castelli with Morningstar.

Brett Castelli^ Just sticking with that last question around new products. I just wanted to confirm that there's no new I'll call it, large new products, either on the AC or the DC side that you're planning on rolling out over the next 12 to 18 months. I just want to confirm that, that's largely -- that's behind us at this point at least in [there]?

Rick Wilmer^Yes. Brett, we have one product transition plan for late 2024 and another one planned for mid-2025. Those will be the next two coming up, and we have definitely learned from our lessons and we'll make sure that we optimize the bleed down of the inventory on the products that those new products will be replacing.

Brett Castelli^ Okay. And is that on the AC or DC side, Rick?

Rick Wilmer^Now I'm not going to go into any pre-product announcements here. I can tell you they're both awesome products, though.

Operator^ I'd now like to turn the call over to Rick Wilmer for closing remarks.

Rick Wilmer^All right. Thank you. Before we close, I'd just like to thank our shareholders, customers and employees for your continued support. Thank you very much for your time.

Mansi Khetani^ Goodbye.

Operator^ I'd like to thank for today's presentation. And thank you all for joining us. You may now disconnect.