S&P Global
Market Intelligence

CalAmp Corp. NasdaqGS:CAMP

Earnings Call

Thursday, October 5, 2023 10:00 PM GMT

Call Participants

EXECUTIVES

Jason W. Cohenour
Interim CEO & Director

Jikun Kim
Senior VP & CFO

Logan Lucas

ANALYSTS

Adam Samuel Bubes
Goldman Sachs Group, Inc., Research Division

George Charles Notter
Jefferies LLC, Research Division

Scott Wallace Searle
ROTH MKM Partners, LLC, Research Division

Presentation

Operator

Welcome to CalAmp's Second Quarter 2024 Financial Results Conference Call. My name is Cole, and I'll be the moderator for today's call. [Operator Instructions] As a reminder, this call is being recorded. I would now like to introduce your host for today's conference call, Logan Lucas, Corporate Strategy and Investor Relations Manager at CalAmp. Logan, you may begin.

Logan Lucas

Good afternoon, and welcome to CalAmp's Fiscal Second Quarter 2024 Financial Results Conference Call. I'm Logan Lucas, Corporate Strategy and Investor Relations Manager at CalAmp. With us today are CalAmp's Interim President and Chief Executive Officer, Jason Cohenour, and Chief Financial Officer, Jikun Kim.

During today's call, we will make certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. Forward-looking statements are predictions, projections and other statements about future events that are based on current expectations and assumptions, and as a result, are subject to risks and uncertainties. Many factors could cause actual future events to differ materially from the forward-looking statements in this communication.

You should listen to today's call with the understanding that our actual results may be materially different from the plans, intentions and expectations disclosed in the forward-looking statements we make. For more information about factors that may cause actual results to differ materially from forward-looking statements, please refer to the earnings press release we issued today as well as the company's filings with the Securities and Exchange Commission. Readers are cautioned not to put undue reliance on forward-looking statements, and the company specifically disclaims any obligation to update the forward-looking statements that may be discussed during this call.

Now Jason will begin today's call with a review of the company's recent operational highlights, and then Jikun will provide a more detailed review of the financial results followed by a question-and-answer session.

With that, it is my great pleasure to turn the call over to CalAmp's Interim President and CEO, Jason Cohenour. Jason, please go ahead.

Jason W. Cohenour
Interim CEO & Director

Thank you, Logan, and thanks to all of you for joining us on the call today. I will start by taking a moment to express our heartfelt condolences to the family, friends and teammates of Jeff Gardner following his passing in late August. Jeff was not only a passionate leader for this organization, but a kind and compassionate friend to many. We appreciate the effort and countless hours he put into CalAmp over these past few years, taking on challenges and opportunities with positivity and resilience. He had a truly remarkable life and career and the outreach the company has received on his behalf, following his unexpected passing is a testament to the positive impact he had on others along the way. The CalAmp team is keeping Jeff and his loved ones in our thoughts and hearts through this difficult time.

Moving to our results. The company's second quarter for fiscal year 2024 produced mixed results. While we continue to experience demand softness with TSP customers, we saw strength in other parts of the business, including international connected car and with our large industrial OEM customer. The TSP softness is attributed to continued customer inventory rebalancing, following the fulfillment of a large volume of orders in the second half of fiscal year 2023. These orders have been backlogged due to the severe supply chain constraints that we and many others encountered over the past few years.

Additionally, competitive pressures experienced by our TSP customers have complicated the inventory rebalancing process. We are continuing to work with each of these customers as they align their inventory levels with demand. Consolidated Q2 revenue was $61.7 million, which was below our guidance range. Revenue from TSPs which was lower than expected was the key driver of the revenue miss. Q2 adjusted EBITDA was $5.9 million, which was within our guidance range.

The company also delivered strong cash flow from operations of $7.1 million. The strength in adjusted EBITDA and cash flow from operations is primarily the result of cost savings initiatives. Some of these initiatives were carried out during the second quarter, so we expect to see some incremental expense reductions from our previous actions in the back half of the year. We continue to evaluate opportunities to refocus, simplify and streamline the business. On the product front, our team continues to push forward with several initiatives focused on value creation for our customers. For example, in the second quarter, we launched our electronic logging device or ELD, to help customers streamline their compliance workflows.

Our ELD solution is integrated with the rest of our fleet management product suite and adds to a portfolio that we plan to leverage to drive increased ARPU and gross margins in our fleet segments. We also commenced commercial shipments of our new Vision 2.0 dash cam solution during the quarter and now have our first successful installations. We expect to see additional commercial traction with vision at our fleet customers in the coming months and quarters.

We also secured several new customer wins during the quarter, including with Transportes Castores, one of the largest transportation and logistics companies in Mexico. Transportes Castores is leveraging both CalAmp's in-cab and trailer tracking solutions to pull data from their assets and to integrate the data with their proprietary enterprise applications. The solution provides seamless visibility across the customers' operations, and illustrates our unique ability to integrate data from many different asset types into a variety of systems, thereby providing highly tailored insights that drive efficiency safety and compliance.

We are excited to embark on this partnership with Transportes Castores to optimize the management of their fleet. Our international connected car business continued to deliver strong performance during the quarter, driven by expanding relationships with large automotive OEMs and rental customers, particularly in Europe. We expect this segment to continue to deliver consistent profitable growth as we expand with our customers, secure new B2B customers and grow new geographical markets such as Spain. With respect to the CalAmp team, you may have seen the news regarding the departure of our Chief Revenue Officer.

In response to this departure, we have elevated two highly qualified individuals to lead this critical function. One of these team members now leads new revenue generation, while the other leads customer success and sales operations. Both leaders report directly to the CEO and the transition has been seamless. Our CEO search is ongoing, and interest in the position is high. And while we have met with some excellent candidates, we have no new additional news to share regarding the search at this time. Similarly, our exploration of strategic alternatives is ongoing, and we have no additional news to report at this time.

As for me, I've been serving as the interim CEO of CalAmp since August 28, following Jeff's tragic passing. I can report without hesitation that the CalAmp team is talented and passionate and they believe in the opportunity before us. In addition to having a great team, the company has other tremendous assets. Including excellent products and solutions, a blue-chip customer base and a large and growing market opportunity. While I am here, I will be supporting the team. I will be supporting customers, and I will be helping the team to hone focus, to execute operationally and to capture efficiencies as we strive to deliver profitable growth, and positive cash flow.

With that, I'll turn the call over to Jikun to discuss our second quarter financial results in more detail. Jikun?

Jikun Kim
Senior VP & CFO

Thank you, Jason, and thank you for stepping up to this transition. My commentary will include references to our non-GAAP financial measures. A full reconciliation of these non-GAAP measures with the corresponding GAAP measure is included in our earnings release. The total revenue in the second quarter was $61.7 million. Revenues declined 15% year-over-year and 13% sequentially from $70.9 million last quarter.

Much of the year-over-year and sequential revenue decline was driven by lower sales to our telematics service provider customers. As Jason mentioned in his remarks, the revenue decline was driven by our TSP customers continuing to rebalance their inventories while also navigating competitive pressures in their end markets. We now expect this inventory rebalancing with our TSP customers to take longer than previously expected. Revenue declines from the TSP customers were partially offset by revenue increases from our industrial and international connected car businesses.

Recurring application subscription revenues in the quarter were $18.7 million, a $500,000 sequential decline. Most of the decline was driven by a $400,000 June catch-up for prior period accounting cleanups and corrections. RPO and hardware backlog ended the quarter at $194 million and $14 million, respectively. RPO declined $24 million and hardware backlog declined $6 million sequentially. The RPO and hardware backlog decline was driven by customer PO fulfillment as well as GSP conversions that have already been completed. Consolidated gross margin in the second quarter was 36% compared to 38% last quarter. The sequential gross margin decline was driven by lower volumes and unfavorable product mix.

Second quarter GAAP operating expenses declined $3.9 million sequentially and $8.8 million year-over-year. The cost reductions that we implemented over the past 12 months are starting to significantly impact not only our OpEx, but also our cost of goods sold and CapEx. Q2 FY '24 adjusted EBITDA was $5.9 million or 9.5% of revenue, essentially flat compared to the $6 million in the prior quarter. Year-over-year, adjusted EBITDA increased by $1.1 million. At the end of Q2 FY '24, we had a total cash and cash equivalents of $38.5 million as compared to $35 million last quarter, an increase of $3.6 million.

Cash flow from operations was $7.1 million in the second quarter. Positive cash flow was driven by a $4.2 million cash flow from operations, excluding working capital changes as well as a $2.9 million in net working capital reductions. Unlike the prior quarter, working capital changes worked in our favor in Q2. Compared to the prior quarter, cash flow from operations, excluding working capital, increased by $100,000 sequentially and continues to be strong despite volume reductions. Cash flow stability is driven by our cost reductions.

At the end of the quarter, we have $32.7 million in undrawn asset-backed line availability. This availability is subject to customary covenant tests. The $230 million, 2% coupon convertible notes are due on August 1, 2025. Our objective is to generate a high-quality EBITDA run rate in order to optimize our options for refinancing the convertible notes. As demonstrated over the past few quarters, EBITDA performance has been strong and stable. We believe that our future EBITDA run rate increases were driven by several factors and initiatives, including the normalization of TSP revenues, as we stabilize and then return to growth in this market segment, growth in recurring revenues, driven by new solution introductions such as Vision 2.0 which we expect to drive significant ARPU growth with new and existing customers.

Improvements in gross margin, trending back to our historical levels and continued focus on our cost management. In addition, we will have to continue our vigilance with respect to cash flow and cash generation. Continued strong EBITDA and positive cash flow will enable us to retire a portion of the convertible loan as it matures. In addition, we are actively exploring a range of additional financing options and how they can play in our capital structure. From a business outlook standpoint, we continue to manage through a dynamic situation with our TSP customers and we expect Q3 FY '24 revenues and adjusted EBITDA to be slightly down sequentially. With that, I'll turn the call back over to Jason for some final thoughts. Jason?

Jason W. Cohenour
Interim CEO & Director

Thank you, Jikun. In closing, I will assert our unwavering commitment to our customers, partners, employees and investors. While we have experienced challenges, we also see tremendous opportunity ahead, and we are confident in our ability to overcome these obstacles and to return to profitable growth. Thanks to all of you for your continued support and interest in the company.

With that, we will now open the call to your questions. Operator?

Question and Answer

Operator

We will now begin the Q&A session. [Operator Instructions] Our first question is from Jerry Revich with Goldman Sachs.

Adam Samuel Bubes
Goldman Sachs Group, Inc., Research Division

This is Adam Bubes on for Jerry today. Nice to see the positive cash flow from ops. Just wondering if you could talk about how you're thinking about the free cash flow trajectory from here? What does normalized free cash flow conversion look like in this business? And when can you get there?

Jikun Kim
Senior VP & CFO

Yes. I think Jerry asked me this question last quarter also. So thank you for your question. So you can see based on the last few quarters of cash flow statements that cash flow from operations, excluding working capital changes have been in the $4 million range, right? We're at $4.2 million this quarter. I think we were at $4.1 million last quarter. Working capital worked in our favor this quarter. It didn't last quarter. The question that you asked about free cash flow and stability. I think, one, we need to make sure that our revenue is back to where it should be, right, and then be able to project that into the future.

But what you're experiencing is very strong cost management from management as well as continued vigilance in that capacity. So it's difficult for me to say based on the working capital changes that we have right now, but I think you can be sure that we will do our hardest and utmost to make sure that we manage our costs and continue to generate cash here.

Adam Samuel Bubes
Goldman Sachs Group, Inc., Research Division

And it looks like revenue per subscriber in the Software and Subscription segment was down sequentially. Just wondering if you could unpack the moving pieces there? What's the price versus -- true core price versus mix impact? And what's the path here going forward now that most of conversion is through, should we expect higher ARPU starting to flow through that metric?

Jikun Kim
Senior VP & CFO

Yes. So keep in mind, I think it was commented in our prepared remarks as well as our earnings release. That we had about a $400,000 recurring revenue churn catch-up impact that we corrected in the quarter. So the recurring revenue is -- should be roughly $400,000 higher. We had some accounting errors in the past that we corrected in this quarter, right? I just caught up. So if you do that, I think you'll see the ARPUs coming back a little better from a calculation standpoint. Fundamentally, we are looking to grow our recurring revenue business, and it's on new applications like Vision and ELD.

We just launched Vision 2 months ago, 3 months ago, and we're starting to see -- we're seeing very good pipeline and customer interest. We just need to convert those and accelerate those into the fourth quarter. We have an opportunity coming up in the December time frame as school buses, school kids go on vacation during school versus us during the Christmas time, and we'll be able to fit a lot more of those vision opportunities onto our customers' fleets.

Jason W. Cohenour
Interim CEO & Director

And then I'll add in, I'll add a little bit of color. As these -- as we complete these conversions, that's going to boost subscriber count. And those TSP customers come in at a lower ARPU, right? So that's going to be -- we're going to have a battle of mix, if you will, as those low ARPU customers come in and as we win new higher ARPU customers with products like Vision and ELD. So a couple of moving parts there with respect to ARPU.

Adam Samuel Bubes
Goldman Sachs Group, Inc., Research Division

Got it. Helpful. And then lastly for me, on the Q3 revenue and adjusted EBITDA guide to be down slightly sequentially. Could you provide any color by segment there? What will software and subscription be up sequentially? Or are we expecting both segments to be down?

Jikun Kim
Senior VP & CFO

Yes. So again, we don't break out the subcomponents of the revenue, but you can see that our TSP has a very large impact on our business. And so you'll -- what you're seeing is the continued -- our customers continuing to rebalance their inventory positions. In terms of recurring revenue, I would hope that we could do better.

Operator

Our next question is from Scott Searle with Ralph.

Scott Wallace Searle
ROTH MKM Partners, LLC, Research Division

Jason, just wanted to extend my condolences to you, your team and Jeff's family and his untimely passing. Maybe to follow up on -- to follow up on some of the earlier questions. I'm wondering what is the level of normalized TSP that you would expect -- and then on the OpEx front, Jikun, that's been coming down. It sounds like there's more that will come out in the back half of this year. Is there an absolute number that you could calibrate us with?

Jikun Kim
Senior VP & CFO

Yes. So I mean, so most of the cost reductions that we implemented on the OpEx side were done earlier in the year. We just had transition periods where that we had to make sure that various tasks that employees were responsible, were transferred to the appropriate people. So you're going to see -- I mean, it's not going to be $3.8 million quarter-over-quarter, but it should be a little down and it's not a lot, but just a little bit.

In terms of TSPs. Yes. I mean it's normalization of TSPs. I mean I can tell you in 2021, we did $104 million in '22, we did $91 million and '23, we did $110 million, right? Those are historical numbers. You need to figure out, obviously, when we can get back there and whether that's sustainable or not, as our customers provide us feedback and information. Jason, any thoughts on that?

Jason W. Cohenour
Interim CEO & Director

Yes. Just a little more color, Scott, on the TSPs. I mean it was the part of our business that was considerably softer than we expected in Q2. So down considerably from Q1 and down considerably from historical run rates. So we're -- we believe we're battling through this inventory rebalancing thing, but we're also conscious of the fact that our TSPs operate in a very competitive environment, right? So we need to keep an eye on that as well. We're hoping we're around stability here, Scott, and we can grow from here. But to be candid, there's still a little bit of uncertainty around that channel, where inventory levels are and should be and the ability of our TSPs to compete in a pretty competitive marketplace. So I would say we're getting our arms around that. Obviously, it surprised us in Q2 and we will know more in the quarters that come.

Scott Wallace Searle
ROTH MKM Partners, LLC, Research Division

Okay. Very helpful. And as my follow-up, and perhaps a little bit unfair given the transition in current events. But as you start to think about the convert and what you need to do to be able to refinance that, it implies that EBITDA levels are higher than where we are today. Currently, you've got to get the top line going a little bit more and more subscription. It seems like OpEx has been tightened up. I'm wondering if you could talk a little bit about timing and model as it relates to EBITDA margins or otherwise as we get out several quarters from now to think about that? Because I guess you got to be getting close to doing 10, 12 or more in terms of quarterly EBITDA to be able to fully handle that convert?

Jikun Kim
Senior VP & CFO

Yes. So again, we provided next quarter guidance, but I can point in some direction from the current quarter, if you like, right? So we missed revenue guidance. The midpoint would have been $70 million that would have generated roughly an $8 million revenue increase -- I mean our revenues would have been $8 million higher. You can add a gross margin number to that. And if you make the assumption that, that drops down, you kind of get a feel for where we could be, have our revenues normalize sometime in the future. And I'm not saying [$70 million] is a normalized revenue, but that was the midpoint of our guidance.

Jason W. Cohenour
Interim CEO & Director

Yes. And I'll add, Scott. I mean, you're not all faced with respect to -- you're not off base with respect to EBITDA levels we need to get to. In order to have maximum optionality, maximum options on the convert, and that has got to come through a combination of growth, obviously, and continued vigilance on cost and not just OpEx but COGS as well.

Operator

Our next question is from George Notter with Jefferies.

George Charles Notter
Jefferies LLC, Research Division

I guess a clarification. Can you guys give us the backlog metrics in RPO metrics that you referenced earlier in the monologue?

Jikun Kim
Senior VP & CFO

Sure. Do you have another question? I'll dig that up for you in a minute.

George Charles Notter
Jefferies LLC, Research Division

Yes. And then I also wanted to just kind of go through what are the options on refinancing the convertible debt? I'm kind of wondering how you guys are thinking about it, obviously, growing the EBITDA as part of the formula here. But I'm just wondering what kind of options are available to you? What are you contemplating?

Jikun Kim
Senior VP & CFO

Sure. So just going back to your first question, our RPO was $194 million, and our hardware backlog was $14 million in the quarter. At the end of the quarter I'm sorry. Anything else on that?

George Charles Notter
Jefferies LLC, Research Division

And then no, I'm just curious about your refinancing options. How do you think about it?

Jikun Kim

Senior VP & CFO

Yes, yes, sure, sure. So I mean, it's clear that we've got to do better from a top line standpoint and generate sustainable, sufficient EBITDA. Higher the EBITDA more optionality we'll have. But look at it at the same time, the RPO -- the 2% convertible note has a 2% coupon on it. It's very valuable, right? So as we increase our EBITDA and revenues come back, you're going to see more cash flow drop to the bottom line. And ideally, some portion of this 2% coupon, I'd like to take to maturity and pay it off at maturity. Right? And then we're looking at once you get the EBITDA high enough, we might have term loans available to us, different types of financial instruments that might be available to us. So the key is operational performance, revenue growth, EBITDA growth and which will provide various levers that we might build to pull on.

Operator

There are no additional questions waiting at this time. So I'll pass the call back over to Jason Cohenour for any closing remarks.

Jason W. Cohenour
Interim CEO & Director
Thank you very much, and thank you to everybody for joining us on the call today and for your continued interest in CalAmp. We look forward to speaking with you during our third quarter earnings call. Operator, you may now disconnect the call.