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PRESENTATION

Operator

Welcome to CalAmp's Third Quarter 2022 Financial Results Conference Call. As a reminder, this call is being recorded.

I would now like to introduce your host for today's conference call, Joel Achramowicz, Managing Director, Shelton Group, CalAmp's Investor Relations firm. Joel, you may begin.

Joel William Achramowicz - *Shelton Group - MD of IR*

Good afternoon, and welcome to CalAmp's Fiscal Third Quarter 2022 Financial Results Conference Call. I'm Joel Achramowicz, Managing Director of Shelton Group, CalAmp's Investor Relations firm.

With us today are CalAmp's President and Chief Executive Officer, Jeff Gardner; Chief Financial Officer, Kurt Binder, and Chief Supply Chain Officer, Nathan Lowstuter. Before we begin, I'd like to remind you that this call may contain forward-looking statements. While these forward-looking statements reflect CalAmp's best current judgment, they're subject to risks and uncertainties that could cause actual results to differ materially from those implied by these forward-looking projections.

These risk factors are discussed in our periodic SEC filings and in the earnings release issued today, which are available on our website. We undertake no obligation to revise or update any forward-looking statements to reflect future events or circumstances.

Now Jeff will begin today's call with a review of the company's operational highlights, during which Nathan will discuss briefly the state of the global supply chain. Then Kurt will provide a more detailed review of the financial results followed by a question-and-answer session.

With that, it's my great pleasure to turn the call over to CalAmp's President and CEO, Jeff Gardner. Jeff, please go ahead.

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

Thank you, Joel, and thank you, everyone, for joining us on the call today. Revenue for the third quarter of $69 million reflected reduced shipments as a result of the ongoing global component shortages that we outlined in our business update press announcement last month.

The supply chain challenges that are plaguing businesses globally have become more pronounced over the past several months. As a result, our backlog over the past 2 quarters has remained at record levels, reflecting the continued strong demand we are seeing for our Telematics Solutions.

In order to provide our investors more context and information regarding CalAmp's assessment of the supply chain and our mitigation efforts, I've asked our Chief Supply Chain Officer, Nathan Lowstuter, to add some additional insights. Nathan?

Nathan Lowstuter - *CalAmp Corp. - SVP of Global Supply Chain & Operations*

Thank you, Jeff. As many of you know, I joined CalAmp in June last year with over 20 years of experience in global supply chain management, quality control and manufacturing and project management. I can tell you that I've never seen such a global disruption in the electronic supply chain, like the one we have today.

Like many companies across multiple industries, the global semiconductor shortages continue to impact our ability to gain access to key components and have not shown a marked improvement over the past several quarters. And although we had previously anticipated some early signs of improvement in the second half of our fiscal year, we were faced with several component delivery decommits from our suppliers late in the quarter that impacted our ability to ship against order demand. This was driven by upstream challenges with wafer allocation and delays in deliveries.

As a result, overall material fill rates remain well below our order levels. It's been difficult to project inventory levels as many suppliers have limited near-term delivery commitment windows of only 1 to 3 months out. Additionally, over the last couple of quarters, we have seen an increased rate of end-of-life notices for certain components, which has added to the overall supply challenges.

So how has CalAmp been addressing the situation? First, my operations team is working several layers deep within our supply chain and is very tactically involved in tailoring our build plans to the material clear- to-build situation to maximize output for our customers.

Second, we are partnering with our engineering and product teams to qualify additional components, and where possible, to find workarounds or redesigns of our product to include components that are more readily available. We are also aligning our new products with suppliers' investment roadmaps to ensure that our products have the longest expected life spans and access to critical material supply in the future.

Our joint efforts are focused on creating the most optionality possible in order to source adequate component inventory. Third, we are active in the distribution and broker market for components and have a robust identification and quality verification process in place.

However, there are still certain components that can't be found through these channels. With new wafer production and foundry expected to take a long time to come online, our expectation is that we will be working in a constrained material environment well into calendar year 2022, but with the hope that the situation will incrementally improve every quarter.

We will continue to address and carefully navigate the situation in the best way we can. Our focus on escalation, expediting and reengineering will continue as we work to maximize our material flexibility and output for our customers.

I will now turn the call back over to Jeff, but will be available to answer any questions that you may have during the Q&A.

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

Great. Thanks for this assessment, Nathan. We are fortunate to have you and your team helping us navigate through this difficult time. Now let me turn to an update on our Software and Subscription Services business. Revenue in the quarter was $37 million, which was up 7% year-over-year but down sequentially, as expected, due to the completion of a major trailer retrofit program with our large package delivery customer last quarter.

Software revenues represented 53% of total consolidated revenue, the second quarter in which they have exceeded 50%. We are receiving positive reaction and feedback from our customers, evaluating our new SaaS applications for device management, configuration and over-the-air updating. The team continues to make progress transitioning them, both contractually and technically, and we have transitioned several of them from backlog to subscription models with total 3-year TCVs of approximately $30 million.

We are also finalizing terms with a number of other customers that we expect to complete in the current quarter. As these customers recognize the value of having access to the enhanced features and functionality of our device management and CTC platform as well as our value-added services and applications, we expect the transitions to pick up momentum.

As these customers transition to a SaaS model, they will gain real-time access to all the new feature enhancements that we will continually release in our Telematics Services portfolio. They are able to seamlessly leverage the connected intelligence and insights that are available through the CTC services APIs in adjacent areas of transportation and logistics, cargo and asset tracking intelligence, and access to real-time sensor information from tractors and trailers.

To further help with the advancement and progress of our go-to-market strategy towards a SaaS model, we internally established a transformation office with the express charter of improving cross-functional alignment within the organization. We've also continued to expand our team with highly qualified and experienced software sales professionals as part of our SaaS sales group, while also hiring the best engineering talent to augment our product development group.

Taken together, these efforts have made a critical impact on our SaaS transition initiative. This past quarter, we exceeded 1 million in core software subscribers, which is up from 932,000 last year, as we remain focused on becoming a SaaS telematics leader in the transportation and logistics industry.

With that, I'll pass the call to Kurt to review the financials, and then we will open the call to questions.

Kurtis Joseph Binder - *CalAmp Corp. - Executive VP, CFO & Principal Accounting Officer*

Thank you, Jeff. Today my commentary will include reference to the non-GAAP financial measures of Adjusted Basis net income, adjusted EBITDA and adjusted EBITDA margin. A full reconciliation of these non-GAAP measures with the closest corresponding GAAP basis measures is included in the press release announcing our fiscal 2022 third quarter earnings that was issued this afternoon.

Total revenue in the third quarter was $68.8 million, which was down 12% year-over-year and 13% sequentially. The decline in revenue is attributable to the ongoing global component supply chain constraints, as discussed by Jeff and Nathan. International revenue totaled $24.2 million or 35% of total revenues for the quarter.

Software and Subscription Services revenue was up 7% year-over-year to $36.6 million or 53% of consolidated revenue. But on a sequential basis, it declined from $41.4 million last quarter due to the completion of a large trailer retrofit project.

The year-over-year growth in our Software and Subscription Services business benefited from the continuing success in transitioning certain existing telematics device customers to recurring software contracts. In terms of performance metrics for our Software and Subscription Services business, annual recurring revenue for the trailing 12 months was $85.5 million, up slightly both from $85.2 million in the third quarter of the prior year and from $85.1 million last quarter.

As a reminder, ARR represents revenue from recurring application subscriptions and services, which excludes revenue from the hardware devices in a bundled arrangement with the customer that is recorded at a point in time or upon installation. Remaining performance obligations in the third quarter were $146.4 million as compared to $136.3 million in the prior quarter and $124.3 million in the prior year quarter.

This metric represents all contracted revenue, including deferred revenue and contracted but unbilled revenue related to bundled contracts with customers. We continue to see growth in our base of active subscribers, and our total number of active subscribers at the end of the third quarter was 1 million. The growth in our remaining performance obligations and subscribers reflects the increasing success of our program to transition existing customers to recurring subscription contracts as well as new logo generation.

Telematics Products revenue in the third quarter was down 28% year-over-year and 14% sequentially to $32.2 million. Although customer demand remained strong across all regions, the ongoing global supply chain constraints continue to limit our ability to source critical components necessary to meet all demand for our telematics devices.

Within the Telematics Products reporting segment, OEM products revenue increased 1% sequentially and decreased 16% year-over-year to $16.1 million. Our largest customer represented $14.4 million in revenue for the quarter, which is up 3% sequentially from $14 million last quarter and down from $16.4 million in the same quarter a year ago due primarily to supply constraints.

Demand remains strong at this customer in support of their 3G to 4G upgrade cycle. Consolidated gross margin from continuing operations in the third quarter was 40.7%, down from 42.2% last quarter, but was up from 39.8% in the same quarter a year ago. The sequential decline in gross margin resulted from higher fixed cost absorption across the lower revenue base in the quarter combined with an increase in component costs across both of our reportable segments.

Our non-GAAP operating expenses on an absolute dollar basis were consistent sequentially even with sales and marketing expenses increasing slightly due to our continued investment in expanding our software sales team to support our transition efforts. We will continue to maintain this level of investment in our core business to further our SaaS transformation efforts given the current customer demand and the record level of backlog we've seen over the past few quarters.

Although the supply challenges are impacting revenue in the short term, we believe it is important to remain properly positioned and well-staffed. We believe that today, we have the right software solutions roadmap to meet the future demand of our telematics services and solutions. That being said, we will remain prudent in our overall spend and continue to carefully monitor our expenses for any opportunities to make select reductions over time.

Adjusted EBITDA in the third quarter was $3 million with an adjusted EBITDA margin of 4% compared to adjusted EBITDA of $8.3 million and an adjusted EBITDA margin of 11% in the prior quarter. The decline in adjusted EBITDA is attributable to the decrease in sales coupled with an increase in component costs and freight charges.

Similarly, our free cash flow declined in the quarter due mainly to the lower revenue and further compounded by our efforts to transition customers to multiyear contracts, which changes the timing of cash flows as billings occur over the contract period rather than upon device shipment. This situation will be particularly relevant during quarters where larger customers transition to high-value recurring subscription contracts.

In terms of our overall liquidity position, at the end of the third quarter, we had total cash and cash equivalents of approximately $91 million as compared to $101 million last quarter. Additionally, we have an unused $50 million revolving credit facility. Meanwhile, our aggregate outstanding debt is approximately $237 million, including $230 million of the 2% convertible senior notes due in August 2025. We expect to maintain a strong financial position and balance sheet with significant cash for working capital going forward.

In reference to our outlook for the fourth quarter of 2022, we are maintaining our policy of not providing quarterly guidance. Visibility into product shipments in the fourth quarter remains uncertain due to the global component supply shortages, coupled with the timing of Chinese New Year in February.

With that, I'll turn the call back over to Jeff to provide some final comments before we open the call up for questions.

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

Thank you, Kurt. In summary, this is a challenging time for all of us. But the CalAmp team remains resilient and resolute in addressing the current supply chain challenges while focusing on enhancing our full-stack edge-to-cloud software solutions through a SaaS subscription model.

Our customers know us as a trusted and reliable partner, and we will remain diligent in solving their business needs through the telematics innovations we have developed and continue to develop. We are excited about our connected intelligence strategy of providing customers with AI-oriented actionable insights across all assets that move from point A to point B. So today, we are more confident than ever that our shift in strategy and our new focus will benefit our customers, and ultimately, our shareholders.

With that, I'd like to open the call up to your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from the line of Mike Walkley with Canaccord.

Thomas Michael Walkley - *Canaccord Genuity Corp., Research Division - MD & Senior Equity Analyst*

I guess, for the team, maybe including Nathan, with the Christmas holidays coming up and then Chinese New Year and what sounds like even more maybe challenging supply chain in the month of November, is supply even tougher into your Q4 than it was in Q3? Or do you think it's more stable? I know you're not giving guidance, but any color on kind of how things are for Q4 versus Q3 on the supply side?

Nathan Lowstuter - *CalAmp Corp. - SVP of Global Supply Chain & Operations*

Yes. Thank you for that question. This is Nathan. We are not providing guidance, but in general, we do not anticipate a quick snapback in the fourth quarter, and there may be additional downside risk should the current conditions and allocations not improve. But we are monitoring this very closely and working diligently with our suppliers.

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

Yes. And Mike, I think on just the environment that we're operating in, it's not like we're getting a 2- or 3-month heads up anymore. It's a much shorter duration, which made it -- has made it particularly troubling for us to make those estimates out in front, something like 3 or 4 months. But I'm convinced our team is doing everything we can to stay in close connection with our top vendors across all categories of our devices.

Thomas Michael Walkley - *Canaccord Genuity Corp., Research Division - MD & Senior Equity Analyst*

Okay. And then maybe an intermediate-term follow-up question. Just on some of the redesigns, qualifying new components, some of those plans, how long do those take to implement? And if successful, how do you see maybe supply improving over a 3- to 12-month period?

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

Yes, those definitely take more time to initiate within our supply chain. We're working on some of those today. It is probably more like a few months out. So it's --- is it going to help us in the fourth quarter? Probably not. But going into next year, the fact that our team has done a thorough analysis of our BOMs for all of our key products, and by the way, we have many fewer SKUs today than we did a year ago, that was very intentional to simplify the business, it will put us in a better position to forecast these products going forward. So I feel like, while it's not an immediate solution for our problem in the fourth quarter, it is going to result in some better long-term supply chain planning in our company go forward.

Nathan, you might want to comment here.

Nathan Lowstuter - *CalAmp Corp. - SVP of Global Supply Chain & Operations*

Yes, that's right for sure. And this isn't something that we're just starting now. This is something that we've been actively working with our product and engineering teams, coupled with our suppliers, making sure that our bills of material reflect their investment roadmaps. And as we look to make sure that we're skating to where the puck is going to be to maximize the allocation possible.

Thomas Michael Walkley - *Canaccord Genuity Corp., Research Division - MD & Senior Equity Analyst*

Great. Last question for me, then I'll pass the line. Just -- it sounds like your backlogs remain at or near record levels. So it appears your customers are sticking with you, but any sense your customers are looking for dual suppliers or new suppliers, just given the tightness in the market and your ability to meet their needs?

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

Yes. I mean -- this is Jeff, Mike, I think that there's definitely some of that going on out in the marketplace today. But I think without fail, customers are finding out what we know to be broadly true that this is a broad-based supply chain shortage that's affecting a number of different suppliers, including us. So to me, my view of it is there's no easy answers. If there were easy answers, those would have been solved months and months ago when this whole thing started.

Nathan, give your perspective, please?

Nathan Lowstuter - *CalAmp Corp. - SVP of Global Supply Chain & Operations*

Yes. I think we have seen -- we've heard good feedback from customers related to our ability to work and support them through their constraints. Certainly, we're not able to meet all of the needs on our order book today at the rate that we'd like, but it's -- they understand and are reflecting a similar atmosphere that they see across the semiconductor world. So they may not like it at all the times, but they understand it and are working well with us through this.

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

A key thing, Michael, that you mentioned is that the backlog remains strong. And we've seen very few cancellations, which is another indication that customers really need our products, and we're focused on getting to them -- getting those products to them as quickly as possible.

When I look at this period, it's kind of an odd time where, yes, it'd be great to ship all this product and perform much better on the top line level, but at the same time, what we're making sure of is that we're making substantial progress on our migration. Remember, this transformation at our company started almost coincidence with the supply chain issue. So we've been working both, and I feel really good that the team is making progress on the transformation.

Thomas Michael Walkley - *Canaccord Genuity Corp., Research Division - MD & Senior Equity Analyst*

Good luck with the supply chain and happy holidays to everybody on the call.

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

Thank you, Michael.

Operator

Your next question is from the line of George Notter with Jefferies.

George Charles Notter - *Jefferies LLC, Research Division - MD & Equity Research Analyst*

I guess I wanted to ask, any sense for how much revenue was held up in the quarter due to the supply chain constraints?

Kurtis Joseph Binder - *CalAmp Corp. - Executive VP, CFO & Principal Accounting Officer*

George, it's Kurt. No, it's very difficult to quantify. We don't really -- and of course, we're not giving any forecast here right now. So I think at this stage, it's difficult to say. We know what the backlog is. When we look at our historical backlog, we've ranged anywhere from say $35 million to $40 million, and right now, we're 2.5x that. So the demand is strong. But in terms of when that demand can be materialized or aligned with supply, it's difficult to predict. So there's a lot of movement from week to week, from quarter to quarter. And so I can't sit here and quantify the exact amount that got pushed out.

George Charles Notter - *Jefferies LLC, Research Division - MD & Equity Research Analyst*

Got it. And then, I guess, I also wanted to ask about the transition process and what kind of feedback are you getting from customers. I guess I'm talking about the PULS to CTC DM transition. It sounds like you've got a few customers over the goal line here. But what is customer receptivity look like? And are there customers that are not moving forward with you guys? Give us the sort of range of outcomes you're seeing and how customers are viewing this.

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

Yes. Thanks for the question. We're seeing some pretty positive response from our customers in terms of understanding the new capabilities of our software, that's what gets them most excited. Keep in mind that they're trying to handle this in the middle of a supply chain situation, 3G, 4G. So there are always some complexity there. But I feel good today that, one, it's been 4, 5 months since we went out on these customer visits, all the executives here and had a direct dialogue with each of our customers. And I feel like we're making progress along the way. They understand what the journey is like. We've got some converted today. We've really got to scale that operation, and we're feeling good about our ability to do so in the next few months.

Kurtis Joseph Binder - *CalAmp Corp. - Executive VP, CFO & Principal Accounting Officer*

Just to emphasize, it does take a little time to educate them on the technology and the expanded capabilities that the new platform affords their business. As Jeff mentioned, we have converted a couple of customers here that are really important customers, and we're continuing to invest significant time to help our entire customer base understand how the transition is a win-win for all. But it will take a little time, and we're working extremely hard at it.

George Charles Notter - *Jefferies LLC, Research Division - MD & Equity Research Analyst*

Got it. And then just out of curiosity, what percentage do you think of your customer base that has made the transition? I assume we're just scratching the surface at this point or any percentage you can give us?

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

No, I don't think we -- I think we should stay away from our percentage. We have converted some big customers, 1 of our top 5 customers, but it really varies, and it's going to be a little bit uneven. We're going to be really focused on this over the next few months though to -- maybe we'll have some more clarity and be in a position to report percentages then, but now it's a little bit too early.

Operator

Your next question is from the line of Mike Latimore with Northland.

Michael James Latimore - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

On the software results in the quarter, were they in line with your expectations, little below? Just trying to get a sense of whether the supply chain had much of an effect on that.

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

Yes. We were real pleased with the supply chain sales in the quarter. As Kurt mentioned in his remarks, we are coming off a record software quarter with the large sale of equipment that we had with our big packaged customer. And knowing that, we're really pleased. We saw strength in K-12 connected car in transportation and logistics. So it was a steady quarter across the board, where our sales team really delivered, and 53% is a new high for us, I believe, in terms of software revenue as a percent of our total. And we expect that to continue to go up as we manage through this conversion.

Michael James Latimore - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

All right. Right. So should we think about the software business as stable or growing a little bit in the fourth quarter?

Kurtis Joseph Binder - *CalAmp Corp. - Executive VP, CFO & Principal Accounting Officer*

Yes, but we're not going to quote any forecasted information for Q4. The supply chain constraints that we're dealing with right now are pretty broad-based. Our software business is not completely immune from it. We like the way that the conversion of our customers is occurring and the pace in which that's occurring, which actually helps our software business. But at this point in time to kind of give guidance on Q4 regarding that part of our business, we don't think makes sense.

Michael James Latimore - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

Got it. Great. And just the comment you made about backlog, I think, being 2.5x normal. Can you just remind me when you saw the first big step up from normal?

Kurtis Joseph Binder - *CalAmp Corp. - Executive VP, CFO & Principal Accounting Officer*

I think when we communicated our fourth quarter of last fiscal year, we had seen a pretty sizable pickup where actually in the Q1 -- quarterly -- annual filing, we reported, I think, something north of $60 million in backlog. And from that point in time, it has continued to grow. And so we're not at record levels today because we have shipped on some of that, but we're at pretty high levels right now. And our historical backlog when you look -- this is on the device side, is ranged anywhere, I think, from $30 million to $40 million or maybe $35 million to $45 million, and it's up 2.5x that.

Operator

Your next question is from the line of Anthony Stoss with Craig-Hallum.

Anthony Joseph Stoss - *Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst*

Jeff, can you comment how many components within your products do you rely on a single source of supply from?

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

There's very few that we rely on a single source. Nathan, you can give some perspective on that, but it's not significant.

Nathan Lowstuter - *CalAmp Corp. - SVP of Global Supply Chain & Operations*

Yes. I mean we're using all the major players in the industry for radio module, GPS, et cetera. There's no real wildcard in that basket. So we are well diversified, but we are working with the, the best industry players. So to that extent, if you think about upstream levels, we may have multiple approved vendors for a particular type of component. While we get to the upstream wafer level, you're talking about really the same players across the board. So it depends on what -- at what level you're talking about. But at the wafer level, there's very few global players, and they're the ones that production capacity and output is really dictating the pace of the industry.

Anthony Joseph Stoss - *Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst*

Okay. Maybe I'm confused. I'm just trying to get more clarity on. I think in the prepared remarks you talked about discontinuation of products from your suppliers. I'm wondering if that's what's led to the redesign, hence it's going to take some time to actually get products to customers.

Nathan Lowstuter - *CalAmp Corp. - SVP of Global Supply Chain & Operations*

I understand your question. So if you think about the broad base of products that we have in our portfolio and the general world of electronics, there's a product life cycle for components and then some reach maturities. There is a natural end-of-life phase. As the industry is working to maximize output, we have seen an acceleration of that product life cycle phase to include some advanced notices of end-of-life components, which we are working to qualify or redesign or find alternatives to enable us to continue to source. But the fact that we have a portfolio of products, we can within certain ranges mix and match for customers to serve their needs.

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

Yes. Thanks, Nathan. Lessons learned in this stuff is always to take a long view of your -- all your BOMs across the industry. And I think you'll not only see CalAmp, but others in the space as some of these ELA, EoL notifications come out to do as much as we can in front of any kind of crisis. And believe me, we've never seen anything like this is to make sure that we've got a list of BOMs that are -- have a long life ahead of them, and they'll put us in a difficult situation. That's just 1 aspect to the supply chain situation that we're in, but I think the team is navigating it quite well.

Operator

Your next question is from the line of Scott Searle with ROTH Capital.

Scott Wallace Searle - *ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Happy holidays, guys. Real quickly, Kurt, I'm not sure if I heard it, but gross margins actually seem like they were okay overall, but I'm wondering if you could quantify any sort of the gross margin impact as it related to component pricing, freight issues or otherwise.

And also, Jeff, from an end-of-life for 3G timeline, is there any reprieve on that front at this point in time? Are you starting to hear that things will get pushed out to be a little bit longer in terms of your customers for their upgrade cycles?

Kurtis Joseph Binder - *CalAmp Corp. - Executive VP, CFO & Principal Accounting Officer*

Sure. So, yes, Scott. So on the gross margin, it generally -- we are pleased with the overall consolidated gross margin recognizing that in the second quarter we had exceeded 42%. So sequentially, it was down slightly. In the short term, it's difficult to project our margins because there are some uncertain conditions in the supply chain that we're dealing with. And as we talked about in some of our remarks, there's an increase in cost of components out there that we're working through, and I know Nathan's team is all over it.

But generally, we're making progress. You know that our long-term model targets gross margin around 50%. But that's also supported by a continued increase in our overall percentage of Software and Subscription Services revenue. So as long as we keep executing to drive the percentage of our Software and Subscription Services revenue higher and higher to hit that -- well, now probably more closer to 60% target, I [got to] think our margins will improve. But in the near term, there are some other uncertainties that we're dealing with, and we'll be working through those over the next, I think, few quarters.

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

Yes. And on the question on the 3G conversion. AT&T 3G conversion is still scheduled for the end of February. While we continue to talk to AT&T, as I'm sure they're getting out similar discussions from other players in the field because of the supply chain crisis, no one is really as far along on the 3G conversion as they'd like to. But to date -- and remember, when we talk about AT&T 3G, we're talking about North America. The rest of the world is a whole different set of standards and end of life.

And then in the case of the other big carrier in the U.S., we've got more time for that, which I think will be helpful as we can -- gives us some time to work out from some of these supply chain challenges that we're seeing today. But as far as I know, latest I've heard, Nathan, this February 28, there's -- no one is giving us any reason to be -- believe that there's going to be a reprieve from that day.

Nathan Lowstuter - *CalAmp Corp. - SVP of Global Supply Chain & Operations*

Yes. They understand the situation in the industry. But thus far, they've held firm with their date.

Scott Wallace Searle - *ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

And Jeff, maybe to follow up on that. What's the latest number of your estimate in terms of installed 3G devices out there from CalAmp that need to be upgraded in the timeline?

And maybe, Nathan, for you. And just -- I think you got asked and I'm not sure if I missed the answer. But in terms of the requalification process as you start to bring in other components and/or other modules into your products, what -- how long is that cycle to go through a recertification process with carriers?

Nathan Lowstuter - *CalAmp Corp. - SVP of Global Supply Chain & Operations*

Well, it does depend a bit on what the type of changes and at what level of the BOM we're talking about components. So if there are simple components, then there may not be much time required at all. It may just be a fairly simple validation and test process, but for the higher-level components it can take between 3 and 9 months depending on the type of qualification to do the testing, validation and recertification.

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

Yes. And as it relates to -- when you look across our customer base, it's a little bit of a complicated problem because we have customers with AT&T. We have large customers that have tended to move very quickly as it relates to 3G. What I'm more concerned about longer term in this February timeframe is some of the smaller customers out there, they'd either -- because they didn't have the capital funds available at the time are a bit behind on this 4G conversion.

So -- and then it's difficult, right? Because we have probably an equal number of customers on Verizon that has a different shutdown date entirely. But I mean what's important to us is that we stay very close with our customers, and I know our sales team and some of the execs here are talking with CEOs of their companies understanding what it is, exactly what's in front of them and how we can help them, how can we get resourceful as a partner to help them avert any kind of crisis on February 28.

Scott Wallace Searle - *ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Okay. And lastly, if I could, Jeff. Samsara has gotten a lot of attention in the past week or so. I was wondering if you could address it competitively in terms of what you're seeing from the competitive landscape, where they kind of fit into the overall equation and kind of how you see them in head-to-head or otherwise?

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

Yes. I mean, Samsara is a great company. And in a lot of ways, I think it's a great thing that they get recognized as such with the $12 billion valuation. But I do think when you look at a company like CalAmp, there are very many similarities. You heard Kurt talk about ARR and our RPO statistics. I mean we're an incumbent legacy company that's making the conversion. It's always easier to do so as a unicorn. But nonetheless, when you look at CalAmp's business, it's not unlike what you see at Samsara. We're solving complex problems for customers today, providing insights and competing them -- competing with them in many cases head to head and doing quite well.

So -- I mean, I'm taking nothing away from the incredible marketing machine that those 2 founders have built. I'm proud of what they've built. They've made us all better because of it. But don't lose sight of the fact that there's some companies out here, 1 of which is CalAmp that has a very significant software business today that's solving very complex problems at scale for some of the biggest brands in the industry and have a valuation discrepancy that large makes absolutely no sense to me.

Operator

(Operator Instructions) Your next question is from the line of Jerry Revich with Goldman Sachs.

Adam Samuel Bubes - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

This is Adam on for Jerry Revich today. I was wondering given increased component costs how extensive the magnitude of price increases was that you put in across your customer base during the quarter? And did you see any elevated level of churn as a result?

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

Yes. I'll start and let Nathan jump in. We announced last quarter that we did a pretty extensive across-the-base price increase to accommodate some of those increases that we saw. And speaking as the CEO, we received very little feedback. Of course, we had questions from consumers, but most of our customers who are more in the mindset of how can we solve the problem getting us equipment in time that will be fine for 4G and not a lot of pushback on the prices.

Nathan Lowstuter - *CalAmp Corp. - SVP of Global Supply Chain & Operations*

Yes, it is true that we've seen a more rapid price increases across the board over the last couple of quarters on the material side as well as logistics. I think early on in the year, we maybe lagged a little bit in terms of how we pass that on, but we've gotten better at learning how to partner with customers to participate in those broker buys as needed and to pass through some of the price inflation that we're seeing, and it's still an ongoing discussion topic.

Kurtis Joseph Binder - *CalAmp Corp. - Executive VP, CFO & Principal Accounting Officer*

Yes. The approach we took back in, say, our first quarter was we applied a broad-based, I think, 3% to 4% increase across all of our customers. Since then, prices have continued to increase from there. And now what we're doing is we're becoming a little bit more specific in that as customers request or demand product and we perform allocations in the event that there are incremental cost increases that need to be passed on. We work with them directly to have them accept those cost increases before we move to process their orders. So rather than take a broad base, it's more customer-specific. However, as things continue to evolve in the supply chain, we'll be reevaluating our approach quarter-to-quarter.

Adam Samuel Bubes - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Okay. That's clear. And then margins in telematics have been choppy recently as a result of supply chain impact. Can we just revisit how you think about normalized margins in this segment once component shortages start to ease?

Kurtis Joseph Binder - *CalAmp Corp. - Executive VP, CFO & Principal Accounting Officer*

Well, again, our outlook on gross margin is heavily dependent on our ability to accomplish 2 real things. One, we use the term convert the base, which is essentially taking our existing customers and moving them into a subscription model. That is what we've been working on diligently, and we've made, I think, some really good progress here over the last quarters -- few quarters.

The second thing is really our ability to drive new logos and have those new logos be in full-stack solutions where we know we can generate gross margins north of 50%. In select market verticals, like, for instance, K-12 that govern municipalities, we're already generating that type of margin profile. So for us, it's more around the concentration of revenue coming out from software and subscription service arrangements versus the device business.

So we'll reiterate again, our medium- to long-term target is to have gross margins in that 50% range given that in all of our scenarios with customers we will have a device element in the overall bundled arrangement. And depending on the magnitude of the service and the solution that we provide, the margin profile could increase from that 50% target upwards to 60%, 65%, again, depending on the solution. But we want to just reiterate that our target right now is a 50% gross margin based upon a mix-up in overall revenue to software and subscription services.

Operator

(Operator Instructions) Speakers, I don't see additional questions at this time. I will now hand the conference over back to Mr. Jeff Gardner for closing remarks.

Jeffery R. Gardner - *CalAmp Corp. - President, CEO & Director*

Thank you, Paul. Thank you for joining us on the call today and for your continued interest in CalAmp. One final note, Kurt and I will be participating in the Needham Growth Conference on January 11. If you'd like to request a meeting, please contact your Needham representative or our IR firm, the Shelton Group. We will be releasing our fourth quarter and full-year operating results in April of next year. Until that time, all of us at CalAmp wish you a happy holiday season. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for joining. You may now disconnect. Happy holidays.
