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PRESENTATION

Operator

Welcome to the CalAmp's Fourth Quarter and Full Year 2022 Financial Results Conference Call. As a reminder, this call is being recorded.

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

Joel Achramowicz

Good afternoon, and welcome to CalAmp's fiscal fourth quarter and full year 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; and Chief Financial Officer, Kurt Binder.

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 are subject to risks and uncertainties that could cause actual results to differ materially from those implied by these forward 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, and 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 thanks to all of you for joining us on the call today. We ended our 2022 fiscal year with Software and Subscription Services revenue of $41.2 million in the fourth quarter, representing a record 60% of our total consolidated revenue of $68.4 million. Total revenue in the quarter was essentially flat with the prior quarter as the strength in our Software and Subscription Services revenue offset a decline in Telematics Products revenue. This represents the third consecutive quarter our Software and Subscription Services revenue exceeded 50% of total revenue.

Our SaaS business remains strong as we continue to transition an increasing number of our Telematics device-only customers to recurring subscription contracts with our new device management SaaS application, while also securing new logos. In the fourth quarter alone, we converted approximately 1/5 of our eligible device customers to recurring contracts, and we expect to convert the remainder over the coming fiscal year. Our efforts to bring in new subscription business is evidenced by securing of new customers such as ConMet and Cooltrax and a recently announced strategic partnership with Noregon, among others.

The partnership with U.S.-based Noregon includes extensive collaboration in remote diagnostics and preventative maintenance. Together, Noregon aims to blend real-time data insights from CalAmp's edge computing products, powered by EdgeCore, and the CalAmp Telematics Cloud platform with predictive algorithms in Noregon's TripVision remote diagnostic software. We will also be integrating Noregon's TripVision with our iOn Fleet and Asset software applications. And our joint customers will gain a comprehensive view of their tractors, trailers and cargo in real time, while also having recourse to advance vehicle diagnostics to ensure fleet and driver safety. These key features of this solution provide preempted alerts of vehicle issues before critical failures occur, thus preventing costly vehicle downtime that can significantly impact productivity and profitability.

We also continue to make progress in our targeted international markets as our relationship with Toyota, which started in Italy in 2019, has culminated in an expanded partnership with our recently established LoJack Espana subsidiary in Spain. Now, Toyota customers in Spain will also have access to CalAmp's best-in-class stolen vehicle recovery services enabled by direct collaboration with local law enforcement. The partnership will also go a step further as well by offering LoJack SVR services through KINTO One, a leasing car sharing service and through Toyota Insurance Services, or TIS. TIS will offer LoJack SVR services as an integral part of underwriting insurance policies for Toyota models such as RAV4, Highlander, and Land Cruiser. By including SVR, as part of these insurance policies, customers will enjoy lower premiums. Finally, the Official Dealer Network of Toyota Spain will market LoJack SVR services directly through Toyota Custom, with Toyota Original Accessories program.

More recently, we announced that our long-term relationship with BMW has proven to be a great success over the past 2 years as we have successfully delivered security solutions for the entire range of BMW Group vehicles sold across Italy. Today, LoJack's Stolen Vehicle Recovery System is offered as an option on all BMW Group models to improve security and peace of mind for BMW Group customers. Over the past 2 years, a growing number of motorists have decided to protect their BMW Group vehicles with LoJack's unique technology. And this trust has been fundamental to the development of new capabilities that will set unprecedented standards in Stolen Vehicle Tracking. This includes a forthcoming GPS-based solution with additional features such as a smartphone app, an intelligent driver tag and engine lock capability operated by LoJack's Secure Operation Centers after the occurrence of a theft. The complete solution is based on CalAmp Telematics Cloud platform and edge computing technology and is integrated with connected car data coming from the BMW Group's Connected Drive OEM platform and accessible by the customer through their smartphone app.

Unfortunately, our business continues to be impacted by the ongoing global component supply chain constraints. However, as outlined last quarter, our global supply chain and operations team is engaging in a number of initiatives to address these shortages. Additionally, we are accelerating our next generation of edge device products that also align with suppliers' investment road maps to ensure access to critical material supply for years to come.

In summary, I am very proud of the team's execution throughout the quarter and the success in transitioning customers to recurring subscription contracts while also securing new logos, partnerships and ultimately, more subscribers.

Now I'd like to turn the call over to Kurt to discuss our financial results in more detail. Kurt?

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 fourth quarter and full year earnings that was issued this afternoon.

Total revenue in the fourth quarter was $68.4 million, essentially flat from $68.8 million in the prior quarter and down 17% from $81.9 million in the same quarter a year ago. For the full year 2022, revenue declined 4% to $295.8 million from $380.6 million in fiscal 2021. The year-over-year declines in both quarterly and annual revenue were attributable to the ongoing global component shortages, limiting our ability to fulfill orders despite backlog remaining at near record levels. Additionally, we are accelerating customer conversions to recurring software subscription arrangements, where in certain instances, revenue is recognized over the contract term rather than recorded all upfront. I will talk more about these new recurring subscription contracts in a minute.

International revenue in the quarter totaled $21.3 million or 31% of total revenues and $98.7 million or 33% for the 2022 fiscal year. The revenue breakdown by vertical market for the year included $130.7 million for Transportation and Logistics, $62.6 million from Industrial/Heavy Equipment, $60.3 million for Connected Car and $42.2 million from Government and Municipalities.

Highlighting the quarter was our Software and Subscription Services business, with revenue increasing 19% year-over-year and 13% sequentially to $41.2 million, representing a record 60% of consolidated revenue. For the full year, our Software and Subscription Services revenue grew 19% to $154.3 million from $129.9 million in the prior year. The year-over-year and sequential growth in this business reflects the success we've achieved in converting eligible telematics device customers to recurring subscription contracts, combined with new logo generation. In the fourth quarter alone, we converted approximately 1/5 of our total eligible customers, and we expect to convert the remaining customers to multi-year recurring contracts by the end of the current fiscal year.

In terms of performance metrics for our Software and Subscription Services business, we are focused on growing our Remaining Performance Obligations, or RPOs, which is defined as all contracted revenue, including deferred revenue and contracted but unbilled revenue related to bundled contracts with customers. This metric reflects a forward-looking assessment of the total value of active subscription contracts; it enables measurement of our progress in our business transformation; and it serves as an indicator of future revenue growth.

Remaining Performance Obligations in the fourth quarter increased 47% to $200 million compared to $136.5 million during the same quarter a year ago and was up 37% from $146.4 million in the prior quarter. We expect to recognize over 45% or approximately $90 million of this obligation in this fiscal year. This represents great progress driven by our ability to transition eligible telematics device customers to subscription contracts. Additionally, as a result of these efforts and the new logos we secured, our base of subscribers grew to $1.1 million in the fourth quarter, up from $954,000 in the same quarter a year ago and 1 million subscribers in the prior quarter.

Our Telematics Products revenue in the fourth quarter was $27.1 million, which was a decrease of 43% year-over-year and 16% sequentially. For the full year, Telematics Products revenue totaled $141.5 million compared to $178.7 million in 2021. Although we exited the year with near record levels of backlog for our products, the ongoing supply chain shortages limited our ability to fully ship against this demand. However, we remain cautiously optimistic that the current supply environment will ease at some point this fiscal year, and we are using this time to focus on accelerating the conversion of our customers to recurring subscription contracts.

Within the Telematics Products reporting segment, OEM products revenue totaled $10.4 million in the fourth quarter, compared to $16.1 million in the prior quarter and $23.4 million in the same quarter a year ago. For the full year, OEM revenue was $62.7 million compared to $74.4 million in 2021. Our largest customer represented $7.9 million of revenue for the quarter, which was down from $14.4 million last quarter and $18.6 million in the same quarter a year ago. For the full year 2022, revenue from this customer was $53.7 million compared to $59.6 million last year. Though demand remains strong in support of the 3G-to-4G upgrade cycle, the supply chain shortages have continued to limit our ability to fully ship all booked orders. However, our current backlog with this customer suggests that estimated shipments will be more in line with historical shipment levels.

Consolidated gross margin in the fourth quarter was 41% and consistent with last quarter and 42% in the same quarter a year ago. For the full year of fiscal 2022, gross margin increased to 41% from 40% in 2021. Gross margin in the quarter continues to reflect the increased component costs across both of our reportable segments that are not being fully offset by the pass-through of price increases since these generally take a couple of quarters to implement.

For the full year of fiscal 2022, non-GAAP operating expenses as a percentage of revenue and on an absolute dollar basis increased year-over-year as we emerged from the strict cost control measures brought on by the global pandemic, while also attempting to meet the solid customer demand that arose over the past 18 months. In the fourth quarter, non-GAAP operating expenses as a percentage of revenue and on an absolute dollar basis, declined sequentially and year-over-year due to lower personnel and incentive compensation expense as our global employee base declined by approximately 5% from last quarter.

Adjusted EBITDA in the fourth quarter was $5 million with an adjusted EBITDA margin of 7%, compared to adjusted EBITDA of $3 million and a margin of 4% in the prior quarter, and $9.9 million or 12% in the same quarter last year. For the full year, adjusted EBITDA totaled $24.7 million or 8% of revenue compared to $32.1 million or 10% of revenue in the prior year. The sequential increase in adjusted EBITDA in the fourth quarter was attributable to lower operating expenses quarter-over-quarter. The decline in adjusted EBITDA year-over-year was due mainly to lower revenue compared to the prior year.

Free cash flows was also under some pressure in the quarter due to the prolonged decline in shipment volumes attributable to supply constraints, coupled with 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. We expect to experience similar effects but in a lesser extent in the upcoming quarters as we complete customer transitions to multi-year recurring subscription contracts.

In terms of our overall liquidity position at the end of the fourth quarter, we had total cash and cash equivalents of approximately $79 million as compared to $91 million last quarter. Additionally, our unused $50 million revolving credit facility was extended to June 30, 2022, as we negotiate the final terms of the longer-term credit facility. Our aggregate outstanding debt is approximately $234 million, including $230 million of the 2% convertible senior notes due in August 2025. We do expect to maintain a strong financial position and balance sheet with solid cash for working capital purposes going forward.

In reference to our outlook for the first quarter of 2023, we are maintaining our policy of not providing quarterly guidance. The ongoing customer conversions to subscription contracts, along with the uncertain nature of the current global economic situation make it very difficult to project revenue recognition in coming quarters.

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

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

Thank you, Kurt. In summary, we are advancing our transition of CalAmp to a recurring software subscription company, and we're making significant progress. Our efforts have been met with increasing success and we now enter the new year well positioned with historically high levels of backlog combined with a robust portfolio of solutions, an expanding partnership road map, and a solid cadence of customer conversions to recurring software contracts.

With that, I would like to open the call to your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from the line of George Notter with Jefferies.

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

I guess, very interested in the transition to subscription. I assume when you talk about eligible devices and moving 1/5 of your customers. I think on the telematics side, I think you're talking about the PULS to CTC transition. Is that correct? And then maybe talk about what's in it for the customers? Are you getting pushback on that transition? What does that look like for you guys?

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

Yes. George, this is Jeff. Thank you for that question. Yes, exactly. It is transitioning from PULS to DM CTC for our customers. And there are many advantages, which we've spent a great deal of time going over with our customers, everything from improved security to their ability to update devices over the air in much higher volumes than they're able to do today, it just gives them much better device management capabilities. If you think about what we're doing here is shifting from a 15-year-old software product to one that is built on all the latest software, which has tremendous capability going forward and will allow them to really provide the kind of insights to their customers that they would otherwise not be able to do. So, while it is a transition for the customers, they've been on PULS for a long time. At the end of the day, I've been very pleased that once we go out and spend time with the customers at how excited they were. Just last week, I was on the phone with one of our largest customers who was -- their technical folks were tremendously excited about the potential of the new product and how that fits into their road map going forward. So I think that our sales team is doing the hard work to convince them of the advantages of our new product, CTC DM and our customers are migrating well ahead of our expectations. I'm very pleased with what we've been able to do.

If you think about our business for the last 5 or 6 years, we've talked about really transitioning to a software business and now it's exciting because we're absolutely seeing it happen. And so it's fair to say with all these transitions, we've been successful to date, 100% and converting our customers over to the new service, and we have an ambitious schedule in the next quarter and as I mentioned on the call, we expect to fully complete this with very little customer loss throughout the fiscal year 2023.

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

And George, to the other question you asked regarding the eligible customer, you're correct. When we define the MRM Telematics customers, these are our device customers that we've historically sold telematics devices to. They are the customers that we're targeting to move over, and that's the universe of customers that we've defined 1/5 have transferred over in the fourth quarter.

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

Do you know how many devices that represents that universe of an installed base of eligible devices?

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

I don't know the number of devices. I can tell you that we have about -- we estimate 60 to 65 customers in this space that we're looking to target to move over. And of that number of customers, we were successful at somewhere between 13% and 15% in the fourth quarter.

Operator

The next question comes from the line of Scott Searle with ROTH Capital.

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

Maybe to attack the telematics side of the equation was a rough quarter, certainly component availability issues. I'm wondering if you could dig in a little bit deeper, what did you leave on the table unable to ship because of component availability? I'm not sure if I heard a gross margin number, but kind of looking at the overall blended gross margin for the company, I would have thought it would have been higher if the telematics gross margins have been in the same ballpark. So can you help us out on that front. And I think you also indicated that you expect Caterpillar to bounce back to normalized levels. So I just want to clarify that and what you kind of think normalized levels are? And then I had a follow-up or 2.

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

Sure, I'll take that. So Scott, a couple of things to highlight. So first off, we did disclose that in terms of our overall backlog, when you include both our RPO, or Remaining Performance Obligations with our device backlog, our total backlog in aggregate was about $285 million, which, as we mentioned, is an extremely healthy backlog. On the device side, that's about $80 million to $85 million of potential revenue. So we believe that we had plenty of additional demand to ship against. But unfortunately, the supply was not there for us.

So in terms of what we left on the table, it's hard to quantify, although I can just say that we believe that the overall device backlog is very healthy right now. And it's because of a number of reasons. Obviously, we've talked about the 3G-to-4G upgrade cycle. But a lot of our customers are anxious to get more product and we're doing everything we possibly can. In particular, Caterpillar or I should say, our largest customer. The fourth quarter revenue was about $7 million to $8 million. And when you look at our historical quarters, that typically runs somewhere between $13 million and as high as, say, $17 million, $18 million a quarter. So we were down from historical levels, albeit that was again driven principally because of supply constraints. The backlog there for Caterpillar continues to be very healthy, and we anticipate that we will rebound to more relevant levels when you look at our historical levels.

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

Okay, Kurt, just a follow-up to...

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

Go ahead.

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

I'm sorry, is there a timeline associated with that recovery, Kurt? And then I think you're going to answer the gross margin question.

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

Yes. Well, the timeline, Scott, is heavily predicated on what's happening in the supply chain. We do -- I should say we're cautiously optimistic that things will start to rebound a bit with the supply chain at some point during fiscal 2023, but it's hard to say exactly when. What I was going to respond to was the other question regarding gross margin. Our gross margin had been in the 41% range here as of late. We're -- given the backdrop of what's happening with inflation, component cost, fuel cost, labor cost, we feel like that's a pretty good gross margin relative to this backlog. Now that being said, as we mentioned, I believe in the third quarter, we did institute a program to pass on a number of the cost increases. That program went effective during the fourth quarter and has been continuing. We expect to see some return on that effort more so in the first half of fiscal 2023 as those price increases pass on through to our customers.

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

Got you. And if I could follow up on the -- sorry, go ahead.

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

Go ahead, Scott.

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

No, no, no, sorry, I was going to roll into another question, so I'd love to get your thoughts.

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

Yes. Just a few things to add to what Kurt said. Fair to say, as Kurt mentioned, we came nowhere close to fulfilling our demand. I will say that our team is doing an excellent job providing transparency with our customers. It's a difficult time, but we're on the phone with them every day as these customers are managing through important network initiatives like 3G-to-4G conversion. We're doing our best to get them products so that they can continue to manage their business effectively. So as hard as it is to believe or say, we are doing a very nice job maintaining good relationships with our customers in a very difficult time. And when I look at the business overall, we're not unique in this regard. We're seeing very few, if any, canceled orders as a result of this. So we're very enthusiastic about the backlog and committed to working with our customers every day. Kurt and I and all the executives here, along with our sales teams are spending much of our time communicating with our customers, working with our suppliers to do the very best job possible.

On Caterpillar, more of the same. Caterpillar is buying everything that we can build. We're working with them very closely. We've had very good conversations with Caterpillar to work together with vendors and suppliers to improve the supply as necessary. And so when Kurt says, getting back to normal levels, the demand is there for Caterpillar. They're still managing very effectively the 3G, the 4G transition. Our quality is very good there and our relationship with them is very strong.

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

Okay. Very helpful. And if I could just follow-up on the software subscription and services side. It was a big sequential step up in the quarter as you indicated, it looks like there's a lot of PULS conversions going on over there. Are there any one-time benefits that occur in there, either a one-time software sale or something else that to call out to note? And then in terms of that mix, it sounds like it's in the ballpark of around 100,000 connected devices added during the quarter of subscriptions. How much of that was from that 1/5 conversion of the PULS space?

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

Well, I'll start and let Kurt add in some color on that. But I would say that there's not a lot of one-time as we're negotiating these agreements with our customers, these MSAs or enterprise agreements, we're negotiating 3-year commitments with these customers. So longer-term commitments that include a bundled solution that includes the device plus software. So this is solid revenue. It's one of the reasons our RPO grew so nicely. So not much in terms of one-time. I think we're pretty happy that we were able to get to 20% of our customers' embedded base in the quarter, and you can expect more of that throughout 2023.

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

And Scott, to your last question regarding the subscribers, yes, we added just north of 100,000 subscribers. And I would say a good portion of those were attributable to these customers that we converted over to the subscription-based model.

Operator

Our next question comes from the line of Mike Walkley with Canaccord Genuity.

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

Just a follow-up. I know you're not giving specific guidance, but just thematically, how should we think about Telematics Systems revenue in fiscal '23, if you're successful with the MRM conversion, does that MRM hardware line theoretically go to 0 exiting the year and all that revenue then comes into your Subscription Services line? Just any color to think about how we should model the hardware business over the course of '22 would be helpful, just directional?

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

Yes, Mike, thanks for the question. So within our Telematics Products reporting unit, we have a combination of customers, when you look at our legacy customer description, the MRM Telematics customers as well as our OEM customers, including our largest OEM customer. So as we convert the base of our customers over to software and subscription services, the majority of the legacy MRM Telematics device customers, we do expect to move into our software subscription services reporting unit and to be engaged in multi-year, typically 3-year contracts, whereby they are procuring our device-enabled solutions, which includes the device plus access to our platform through our device management CTC services.

In addition to that, what we've been doing with these customers is working to get longer-term commitments out 3 years, whereby we have greater visibility to procure the necessary devices to deliver on those services. And so the multi-year contracts have the benefit not only of moving them into software and subscription services but also to give us that visibility so we can better manage our supply chain in the future. So that's a huge advantage to us.

But in terms of your question around how that trends in the business, we do not believe that our entire Telematics Products business will go to 0. We expect that there will be a base of customers that will remain as device customers. Those device customers will most likely be in the form of like high-volume OEM customers who purchased devices that are highly configured to a particular use case and are done so such that the development of those devices make them somewhat sticky. So I would expect that over time, yes, that Telematics Products business will decline as we cannibalize it, move it into software and subscription services, but it will eventually get to a baseline level where it's primarily servicing these larger OEM customers.

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

Yes. And I think from a business perspective, something that we've been trying to accomplish for some time is to put ourselves in a position where all all through purchases with CalAmp with the exception of our large OEM customers will include a multi-year subscription. And it feels good to be there. We feel confident about continuing this throughout the year. And ultimately, feel better about when you look at our RPO and our SaaS growth, hopefully, investors are getting a good feel that we're moving towards more of a recurring revenue business, which is what they're looking for us to do. So we're feeling good about making progress. That is really the most important part of our transformation.

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

That's helpful. I'm just trying to understand the mechanics of the model between the 2 divisions. And then from gross margin trends between the 2 businesses, how should we think about that? Or should we just kind of think that this 41% level is a good level to stay at over the intermediate term as a combined company?

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

No. I think in the short run, we're seeing some component cost increases. We're trying to offset those. A bit delayed because we passed on price increases a couple of quarters after we see increases in the base. So we're trying to keep up with that. But ultimately, Mike, what we're trying to do and the whole reason that we're moving to the software recurring business revenue is that, that revenue is definitely more profitable. And our software businesses tend to be 50% and above compared to historically our telematic devices revenue more in the low 40s. So over time, as you see us progress. Now we're up to 60%. We expect that to continue to increase. You should see a similar move in our margins going forward.

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

Understood. Makes sense.

Operator

Our next question comes from the line of Mike Latimore with Northland Capital.

Aditya Dagaonkar

This is Aditya on behalf of Mike Latimore. Could you tell me, has the war in Ukraine kind of affected any of your international revenue? Has the demand in Europe slowed down because of the war?

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

No, we haven't seen any significant effects. There's some tertiary impact from the Ukraine suppliers, but it's not a big part of our business. So we're much more focused. Our supply chain is pretty diversified. If you think about CalAmp 3 years ago, we are primarily relying on China. Now we have 4 or 5 locations, mostly in Asia, one in Mexico that are providing our supply. So very little impact from Ukraine. We're paying a lot of attention to that today. But to date, it's not caused us any significant problems.

Aditya Dagaonkar

All right. Could you also give some color on the sales cycle? Has the inflation or any of the macro concerns elongated the sales cycle?

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

No, I think with our sales cycle, yes, I mean, I guess to be fair, yes, in some regards, we're spending a lot of time with our customers talking to them about component prices, et cetera. And we have passed on PPB or price increases that requires our sales team to do extra effort. I don't think it's kept them away from moving forward with our MSAs. You saw that we made great progress on that in the quarter. So I feel like going forward, the sales cycle with the MSA and the focus on software going forward requires a bit more expertise. It's a more complicated solution sell, but our team is navigating it nicely and gaining confidence every day as we continue with the solution selling methodology.

Operator

Our next question comes of line of Orin Hirschman with AIGH Investment Partners.

Orin Hirschman

In terms of being able to project on recurring, I realize you're not giving guidance, but what's the difficulty in terms of projecting on the recurring part of your business? Is that being components of -- component supply is also shortchanging that part of the business in terms of transitioning over to customers? Is that a difficulty in projecting it? Wouldn't there be some base-level projection that you kind of know that much of it?

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

Well, it's a couple of things there Orin. I think the first off is, as you can imagine, there is a challenge just forecasting out the conversion of telematics device customers over to Software and Subscription Services contracts. We do have a road map of when we anticipate customers will convert, but the sales process and the discussions, they are a bit more complicated and take some time. So we want to make sure that we work through those matters with our customers and they're comfortable with making that conversion. The second thing is that, as you know, our solution is a device-enabled solution. So the actual delivery and activation of our solution does require the shipment of devices. We have been working very hard to ensure that the allocations of our devices to our subscription-based customers are good or healthy. But that still has an impact on our ability to forecast in the future. So there are a couple of complexities here that we're just managing through, which is limiting our ability to give guidance at this time. However, we do hope to get through these supply chain challenges and resume back to giving guidance towards the latter half of this fiscal year.

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

And all that aside, Orin, I would say that when I look at our quarter and where we stand today, and Kurt mentioned in his script that we have $285 million of backlog plus RPOs outstanding. And that should give investors a clear view that we are doing a really nice job driving our customers to committing to revenue going forward, and it should drive more consistent revenue over the coming quarters and years. So I feel really good about that. And I think as the supply chain improves, we're going to get more and more visibility. On average, that aside, we're getting much more of our business 60% today, recurring revenue, which will make that easier and more straightforward for investors to understand going forward.

Orin Hirschman

A couple of quick follow-ups. So are we to read from this that your recurring would have been even higher if you would have had more device -- physical devices available?

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

Absolutely.

Orin Hirschman

Okay. And just obviously, there's a natural layering in throughout the quarter of devices going live and revenue recognition. I mean is it fair to assume that there is some -- even if you ship no new devices, there's going to be a sequential uptick in terms of recurring, even if no new devices going live. Obviously, that's not a fair assumption, but just to make the point.

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

Yes. Well, that's the -- or to the benefit of the subscription model, we do not have only future looking commitments from our customers to these MSA arrangements to activate additional device-enabled solutions, but the installed base in and of itself provides an added layer of revenue. So you would expect that installed base to help build for revenue growth as well as to help enhancing our overall gross margin. So the answer -- the short answer to your question is yes. But our goal really is to continue to move forward on converting a larger and larger portion of that base of telematics device customers over, and we plan to do that over the next 3 to 4 quarters.

Orin Hirschman

And my last question, just on the size of the business. Just is there any ARPU calculation or something that would give us flavor for how successful you're being on the conversion?

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

Well, we don't publish any ARPU information at this time. We have indicated in the past that when you look at our business, the ARPU fluctuates depending on the type of solution we're providing. When you're providing a fully integrated solution, which includes the application, the platform and also our device-enabled firmware software, that has a higher ARPU versus customers that are just procuring or utilizing our baseline device management service. So depending on mix, the ARPU will fluctuate. But at this point in time, we haven't given any ARPU guidance, and we'll be looking and evaluating that in the medium to long term.

Orin Hirschman

Okay. And my last question is just -- you're hopeful that component shortages will begin to abate sometime during this year. I guess my question, can you tell -- we've heard from a number of companies that component shortages were abating on as lockdown started in China. Can you -- do you have a feel, even a qualitative feel as to what's related to still truly shortage of components versus things that have been ramping that got stopped in their tracks because of the lockdowns?

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

Yes. It's very hard to say. As Jeff mentioned, we have contract manufacturers that do the final phase of assembly in locations outside of China. However, a lot of our downstream components that accumulate up into the BOM are dependent on coming out of China from different manufacturers. So it's very difficult to say where or why the lockdown in China, how it's impacting our product. We do know that certain areas, things are easing, but because of the continued struggles around the pandemic, especially in certain areas of China, it continues to be a challenge for us. So we're watching it very closely. We're taking measures to try to circumvent this situation, but it's difficult to say what's causing each layer of the supply chain challenge.

Operator

(Operator Instructions) Currently, there are no additional questions waiting in queue. I would like to pass the conference back to Jeff Gardner for any closing remarks. Excuse me, I do apologize. We do have a question from the line of Jerry Revich with Goldman Sachs.

Jerry David Revich - *Goldman Sachs Group, Inc., Research Division - VP*

Kurt, I wonder if we could just put a finer point on what the subscription business might look like in 12 months once the transition is complete? So this quarter, you folks added 46,000 subscribers and that is based on 20% transition, so essentially 12 months from now, how should we be thinking about a 1.2 million subscriber base and revenue rate that's a run rate that's commensurately higher for the subscription business compared to today? Is that a reasonable rough framework without getting into the unit economics that you mentioned you've been wanting to get into in prior discussions.

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

Yes. Jerry. Yes, so to answer your question, so we do see that the Software and Subscription Services business continued to grow. We were extremely pleased with the fact that in the fourth quarter, we were able to get our software and subscription revenue to 60% of our overall consolidated revenue. In our medium- to long-term model, that was a key metric for us. And so although the full-year concentration of SaaS was only about 50% to 52%, our goal is to get that number to 60% over the next couple of quarters. With that in mind, and given the success we're experiencing with converting our base of customers, we do believe that reaching a target of somewhere between 1.2 and 1.5 million subscribers is very reasonable. And obviously, that will help us to drive that revenue, not only in the upcoming fiscal year, but obviously, into the future because most of these contracts are 36-month contracts with renewal provisions that extend out close to 60 months. So extremely pleased with the success for the quarter, and we think that it's going to be a good foundation to grow off of into fiscal 2023.

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

And Jerry, this is Jeff. We're going to be focused on this conversion for the next couple of quarters, but we're also continuing to invest in our sales base -- sales force. Subsequent to the conversion and really what we're looking at and what gets us most excited about the future is that we're going to be focused on organic sales growth in the 10% to 15% range. In fiscal year 2023, you'll see us add over 30 sales reps to our sales force across the globe. We're going to also add resources in product and marketing that's going to allow us to realize that 15% growth rate in terms of organic growth year-over-year. Even with that, given our transformation, we're going to keep our overall headcount relatively flat, but I think it's important for investors to know that we're really investing in the important areas of sales, marketing and product.

Jerry David Revich - *Goldman Sachs Group, Inc., Research Division - VP*

And Jeff, just to expand on Kurt's comment of 1.2 million to 1.5 million subscribers. So the bridge to 1.2 million is pretty clear. What gets you from 1.2 million to 1.5 million. Is it new platform wins? Can you just expand on what would get you towards to the high end of the range that Kurt just laid out?

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

Yes. It's absolutely the conversion of the base, which easily gets us to 1.2 million, hopefully a little more. And then what our team is pivoting to is much more focused on new logos. We brought in a new Chief Marketing Officer this year. The sales reps that I just mentioned, we're going all in, in terms of -- we like where our product is going to be, we like what's going on in the transportation logistics space. I think there's a lot going on. Digital convergence during COVID really pushed this board for many of our customers, and they're very hungry for these insights that we can deliver. So all of that is coming together with this transformation that's going on at CalAmp, that's going to really deliver the kind of recurring revenue and growth that our customers have long been -- or that our investors have long been looking for.

Jerry David Revich - *Goldman Sachs Group, Inc., Research Division - VP*

Got it. And maybe one last one. Assuming a 3-year payback for a subscription versus the one-time sale that we've seen for MRM historically, that ratio would suggest about $25 million of lower MRM sales once the conversion is complete. I realize that, that math is not perfect, but I'm wondering if you can comment on that relative to the $75 million run rate of the MRM product line today?

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

Yes, Jerry, I don't know if I'm prepared to kind of talk to the exact revenue figures you're referring to. I mean all I would say is that we do have a strong base of customers in that Telematics device space. We've been servicing them for anywhere from 5 to 10 years. There's probably a population of 60 of them that were really strong customers of ours. We believe we can move them into the subscription area, in those subscription arrangements. That is incremental revenue and that revenue will be a lot more sticky given that it's in a 3-year contract range. That being said, as we mentioned, our largest customer in the OEM space is still a very good customer, a great relationship. You're familiar with them. Historically, we've had good revenue generated from them and our plan is to get back to those historical levels of revenue with them and grow it from there. So that's our focus right now.

Operator

I would now like to pass the conference back to Jeff Gardner for any closing remarks.

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

Yes. Thank you, Bethany, and for joining us all today on the call, we appreciate the interest from our investors. Kurt and I will be participating in the Oppenheimer Emerging Growth Conference on May 10. This will be a virtual event. If you'd like to request a meeting, please contact your Oppenheimer representative or our IR firm, Shelton Group. Very pleased with the quarter, especially grateful for the excellent efforts of our team. It's been a really challenging year, and I'm proud of every single employee at CalAmp, putting forth the effort to do the best job possible to take care of our customers this year, really excited about the future. So we look forward to reporting our progress on our next quarter's call. Operator, you may now disconnect the call.

Operator

Thank you. That concludes today's conference call. I hope you all enjoy the rest of your day. You may now disconnect your lines.