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CalAmp Corp. (CAMP)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to CalAmp's Second 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 of Shelton Group, CalAmp's Investor Relations firm. Joel, you may begin.

Joel Achramowicz

Managing Director-Investor Relations, Shelton Group

Good afternoon, and welcome to CalAmp's fiscal second 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; 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'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.

Jeff will begin today's call with a review of the company's financial and operational highlights, then Kurt will provide additional details about 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

President, Chief Executive Officer & Director, CalAmp Corp.

Thank you, Joel. We finished the second quarter with strong growth in our Software and Subscription Services revenue increasing 24% over the prior year period and representing 52% of our total consolidated revenue. Contributing to this performance in the quarter was the completion of a major trailer retrofit program that we began last quarter combined with the initial conversion of a few strategic customers to our CalAmp Telematics Cloud platform under recurring subscription contracts. As a result of the higher revenue contribution from the Software and Subscription Services in the quarter, our gross margin improved to 42% of revenue.

In our Telematics Products business, revenue continue to be impacted by the global component supply shortages, but we continue to work closely with our suppliers to source as much inventory as we can. As many companies are echoing across multiple industries, these supply chain headwinds are not subsiding and are likely to extend throughout this calendar year. Despite some recent improvements in allocation, we are still far from optimal levels.

It's worth noting that with our backlog at record levels we could have recognized much higher revenue in the quarter if we had been able to source more components. It is our view that we are not losing orders as a result of this backlog. They are just a bit deferred relative to our original plan. We have every confidence that our supply chain is operating as well as or better than any firm in the industry.

The positive element to this situation is that demand remains very strong, supported by the worldwide 3G to 4G upgrade cycle. This strength is especially evident at our largest customer, which continues to perform very well. With our global operations team actively engaged, we expect to ship approximately 20% more devices in the back half of our fiscal year than in the first half.

Now, let me turn to the progress we made across our business during the quarter. In addition to the ongoing market development efforts underway in support of our iOn SaaS application in the US, we recently launched this flagship fleet management solution in Italy and the UK as part of our EMEA expansion strategy and we'll be launching it in other international markets in the coming months.

iOn's rich feature set provides real-time data insights on vehicles, drivers and assets for business critical decisions. With CalAmp's global sales training and organizational readiness underway and progressing very well, we expect to continue to expand the reach of this highly effective connected intelligence platform to commercial and fleet operators across the globe.

We also enhanced our iOn Tag product family with the addition of our newest iOn Xtreme Temperature Tag. This new smart sensor tag utilizes a thermocouple probe to monitor environmental temperatures of assets in conditions as low as negative 270 degrees Celsius and as high as 400 degrees Celsius, making the device ideal for tracking and monitoring shipments of pharmaceuticals, vaccines, biological materials and liquid nitrogen. Our iOn's Xtreme Tag has been highly effective in the midst of the pandemic as our customers employ it for tracking and monitoring shipments of vaccines safely and at the right temperatures to preserve efficacy.

In addition to the smart trailer retrofit program I discussed earlier that also included launch a new solar-powered gateway, we recently teamed up with Hyundai Translead to support the launch of a smart trailer technology platform, HT LinkSense. This powerful tracking solution employs our edge-to-cloud gateway and provides one of the most open and smartest trailer enablement platforms in the industry. With HT LinkSense, we integrate Hyundai's trailer sensors on our CTC cloud platform and deliver actionable insights via the iOn application to fleet operators so that they can maximize trailer usage and safely, while enabling the efficient delivery of goods.

Hyundai Translead is the leading manufacturer of dry and refrigerated trailers in North America and produced more than 66,000 trailers in 2019. No other trailer manufacturer in the US has shipped more trailers, and now each one they sell could be equipped with CalAmp's smart trailer technology as a recurring subscription contract.

Also during the quarter, we continue to make progress transitioning several customers to our new device management solution built on our CTC platform that I discussed on last quarter's call. The sunset of our older PULS device management system in the coming months will serve as a strong incentive for customers to make the move to this new SaaS platform.

The enhanced functionality includes faster and more secure bulk updating of devices over the year compared to PULS and more enhanced account and device hierarchy management is really resonating with customers. We're excited about migrating our customers' in-field devices as well as all new orders to make their businesses run more efficiently as we accelerate our transition to a SaaS company with our industry-leading edge devices.

In summary, CalAmp continues to make significant progress towards achieving the objective of becoming a leading provider of recurring software and services in the telematics industry. Our powerful new iOn telematics application and device management SaaS solution are making a noticeable impact on the industry. I'm proud of the team and what we've accomplished so far this year in this supply-constrained environment. And I'm excited about the opportunities that lie ahead for CalAmp.

With that, I will now turn the call over to Kurt for a closer look at our second quarter financial results, and then we will open the call for your questions.

Kurtis J. Binder

Chief Financial Officer & Executive Vice President, CalAmp Corp.

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 second quarter earnings that was issued this afternoon.

Also, as a reminder, the financial results of our low LoJack North America business that was sold effective March 15th of this year are being accounted for as discontinued operations. So, the financials I will review reflect our continued operations and we have revised prior periods for historical comparison purposes.

Total revenue from continuing operations in the second quarter was $79 million, which was up 6% year-over-year and down 1% sequentially. The year-over-year revenue growth was attributable to solid performances in the transportation and logistics market vertical and to a lesser extent connected car. International revenue totaled $24.7 million or 31% of total revenues for the quarter, driven by solid revenue performances in the LatAm region.

Software and Subscription Services revenue was up year-over-year 24% to $41.4 million or 52% of consolidated revenue. Our Software and Subscription Services business benefited from the completion of the trailer retrofit project with our major package delivery and transportation customer, as mentioned by Jeff earlier. This customer subscribes to our CTC platform services to manage its trailer fleet in the United States. The shipment of the related solar-powered devices requires upfront revenue recognition in this bundled subscription contract arrangement. We will be selling the solar-powered device as a standalone product to our other telematics device customers over time.

As Jeff mentioned, we continue to make great progress in converting our telematics device customers over to the new CTC device management platform as we sunset our older PULS system. With the new device management platform, we are converting our customers into multiyear subscription arrangements. In the second quarter, we converted a few strategic customers and we anticipate the momentum of customer conversions to continue into the second half of this fiscal year and beyond.

It should be noted that the revenue contribution from our Software and Subscription Services business may vary from quarter-to-quarter depending on the installation and activation of devices as well as the timing and progress of our transition of customers to our CTC platform. But over time, our goal remains the same to increase the amount and percentage of revenue that is under recurring subscription contract arrangements.

In terms of performance metrics for our Software and Subscription Services business, annual recurring revenue for the trailing 12 months was $85.1 million, down slightly from $85.5 million in the second quarter of the prior year and down from $87.6 million in the prior quarter.

The sequential decline in ARR resulted from customer churn of a number of smaller customers as we consolidated our existing customer base onto the new iOn software solution during fiscal 2021 and in the midst of a global pandemic. Since this customer conversion initiative is now substantially complete, we have observed customer churn moderating to more normalized levels.

As a reminder, ARR represents revenue from recurring application subscription 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 second quarter were $136 million compared to $137 million in the prior quarter and $118 million in the prior year quarter. The slight sequential decline resulted from the completion of the trailer retrofit program mentioned earlier, which reduced our customer performance obligations in the quarter. This metric represents all contracted revenue, including deferred revenue and contracted but unbilled revenue related to bundled contracts with customers.

Additionally, we are pleased with the growth in our base of active subscribers during the quarter. Our total number of active subscribers at the end of the second quarter was 989,000, up from 954,000 subscribers last quarter. The subscriber growth is evidence that we are successfully converting our customers over to the new CTC device management platform and onto the iOn fleet application.

Telematics Products revenue in the second quarter was down 8% year-over-year and 16% sequentially to $37.6 million, primarily due to the continuing constraints in the supply chain. Customer demand, however, remains very strong for our telematics solutions due to the ongoing global 3G to 4G upgrade. We're doing everything within our control to source components to increase inventory. And although we expect these challenges to persist for the remainder of our fiscal year, we do expect to ship more devices in the second half than we did in the first half.

Within the Telematics Products reporting segment, OEM products revenue decreased 22% sequentially and 8% year-over-year to $15.9 million. Our largest customer represented $14 million in revenue for the quarter. This was up 2% from $13.7 million during the prior year quarter, although down from $17.3 million in the prior quarter, once again, due to the supply chain constraints previously mentioned. We continue to expect solid demand from this customer and other customers for the remainder of the fiscal year.

Consolidated gross margin from continuing operations in the second quarter increased to 42.2% from 40.7% last quarter and 36.9% in the same quarter a year ago. The sequential and year-over-year increases resulted from the higher revenue contribution from our Software and Subscription Services business and the benefit of a recent price increase that we implemented late in the prior quarter. Additionally, the prior year quarter was impacted by a $1.4 million onetime charge related to the resolution of a product performance matter with a customer.

Our non-GAAP operating expense as a percentage of revenue was approximately 37.7% of revenue for the second quarter. We continue to evaluate our staffing requirements in order to support the customer order backlog and increased business activity with the transformation to a SaaS-based business model.

In parallel, we have ongoing internal initiatives to further align our cost structure as a result of the sale of the LoJack SVR business in March. These initiatives should lead to improvements in our consolidated operating margin over time. Even though we will continue to judiciously make investments when necessary to drive our future growth, particularly in product development, sales and marketing.

Adjusted EBITDA in the second quarter was $8.3 million with an adjusted EBITDA margin of 11%, compared to adjusted EBITDA of $5 million or 7% in the prior year quarter and $8.4 million and an adjusted EBITDA margin of 11% in the prior quarter.

Now, turning to our current liquidity position. At the end of the second quarter, we had total cash and cash equivalents of approximately $101.1 million as compared to $96.2 million last quarter. Our aggregate outstanding debt is approximately $237 million, including $230 million of the 2% convertible senior notes due August 2025. Additionally, we have an unused $50 million revolving credit facility. 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 third quarter of fiscal 2022, we are maintaining our policy of not providing quarterly guidance as visibility into product shipments remains uncertain due to the global component supply shortages.

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

President, Chief Executive Officer & Director, CalAmp Corp.

Thank you, Kurt. As you can see, we continue to generate significant cash while controlling operating expenses as we work to transform CalAmp. The continuing component shortages represent a temporary obstacle for sure, but we intend to work through it as we pursue our objectives. I want to thank our customers, shareholders and employees for their strong support and commitment to our efforts.

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

QUESTION AND ANSWER SECTION

Operator: Thank you, Jeff. [Operator Instructions] Your first question comes from the line of Mike Walkley from Canaccord. Your line is open.

T. Michael Walkley
Analyst, Canaccord Genuity LLC

Q

Great. Thanks so much for taking my question. I guess, the first place for me to start was just on the Software and Subscription revenue, very strong 17% sequential increase, and you called out the large trailer retrofit with some hardware bundled in there. Just as a baseline, how should we think about modeling that business going forward given there was some onetime revenue in there? Thank you.

Jeffery R. Gardner
President, Chief Executive Officer & Director, CalAmp Corp.

A

Yeah. Mike, obviously, clearly, that's our focus here is to build a software company and 50% was more of our long-term target. We benefited from a couple of things in the quarter, but maybe I'll ask Kurt to talk about how investors should think about that going forward.

Kurtis J. Binder
Chief Financial Officer & Executive Vice President, CalAmp Corp.

A

Yeah. So, Mike, obviously, the revenue contribution from the Software and Subscription Services we do expect to be a little bit uneven quarter-to-quarter as we work through installation and activations of devices, which is impacted by the supply chain challenges. And then, that is coupled with the fact that now we are aggressively transitioning our customers into telematics device business, the hardware-centric business, over to our CTC platform. So, that is expected to create some variability.

But I think the best way to approach this is to really focus on two things. First off is, if you look at our ARR, our annual recurring revenue, we've disclosed and we do expect that annual recurring revenue to stabilize and grow here in the near term. And then, you couple that with a business which we have in terms of telematics devices that we expect to essentially convert over to the platform over the base of probably two to three quarters.

So, those are the two factors that I would look at in terms of forecasting. And over the next quarter, as we get greater visibility into some of the supply chain availability, we'll look to start giving guidance here shortly.

T. Michael Walkley
Analyst, Canaccord Genuity LLC

Q

Okay. Fair enough. That's helpful. And just within the Software and Services, just a little more feedback, it's great to see already some large customers converting to the CTC platform, how is that going? And then also, just curious on Synovia, with students back in school and a bus driver shortage, how that solution is faring in the market?

Jeffery R. Gardner
President, Chief Executive Officer & Director, CalAmp Corp.

A

Yeah. We've gone directly to our customers to meet with them about CTC DM and our plans to eventually decommission the PULS product. When we talk about the advantages of CTC DM, our customers are getting very excited about it. So, I think it did a couple of things. One, it allowed us to engage with our customers at a level that we hadn't in a long time. Many of these meetings were face-to-face because we're in a better situation as it relates to the pandemic. And we took all of our product and engineering team along with Kurt and I so that we could provide an executive level view of how we think this can help their product. Eventually what we're trying to do is help all of our customers grow software revenue, that's the game for everyone there, and I think they went extremely well.

And the second part of the question I lost track of...

Kurtis J. Binder
Chief Financial Officer & Executive Vice President, CalAmp Corp.

A

He asked about the Synovia business in particular, the government municipality space. And I think the best way to answer that is, I mean, we were generally very pleased with the results in the quarter as it relates to our subscriber growth. When you look at that subscriber growth, even though some of those headwinds you mentioned were present, we were able to grow our subscribers in the government municipality space utilizing the Synovia platform. So, generally pleased with that.

The two other areas where we had some success were, as already mentioned, the conversion of our customers, a few select customers to the device management platform, and then the recovery services bounced back a bit principally in the EMEA region. So, generally pleased with the subscriber growth and I think it's showing that a couple of thing are happening well; one, we're getting traction on CTC device management platform, coupled with our iOn software platform.

T. Michael Walkley
Analyst, Canaccord Genuity LLC

Q

Great. Thanks. That's helpful. Last question for me and I'll pass the line. Just with your comments about 20% higher device shipments in back half of the year, to your work on the supply chain, should we model maybe up 20% revenue in the back half of the year for Telematics Products, or is there a mix shift? Just trying to think about what that comment means in terms of your financial outlook for the back half of the year, knowing you're not giving guidance...

[indiscernible] (00:25:29)

Jeffery R. Gardner
President, Chief Executive Officer & Director, CalAmp Corp.

A

Yeah. We're not going to give guidance, obviously. But, I think you'll see that mixed in between the traditional MRM products and OEM. Both our business with our largest customer was affected by the component shortage as well as our regular MRM customers. So, we're still very bullish. What I think is important for investors to note, obviously, we thought those sales would be stronger earlier, none of us anticipated this pandemic to have such a long tail, but as I said in my remarks, we think this is just deferring these. There's still – the 3G to 4G transition is still happening. Customers are still dedicated to our edge devices because of their unique capability. So, we think that will be – you'll see growth in both those areas at the end of the year and that will continue to improve into 2022.

Kurtis J. Binder
Chief Financial Officer & Executive Vice President, CalAmp Corp.

A

And to highlight that, Mike, on your comment regarding the forecast, the bounce back in the availability of supply is not anticipated to happen as dramatically as we initially thought in Q3. It's certainly going to be a more gradual return to normalcy. We are seeing allocations in the supply chain get better, but nowhere near what we had originally expected. And what we're starting to see is a situation where even certain other markets, such as the automotive industry, are getting reallocations because of some of the political background that's out there.

So, anyway, we're working extremely hard with the supply chain and our contract manufacturers to garnish as much allocation as possible. And so, we're expecting that the components will be up a bit over the second half over the first half.

Jeffery R. Gardner

President, Chief Executive Officer & Director, CalAmp Corp.

A

Even in this last quarter – I'll just mention a few things that I think highlight the caliber of supply chain that we have here at CalAmp today. Despite the semiconductor shortages and challenges across the industry, we hit 95% on-time delivery with our largest customer and 85% with our MRM customers. We successfully completed a 35,000-unit order for our largest transportation and logistics customer that was all shipped in the second quarter. Just as a few items. So, despite the fact that, yeah, it's very challenging, our supply chain team is doing everything possible to meet the needs of our customers.

T. Michael Walkley

Analyst, Canaccord Genuity LLC

Q

Great. Thanks for taking my question, and best of luck in working through that supply chain.

Kurtis J. Binder

Chief Financial Officer & Executive Vice President, CalAmp Corp.

A

Thanks, Mike.

Operator: Thank you. Your next question comes from the line of Scott Searle from ROTH Capital. Your line is open.

Scott Searle

Analyst, ROTH Capital Partners LLC

Q

Hey. Good afternoon. Thanks for taking my questions. Hey, real quickly, I'm not sure if I heard on the call, I know you were certainly supply-constrained in terms of your ability to ship, did you quantify the upside impact of that in the quarter? And to follow up on Mike's comments, as it relates to the SaaS side of the equation, you had some onetime benefits this quarter, could you quantify what that number was so we know how to calibrate going forward, because it sounds like you're projecting ARR to grow – stabilize and grow going forward? So, that would be the base I expect that we'd be growing off of.

Kurtis J. Binder

Chief Financial Officer & Executive Vice President, CalAmp Corp.

A

So, Scott, to answer your question, so, we didn't quantify what we would actually have been able to deliver on the quarter. Obviously, we – our revenue was about $79 million for Q2. We do think that we probably had anywhere from on the low-end 15% additional capacity to potentially as high as 25% additional capacity to ship to if the components were available to us. So, the backlog continues to remain at all-time highs. We're extremely pleased.

It's both for our MRM customers as well as our OEM customers. And so, I think that this is what gives us confidence that the second half will be stronger than the first and that it will continue out beyond fiscal 2022.

As it relates to your question on annual recurring revenue, our medium- to long-term target is to be growing our software business at or around the 15% to 20% range year-over-year. That too has been constrained by supply chain. Obviously, we have to install and activate devices. [ph] If those (00:30:22) devices aren't available, it's tough to ship and meet on those contracts. But, we're very pleased with, as I mentioned before, the growth in our subscriber base. And we are working expeditiously to drive new logo generation. So, all in all, I think that you can expect ARR to grow over the second half of this year and then into fiscal 2023.

Jeffery R. Gardner
President, Chief Executive Officer & Director, CalAmp Corp.

A

I mean, Arym Diamond, our Chief Revenue Officer, is 100% focused on growing ARR and he knows exactly what that means in terms of managing ARPU, attrition, et cetera. And in addition, in the quarter, he made a lot of progress with respect to hiring SaaS salespeople. So, we continue to focus on that as the long-term future of the company and we're making investments in those areas.

Scott Searle
Analyst, ROTH Capital Partners LLC

Q

Got you.. But Kurt, did you quantify though the onetime benefit of the smart trailer retrofit in terms of there were some onetime payments in there?

Kurtis J. Binder
Chief Financial Officer & Executive Vice President, CalAmp Corp.

A

Scott, so, what we had communicated a couple of quarters ago was that on that particular retrofit program was about 35,000 devices. Those devices are essentially replacing previous devices that were 4G devices. But in fact, this one is solar-powered and comes with incremental computing power that allows them to transact more data flow through our platform. And so, they were anxious to get a hold of those devices, in particular in advance of the blackout period. As you know, our major logistics and transport company is very particular about ensuring that they can be at 100% capacity during the holiday season. And so, it was really important for them to get those devices in this quarter and ahead of that particular season. So, we did prioritize that and pleased to say that our supply chain team executed well to deliver.

Scott Searle
Analyst, ROTH Capital Partners LLC

Q

Great. And lastly, if I could, to follow up – oh, sorry go ahead.

Jeffery R. Gardner
President, Chief Executive Officer & Director, CalAmp Corp.

A

Well, I just wanted to also say this TTU-2900 is quite a unique device and the team has an excellent opportunity to sell that not only to our existing customer today, but other transportation and logistics customers. So, I think we'll see more benefit from that in the quarters to come.

Scott Searle
Analyst, ROTH Capital Partners LLC

Q

Great. And lastly, if I could, just to follow up on the 20% growth in the second half versus the first half on devices. Sounds like you said it's a combination of MRM as well as OEM, just want to clarify that, also if that includes any, [ph] I'll quote (00:33:06), internally consumed devices to really drive the recurring SaaS model? But if you're comfortable guiding to that 20% number, that's pretty good unit growth, I'm wondering what is the demand picture outlook look like on that front? And then, also the gross margin impact, certainly, it's become a little bit more expensive to secure those components, to secure freight on some of those components and finished products, I'm wondering kind of how you're thinking about gross margins and going forward on that front? Thanks so much.

Kurtis J. Binder
Chief Financial Officer & Executive Vice President, CalAmp Corp.

A

So, Scott, let me just make sure we're clear on this. So, we are not forecasting a 20% increase in revenue in the back half of this year. So, we're not providing guidance. I just need to make sure we're pretty clear on that. We just believe that the allocations that we're getting from our contract manufacturers and component suppliers are greater than they were in the first half. So, just something for you to take into consideration.

So, on your question regarding the gross margins, we were very pleased with the gross margin performance in the second quarter. In particular, what I think it showed is as we truly shift to that software and subscription business model, and in this case, reaching that 52% of our consolidated revenue, our gross margin will show marked improvement, and we showed that. So, that is our goal is to continue to change the mix of our revenue base, move up to that 50-plus percent of total consolidated revenue and ultimately drive to a medium- to long-term goal gross margin at the 50% target.

A couple of things have been in play. Obviously, we talked to you in the previous quarters about some of the cost increases that were coming down through our contract manufacturers and component suppliers. Those cost increases we did try to offset earlier in the quarter, actually the end of last quarter, by imposing a price increase, which was generally accepted very well by our customer base, although not pleased, no one is always pleased with the cost up, but in fact understandable given everything that's going on.

I must just reiterate that though those price increases or cost increases across the supply chain haven't necessarily tapered off, we have seen indications that future price – cost increases could come and we'll have to address those when they do come upon us.

But again, our goal is really to focus on the software and subscription SaaS business model driving the majority of our revenue to that particular category through converting our CTC – our customers on PULS to CTC DM as well as driving new logos around our applications. And if we can do that, then I think you'll see nice consistent gross margin expansion beyond where we are right now over the next several quarters.

Currently, our margin for the second quarter was about 40 – just over 42%. Depending on how things fluctuate in terms of our subscription revenue in Q3 and Q4, that could move up or down 100 basis points to 150 basis points. So, just be aware that that's something that is sensitive to us.

Scott Searle
Analyst, ROTH Capital Partners LLC

Q

Thank you.

Operator: Your next question comes from the line of Mike Latimore from Northland Capital. Your line is open.

Michael Latimore
Analyst, Northland Securities, Inc.

Q

How extensive was – how big was the price increase and how extensive was it across your customer base kind of during the quarter?

Jeffery R. Gardner
President, Chief Executive Officer & Director, CalAmp Corp.

A

We were – approx – it was approximately 4% and it was pretty much across our base. We had to make some exceptions with some bigger customers that we had agreements with. But it was – it's around 4%, that was our best estimate of what our costs were going up. So, that's how I would think about that, Mike.

Michael Latimore
Analyst, Northland Securities, Inc.

Q

Okay. Thanks. And then, on these – you mentioned a couple strategic accounts converting to CTC, sounds like that led to more software and services revenue. So, I guess, when they convert, were they buying more features, more capacities, or can you explain why the amount went up per customer?

Jeffery R. Gardner
President, Chief Executive Officer & Director, CalAmp Corp.

A

It really did not have a big impact on our software and subscription revenue this quarter. It will going forward. I think the point we're trying to make is that we're having success in our discussions and we were able to convert over a few key customers. Our software sales were more generated by our traditional software products in the quarter. But I mean, just think about this business in the future, if that's the way we go to market with everything being on a subscription model, it's going to be a very positive development for the company. And I think it gave us a lot of confidence that we had major customers shift over to that model.

Michael Latimore
Analyst, Northland Securities, Inc.

Q

Okay. Got it. And then, just a clarification on your discussion about the software and services business in the second half of the year, did you say that you thought it would be in terms of the absolute dollar numbers bigger than the first half?

Kurtis J. Binder
Chief Financial Officer & Executive Vice President, CalAmp Corp.

A

No, Mike, we didn't say that. What we said is that we do expect growth, but the revenue contribution from Software and Subscription Services will fluctuate from quarter-to-quarter. So, this quarter was impacted by our larger customer in the transportation and logistics space taking order to those solar-powered devices. We don't expect that particular type – or a magnitude of that type of transaction recurring in Q3. So, again, there will be some variation in the revenue within our Software and Subscription Services, but in general, it is expected to grow in the second half.

Michael Latimore
Analyst, Northland Securities, Inc.

Q

And when you say grow in second half, do you mean year-over-year or sequentially or...?

Kurtis J. Binder
Chief Financial Officer & Executive Vice President, CalAmp Corp.

A

First half to second half.

Michael Latimore
Analyst, Northland Securities, Inc.

Q

Okay. Got it. All right. Thanks.

Jeffery R. Gardner
President, Chief Executive Officer & Director, CalAmp Corp.

A

Sure.

Operator: Thank you. Your next question comes from the line of Anthony Stoss from Craig-Hallum. Your line is open.

Anthony Joseph Stoss
Analyst, Craig-Hallum Capital Group LLC

Q

Hey, Jeff. Hey, Kurt. You're talking about backlog at an all-time high. Can you maybe quantify how much it was up either year-over-year or on a sequential basis? Then I had a couple of follow-ups.

Kurtis J. Binder
Chief Financial Officer & Executive Vice President, CalAmp Corp.

A

So, I would say that year-over-year, it's up probably anywhere from 35% to 40%, but sequentially it's been fairly stable.

Anthony Joseph Stoss
Analyst, Craig-Hallum Capital Group LLC

Q

Okay. And then, just following up on Scott's question related to the size of the onetime impact in Q3, and maybe I'll come from a little bit different direction, notwithstanding that, notwithstanding maybe you get a little bit more devices, should we think of November revenues kind of flat with August or could be down a little bit sequentially?

Kurtis J. Binder
Chief Financial Officer & Executive Vice President, CalAmp Corp.

A

Well, again, not providing specific guidance, we don't expect it to be down in aggregate. The consolidated revenue should be flat or slightly up. But the mix could change.

Anthony Joseph Stoss
Analyst, Craig-Hallum Capital Group LLC

Q

Okay. Got it. That answers all my questions. Thank you.

Jeffery R. Gardner
President, Chief Executive Officer & Director, CalAmp Corp.

A

All right. Thank you.

Kurtis J. Binder
Chief Financial Officer & Executive Vice President, CalAmp Corp.

A

Thank you.

Operator: Thank you. And our next question comes from the line of Kyle McNealy from Jefferies. Your line is open.

Kyle McNealy
Analyst, Jefferies LLC

Q

Hi, thanks very much for the question. Curious, how much revenue you'd say got held up by the supply constraints? You mentioned that it was – that you'd be able to significantly ship more had you not had the supply constraints. Is there any way to quantify how much you would have been in a position to ship had you not have had the constraints?

Jeffery R. Gardner
President, Chief Executive Officer & Director, CalAmp Corp.

A

Yeah. It would have been significant. I mean, Kurt gave you some idea when he said 10% to 15% more, but it would have been significant. Our demand was very, very strong. And much of that demand was in the quarter. So, that should give you – we're not going to give you a precise dollar amount. But when Kurt said 10% to 15%, I think that's the best way to think about it.

Kyle McNealy
Analyst, Jefferies LLC

Q

Okay. Great. Thanks. And one other question, is there a way for you to give us a sense for what inning of the 3G to 4G upgrade you think we're in right now, maybe the mix of 3G to 4G device shipments in the quarter, and how – or how long you might think it could take to upgrade most of the installed base?

Jeffery R. Gardner
President, Chief Executive Officer & Director, CalAmp Corp.

A

Well, our mix has been primarily 4G for quite some time now. So, we've got areas like LatAm that are still using 2G products. It's a little bit different in Europe. But, in North America, almost everything is 4G. And what inning are we in? Probably in the fifth inning, in terms of the 4G to 5G upgrade cycle. Even our bigger customers still have quite a bit to do. So, in terms of that being a catalyst in this business, I think we're talking about a number of quarters rather than just a couple in terms of what's in front of us.

And remember, the largest – one of the largest carriers has a conversion date in February of 2022 and another large carrier has it much later in the year. So, it all depends on when customers are going to move to 4G. Some are moving early, like one of our largest customers seem to be real aggressive. Our smaller customers continue to be a little bit less aggressive. So, I think there's a lot in front of us in terms of that conversion.

Kyle McNealy
Analyst, Jefferies LLC

Q

Okay. Great. Thanks very much.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Adam Bubes from Goldman Sachs.

Adam Bubes
Analyst, Goldman Sachs

Q

Hi. This is Adam from Goldman Sachs, on the line for Jerry Revich today. I was wondering if there's any update on how you're thinking about pricing on the CTC product versus pricing on the PULS product?

Kurtis J. Binder
Chief Financial Officer & Executive Vice President, CalAmp Corp.

A

Sure. I can take that one. So, on the PULS product, it actually was incorporated in the overall device pricing. So, there wasn't a specific fee associated with that particular feature. With the rollout of the device management platform and CTC, the pricing is going to vary a bit. And it really is about the type of features and the telematics services that the customer wants to consume. We have customers that use – or will – use PULS or use the device management feature just to basically transact very simple data flow and information; things like, okay, is the device active, is it in the field, is it damaged, that kind of stuff.

We have other customers that actually do scripting, which when I say scripting it means software configuration at the edge where they're essentially going into the device and layering in a piece of software that changes the functionality from hour-to-hour, day-to-day, as well as changes the type of data that it can pull from that device while it's in the field. And so, the pricing is, as we're communicating with our customers sets, vary based upon essentially data consumption and usage.

At this point in time, we're not in a position to give out or quantify the exact amount of that in terms of ARPU, because we're having those discussions with our customers currently. But I think over the next several quarters, as we convert a majority of our telematics device customers over to the new CTC DM platform, we'll be able to provide you with some quantification.

Jeffery R. Gardner
President, Chief Executive Officer & Director, CalAmp Corp.

A

And I think it's very important to note that these CTD CM (sic) [CTC DM] (00:46:02) is not PULS, right? It's got a lot more features, security, faster update capability, a new UI/UX, things that are very useful to our customers that allow them to run their businesses better. So, they're not at all comparative products.

Adam Bubes
Analyst, Goldman Sachs

Q

Okay. That's helpful. And then, my last question, you touched a bit on realigning your staff. Can you help us think about where labor count is today versus a year ago and where it needs to be to meet demand in a normalized environment?

Jeffery R. Gardner
President, Chief Executive Officer & Director, CalAmp Corp.

A

It hasn't changed greatly. It's just shifted. We've – we are much more of a company that's focused on software in order to do that. You had to hire a ton of software product people, a ton of software engineers and a ton of software salespeople. And I think that's the biggest shift. Our actual numbers are pretty flat year-over-year.

Kurtis J. Binder
Chief Financial Officer & Executive Vice President, CalAmp Corp.

A

Yeah. We've been running at just under 1,000 employees worldwide, probably about 950 to 1,000. And as Jeff mentioned, it's split between the US or North America geography and globally. And then, within that number, we have been changing the overall mix such that it's heavily more focused on R&D as well as sales and marketing resources.

Adam Bubes
Analyst, Goldman Sachs

Q

Great. Thank you very much.

Jeffery R. Gardner
President, Chief Executive Officer & Director, CalAmp Corp.

A

Sure.

Operator: Thank you. There are no further questions at this time. I will now turn the call back to Jeff Gardner, President and CEO.

Jeffery R. Gardner
President, Chief Executive Officer & Director, CalAmp Corp.

Okay. Well, thank you, guys, all for your time today. We appreciated all the questions and your continued support of CalAmp. Kurt and I are going to be at another conference upcoming. If you contact Shelton, they can give you more information on that conference. We'd love to spend some more time with you. But, have a great day, and thanks for your interest in CalAmp.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.