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PRESENTATION

Operator

Welcome to CalAmp's First Quarter 2023 Financial Results Conference Call. As a reminder, this call is being recorded. I would now like to introduce your host of today's conference call, Joel Achramowicz, Managing director of Shelton Group, CalAmp's Investor Relations firm. Joel, you may begin.

Joel Achramowicz - *Shelton Group - Managing Director*

Good afternoon, and welcome to CalAmp's fiscal first quarter 2023 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.

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 continued to make progress on converting customers to recurring subscription contracts. Our first quarter software and subscription services revenue grew 13% year over year to $39.6 million, representing approximately 61% of the total revenue for the first quarter. This represents the second consecutive quarter our software and subscription services revenue exceeded 60% of total revenue.

During the quarter, we converted another 10% of eligible customers, cumulatively representing over 1/3 of our total base, with the goal of completing the rest of the conversions by the end of the current fiscal year. In the quarter, we secured new customers, such as Brigham Young University and

Grupo Salinas, the second largest business group in Mexico, among others. And subsequent to quarter end, we were selected as the provider to BMW for a new product offering and by Volkswagen Leasing, and we received first orders from them both. I'll touch on BMW further in a few moments.

Consolidated revenue in the first quarter continued to be impacted by supply chain constraints, particularly with the COVID-related lockdowns in China that further exacerbated the overall supply situation, especially in the manufacturing and logistics sectors. With the lockdowns now lifted and transportation to the affected regions resuming, we anticipate gradual improvements in supply of the affected components.

As I just mentioned, we recently received an initial order from BMW related to its GPS-based security by LoJack solution, which sets unprecedented standards in the industry for monitoring and protecting BMW vehicles. This solution provides peace of mind to owners based on CalAmp's telematics technology integrated with connected car data from BMW Group's ConnectedDrive platform, which is accessible via a smartphone app. It also provides a Driver Tag to detect the presence onboard of an authorized driver and an engine crank inhibitor that can be activated in the case of theft by a network of Secure Operating Centers open 24/7 across Europe. BMW's decision to select CalAmp as its provider of new stolen vehicle technology services is a clear testament to our industry leadership and innovation. And these initial orders reflect the sizable opportunity we see ahead for this joint offering in the European market.

We announced more strategic partnerships too with both Bristlecone and assured Techmatics. Bristlecone is a key systems integrator and leader in AI-powered application transformation services for the connected supply chain. This new partnership integrates real-time data insights from CalAmp's Supply Chain Visibility sensors, edge computing devices, and CalAmp Telematics Cloud with Bristlecone's proprietary NEO cloud-based platform, thus providing global enterprises with enriched, end-to-end supply chain visibility, and aggregated trend analysis capabilities.

Working together, CalAmp and Bristlecone will help enterprises eliminate blind spots across their complex supply chains and enable smarter tracking and data-driven decisions as shipments pass through each phase of their journeys. With these enhanced insights, enterprises can drive logistical efficiencies, prevent cargo theft, and minimize their carbon footprints. Producers, in particular, offering perishable goods, such as food or pharmaceutical purveyors, can monitor environmental conditions and the safe transport of their goods preventing costly spoilage.

Assured Techmatics is a top transport and compliance leader that offers electronic logging device solutions to commercial and public fleet operators. CalAmp will couple its edge computing devices with the assured Techmatics' apollo Electronic Logging Devices, or ELDs, to provide a solution that commercial and public fleet operators can use to capture and log critical data necessary for regulatory compliance across North America. Apollo ELD has been approved by the U.S. Federal Motor Carrier Safety Administration for interstate and intrastate commerce across America and by other third-party accredited transport agencies in Canada and Mexico.

During the quarter, we were pleased to announce the appointment of Brennen Carson as our new Chief Revenue Officer. Brennen has extensive long-term industry experience in telematics as well as significant high-level success managing large, global SaaS sales organizations. He had previously served as Senior Vice President of Sales at Idelic, a startup company, and as Vice President of Sales - North America at Fleetmatics, which was acquired by Verizon Connect and where he continued to build and lead a sales team of 700 professionals. Brennen will be focused on expanding our software sales team with top professionals and directing them in pursuit of our long-term SaaS revenue growth objectives.

In another effort to elevate our leadership and expertise in transportation and logistics, our Board of Directors recently appointed Henry Maier to be the new Independent Chairman effective as of our 2022 Annual Meeting of Stockholders. As many of you know, Henry has spent more than 30 years at FedEx companies and will be of significant value to the Company as Chairman of the Board. He will replace Amal Johnson, who has served as a Director since 2013, and most recently served as our Chair. I want to thank Amal for her service and longstanding commitment to CalAmp and the many personal contributions she has made during her tenure.

We also recently added Wes Cummins to our Board as an Independent Director. Wes had previously offered an alternative slate of Director nominations for election to the Board. Subsequently, we engaged in a constructive dialog resulting in Wes's recent appointment as a Director to our Board where we look forward to leveraging his expertise to enhance our strategic path forward.

In summary, we are encouraged with the progress we continue to make in transitioning our business to a recurring software subscription model for sustainable, long-term success. Although challenges remain, I believe we are well positioned with high levels of backlog remaining and strong demand across our business. We remain focused on our goal to convert the remaining portion of eligible device customers to recurring software contracts by fiscal year end.

With that, 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 measures is included in the press release announcing our fiscal year 2023 first quarter earnings that was issued this afternoon.

Total revenue in the first quarter was $64.7 million, down 5% from $68.4 million in the prior quarter and 19% from the $79.7 million in the same quarter a year ago. The decline in revenue was mainly attributable to the ongoing supply chain constraints, particularly the COVID-related lockdowns in China during the quarter. As Jeff mentioned, with the lockdowns now being lifted, we are beginning to see a resumption of component shipments in those affected regions.

International revenue in the quarter totaled $24.3 million or 38% of total revenues. Software and subscription services revenue of $39.6 million, up 13% year-over-year and down 4% from the prior quarter, represented approximately 61% of consolidated revenue.

The year-over-year growth in this business reflects the success we've achieved converting eligible telematics device customers to recurring subscription contracts. As of the end of the first quarter, we've converted approximately 1/3 of our total eligible telematics device customers and expect to convert the remaining customers by the end of our fiscal year.

In terms of performance metrics for our Software and Subscription Services business, the Remaining Performance Obligations in the first quarter was approximately $215 million, a 7% increase from $200 million in the prior quarter and a 57% increase from $137 million in the same quarter a year ago. We expect to recognize over 37% or approximately $80 million of this obligation during the rest of our fiscal year. During the quarter, our subscriber base grew 25% year over year and 13% sequentially to 1.2 million.

Telematics products revenue in the first quarter was $25.2 million, which was a 7% decrease sequentially and a 44% decrease year over year. The ongoing supply shortages continue to impact our ability to fully ship against our high levels of backlog. Within the telematics products reporting segment, OEM products revenue totaled $10.5 million in the first quarter compared to $10.4 million in the prior quarter and $20.3 million in the same quarter a year ago. Our largest customer represented $9.7 million of revenue in the quarter, which was up from $7.9 million last quarter, but down from $17.3 million in the same quarter a year ago. Our backlog with this customer remains high, and we were pleased with the sequential increase in shipments in the quarter. As the supply chain constraints ease over the coming quarters, we expect to accelerate fulfillment of the outstanding orders.

Consolidated gross margin in the first quarter was 40% compared to 41% last quarter and 41% in the same quarter a year ago. Gross margin continues to remain under pressure due to higher product costs and freight charges.

First quarter non-GAAP operating expenses on an absolute dollar basis declined 5% year over year due to lower personnel and incentive compensation expense, as our global employee base declined year over year. Non-GAAP operating expenses increased slightly by 3% sequentially due to increases in professional services and personnel costs in the areas of Engineering, Sales, and Marketing.

Adjusted EBITDA in the first quarter was $1.9 million with an adjusted EBITDA margin of 3% compared to adjusted EBITDA of $5 million and a margin of 7% in the prior quarter and $8.4 million or 11% in the same quarter last year. The decrease in adjusted EBITDA in the first quarter was attributable to the lower revenue and, as previously mentioned, higher product costs.

In terms of our overall liquidity position, at the end of the first quarter, we had total cash and cash equivalents of approximately $59 million as compared to $79 million last quarter. The decline in total cash and cash equivalents is attributable to a reduction in free cash flow from operations due to the decline in sales volume coupled with an increase in deferred billings (or unbilled receivables) as a result of the conversion of approximately 1/3 of our eligible telematics device customers to multiyear subscription arrangements. The provision of services under multi-year subscription arrangements extends the cash conversion cycle due to upfront cash outlays for devices combined with deferred billing over the subscription period.

We are in the process of renewing our revolving line of credit in order to give us added flexibility as it relates to working capital, and we expect to finalize the agreement in the coming weeks. Our aggregate outstanding debt is approximately $233 million, including $230 million of the 2% Convertible Senior Notes due August 2025. We expect to maintain a solid financial position and a balance sheet with solid cash for working capital purposes going forward.

In reference to our outlook for the second quarter of fiscal 2023, we are maintaining our policy of not providing quarterly guidance. Visibility into product shipments still remains uncertain due to the global component supply shortages. However, we do expect sequential quarterly revenue growth in the second quarter to be in the mid-to-high single-digit percentage points.

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

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

Thank you, Kurt. We are encouraged with our continuing progress as we transition to a leading SaaS telematics software player. With the recent lifting of some lockdowns in China, a consistent rapid pace in our device customer conversions to recurring contracts, and fresh new leadership in our sales organization, the CalAmp Team is energized and relentlessly fixed on the operating objectives we have established for the year.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Mike Walkley with Canaccord.

Michael Walkley - *Canaccord*

Great. First question for me is just on the sequential growth. Can you talk about maybe the drivers behind that? It sounds like you expect better supply, but would you expect software and services to grow more or it's evenly split, that mid-to-high single digits among both hardware and software subscription?

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

Yes, Mike. As you know, in our previous earnings announcements and our follow-up Q&A sessions, we've mentioned that we believe the supply change situation would be improving throughout the year. We were affected in the second -- in the first quarter by what I called more of a shock in China with the specific lockdowns in terms of cities that affected us significantly at the end of the quarter. Our original view was that we'd be seeing us improving supply chain throughout the year and that view has remained unchanged. We don't expect the impact that we saw at the end of the quarter to recur. We've already begun seeing shipments out of China and the transportation and freight are opening up as we see. So that's good news.

I think overall, as we look at the year, we're feeling better and better about that. We're working hard with our equipment providers and contract manufacturers, and we've done quite a bit in terms of making sure that our bills of material contain products with a good visibility in terms of their supply chain. So we do see it improving in the back half of the year. That's why Kurt was giving the range in terms of the sequential growth we expect in 2Q.

In terms of going forward, I think that you'll continue to see improvement on the software revenue side. Two things driving that: one, we're continuing to convert our base to a subscription model. And even more importantly, I know it's been difficult to track what's going out in our company through this transformation, but I think the important aspect of this transformation going forward is that all new sales are going to involve a subscription going forward. So that's going to mean very good things for subscription revenue, not only just for the conversions but going forward for CalAmp.

Michael Walkley - *Canaccord*

And just as a follow up for either you or Kurt. Just as that business mix continues to change over time, what are some intermediate-term gross margin goals for the company as you have software already over 60%. But where do gross margins trend as you get through this 1/3 to full completion of that targeted base?

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

So, Mike, this is Kurt. Just to answer that -- yes, can you hear me, Mike? Okay. Yes, in response to your question, Mike. So, as you know, our medium-to long-term goal is the 50% gross margin. That's still remained clear and in line of sight for us. There are some short-term pressures that we're experiencing, principally coming out of the supply chain. Those things include cost increases around certain components, freight, and more recently some tariffs. We're doing our best to control those costs and actually pass them through when we have the opportunity to do that. But sometimes there's a lag between when we are charged through the supply chain and when we can pass them along to the customers, but we're working our way through that process.

That being said, as we've communicated in the past, the biggest thing driving our gross margin through that 50% target is really revenue mix. And so as we're moving our telematics device customers over to the subscription models, what we're seeing is that initially the move is heavily dependent upon getting the devices on a platform and getting the installed base active. As that installed base starts to grow, that's when the margin starts to improve, because as you know, those subs -- those subscription subs actually generate incremental revenue for us. So although this quarter we were down slightly with gross margin and that was driven by this pressures from the supply chain, we do see that we will progressively start moving upward to that 50% target over the next three to five years, and it would be a gradual going from, say, 40%, 41% to 42%, 43% up to 50%, as that installed base becomes more evident, and we monetize that installed base.

Michael Walkley - *Canaccord*

Last question for me and I'll pass it on. Just for your largest customer snapped back a little bit, but given your visibility within the backlog, will this customer get back maybe to mid-teen levels like they were in past years or has anything changed with that long-term relationship?

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

No. We do have very strong backlog with our largest customers -- with our largest customer and, in particular, with the China disruption that I talked about earlier, we had a particular module provider whose factory was shut down in China that had a pretty significant impact on that supply chain this quarter, which we already -- as I said, that's already opened back up and it's improving. With the strong demand, we do expect those to -- that revenue to kick back to more normal levels. There's still quite a bit to do there, both in terms of 3G to 4G migration plus the demand for that large customer has been very strong.

Michael Walkley - *Canaccord*

Congrats for hitting the 1/3 conversion base so far.

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

Thank you.

Operator

Our next question comes from George Notter with Jefferies.

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

I guess I wanted to ask one on the transition to subscription models. Are you getting any pushback from customers? You're obviously another quarter into the process? Any new perspectives you can share. And if a customer doesn't migrate with you, what is the pushback from them and any metrics you can share in terms of the percentage of customers that are moving along?

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

Yes, George, our customers are really excited about the technology. Remember this is not just a change in billing, but we're offering a new opportunity for them in terms of the software, and the software is more robust, offers them the ability to better serve their customers, to manage their devices more rapidly, to do tons of upgrades over the air, and provides them better security. So they're excited about that. The billing arrangement is a little bit new, and it takes some getting used to. But we've been very successful to date. In fact, through the first 1/3, we've had no customers decide to move away from us because of this arrangement. We've been pretty clear with our customers, this is the way we do business going forward. And so, we're really pleased with that.

In terms of the future, we control the pace and terms on this conversion process. And as I said in the script, we're anxious that we're going to get all of our customers converted to this model by the end of the fiscal year. So I think it's going well. I wish it would be a little bit less disruptive in terms of how we're transforming as a company. I know that causes some concerns with investors. But I think what gives me comfort and confidence about the future is we are going to be a recurring model business. So at the end of the day, CalAmp is going to be an equity that investors can count on for consistent, reliable revenue over time. And all of our new customers will be signing up for services that involve a subscription.

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

Got it. And then I think you said 1/3 of customers have migrated. Is that also 1/3 of the installed base just in terms of units -- telematics units that are out there or are you skewing towards larger or smaller customers as you initiate this transition?

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

Kurt, I'll let you take that one if you could.

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

Sure, Jeff. So, George, we had mentioned I think last quarter that we had defined a population of about somewhere between 60 to 65 telematics device customers, we labeled them as eligible telematics device customers that we were looking to convert over. Through the first quarter here, we've converted a total about 22 or 23 of them, and it's a pretty good mix. I would say there's 3 to 4 that are pretty sizable customers, and then there's a group of medium-size and small-size customers in the mix. So generally, a good mix of customers. There are some larger ones that we're targeting probably later throughout the fiscal year, but we feel really good about that 33% progression here so far on that base of 65.

What that represents, and I think what excites us the most, is that represents about 200,000 incremental subscribers that we've tied into multi-year service contracts. These contracts are typically 36 months with the potential to renew out further, and so that subscriber base we will begin to start monetizing here in the coming weeks and quarters. So that's really what we're targeting. We want to get to that total 60, 65 customers by the end of this fiscal year. We're making great progress. And as we see those subscribers coming on to the platform and we have that ability to monetize them, that's when we start to see some of the real true success from this model that we're embarking on.

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

Got it. That's great. And then the other one I wanted to ask was just looking at the software and subscription services revenue was down sequentially. I know the installation of devices is probably a factor in that. But why would that number be down sequentially? Any more insights would be great.

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

Yes, George, so I guess I'll handle that one, Jeff. So we have been very focused on what we call converting the base of our eligible telematics device customers. So in those scenarios when you're working with these customers that have been predominantly device oriented, we do have -- once we execute those MSA scenarios where a large portion of the upfront revenue is associated with the initial performance obligation, which is associated with the device. And so that revenue under GAAP requires us to put -- although it's part of a bundle arrangement with that customer, it requires us right now to build it into the product revenue, not the application subscription.

While that's happening and that's where our focus is, we also have the runoff of our vehicle finance business, which you'll probably know from a couple of years ago, was a pretty large portion of our overall subscriber base and was generating a good, what I would say, consistent revenue, albeit that revenue was at pretty low ARPUs and not in terms of gross margin -- at our target gross margin level. So that is running off, while we're working hard to convert this space, which is having somewhat of an offset to and causing that decline year over year that you're seeing.

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

Got it.

Operator

Our next question comes from Mike Latimore with Northland Capital Markets.

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

Yes, just I guess on the vehicle finance topic, how much revenue in the quarter came from that category?

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

It was well less than $1 million, Mike, but that business had at one point in time been trending in $2.5 million to $3 million a quarter. But it has been dropping off pretty quickly here as of late.

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

Got it, okay. And then if you convert the base by year end, do you have a range of how much incremental quarterly revenue that would be, recurring revenue and the software and subscription category?

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

So, Mike, we haven't quantified it in terms of the quarterly revenue target, but what we've done is we've identified of that population of customers, let's say, that 60 to 65 customers, that customer base is historically represented on an annual revenue run rate somewhere around, say, $65 million to $75 million, maybe as high as $80 million if we go back in history. So, we generally have an idea of how much revenue it relates under the, let's say, legacy operating model, and we have a sense of what that will ultimately convert to on a go-forward basis. But we haven't actually broken it down by quarter.

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

Okay, got it. That's helpful.

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

Mike, this is Jeff. Just on that, we do believe, just to give you an idea, one, I talked about the supply chain recovery, and then we do anticipate our percentage of business that's -- percentage of revenue that's represented by software and subscription services to grow throughout the year. And we're at 61% today. So that should give you some insight into directionally where we're headed.

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

Great. Okay. Just last on the sales organization. I think last quarter you talked about a goal of adding I think 30 salespeople I believe. I think that's quota carrying salespeople by year end I guess. Is that still the target, or has that changed with your new CRO?

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

No, that remains the target. And Brennen is off and running. He's been here for about 30 days now. He was able to start day one with our national sales kickoff which was a great success, allowed him to meet all of his team. He's already installed some new sales leadership in the team, and he's really putting in place his system to manage accountability of the sales process throughout. Some specific things that I think you'll see that are different or improved at the company as a result of Brennen's leadership is to focus the sales team on new business acquisition. This was a big strength of his at Verizon Connect and at Idelic to really focus on new logos. And as we complete our conversion, our future success in sales is really tied to seeking out new logos in terms of our target customers.

In addition to that, he's opening up the midmarket, which is going to increase our sales velocity and consistency at CalAmp. So he's doing a lot, a lot of new people in sales and sales ops, and we're still on track to add those sales people this year, and we're doing it in a way that we're taking down expenses and other areas of G&A to support the sales function, which feels like the right thing to do for the Company. It's going to allow us to improve margins while really improving our ability to sell.

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

Got it. And just back on the sequential decline in software and subscription. Can you just dig into that a little bit more? You've obviously added a lot of -- you've done a lot of conversions, you're winning new business. Just maybe clarify a little bit why that was down sequentially.

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

Yes, Kurt, could you take that please?

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

Right. So I think, Mike, you're just referring to the way we've disclosed in our 10-Q the software application and services revenue versus the product revenue. And that decline from last year to this year. Again, it's a combination of things, and it's being perpetuated by the fact that we are very focused on converting our base of hardware customers over to these subscription models where the predominant portion of that revenue when it happens gets positioned in the product category, the device category, not in the recurring application subscription category. So that's the first thing.

The second thing is when you look at the revenue base that existed in 2021, first quarter of fiscal 2022, there was at least $2.5 million to $3 million of vehicle finance revenue that was in there that has come down, has been dwindling down as those prepaid contracts get serviced through their term. So they had probably two-, three-year terms. And so although we're servicing them, they fall off, and as they fall off, the revenue portion of that declines. So that's a minimum of a $2 million. And then the mix of that, there are certain contracts that we are in the process of renewing that have been on longer-term arrangements, and we're working to either cross sell or upsell them. But as they come to their fruition and we are working on renewing them, those sometimes taper off a bit in the latter part of the contract term.

So it's a combination of factors. But we feel really good about the fact that as we are converting our base of customers, our telematics device customers over and we are building that installed base, an incremental 200,000 subscribers that I mentioned a little bit earlier, that will start to grow and we will start to monetize it, thereby offsetting this decline that you're seeing in the legacy recurring application subscription revenue.

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

Okay. And Kurtis, you described that as a year over year effect, but that was also the sequential drivers as well?

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

I don't have that in front of me, but I think sequentially we were fairly flat, but I'd have to go through that and look at it. But I was referring to what was stated in our 10-Q.

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

Okay, all right.

Operator

Our next question comes from Scott Searle with ROTH Capital.

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

Just a couple of quick clarifications. I missed the OEM sales number in the quarter. And then if I could, on the product gross margin front, how are you seeing things immediately improve or change in the current fiscal quarter? China is starting to open up, some supply chains are starting to come back. Will that be up sequentially? What's your best guess at this point in time?

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

Yes, Kurt, would you take those please?

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

Sure, Scott. So the first one was the OEM products revenue in the quarter. So, of the $25.2 million of telematics device revenue, the amount associated with sales to our OEM customers was approximately $10.5 million. And then we had indicated that of that $10.5 million a portion of that, I believe $9.7 million or so, was associated with our largest customer. And then can you restate your previous question, Scott? I apologize on the second half.

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

Gross margins on the product front. Kurt, gross margins on the product front, given supply chain issues and otherwise, how that visibility is shaping up now? Is it going to be sequentially up? How should we be thinking about it in the immediate quarter?

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

Well, we're not giving guidance, Scott, but what I would say is that obviously our gross margins are impacted by our volume, and in particular our revenue growth. And so as we indicated in our initial remarks, we do believe that quarter over quarter there will be an increase or uptick in revenue. So you would naturally assume that there would be some improvement with gross margin. I will say also that it's been pretty unusual in terms of the pace at which some of these cost increases are coming at us as well as others in our space. It was compounded more recently around some tariffs that were being passed through from product coming out of China. Obviously, the components and chips have always been a persistent cost increase and freight continues to be a challenge. But we're doing everything possible we can to absorb those costs and/or pass those on to our customers when we have that opportunity, but it's been pretty a rapid pace, and there is a little bit of a lag between when we are hit with those costs and when we can actually pass them on or absorb them.

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

I just wanted to add to that. On the margin side, every month Kurt and I get on with the global supply chain team and talk about what our PPV looks like or our price increases look like against the pricing increases that we're seeing from our vendors. And so we're keeping track of that. As Kurt said, it's a lag, but we're feeling better about the percentage of our total customer POs that include PPV. As Kurt said, there's a bit of a lag, but we're really on top of that from a customer by customer perspective, which will help improve margins throughout the year.

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

Okay, helpful. And if I could have wanted to clarify on RPO for the year. I think for the current fiscal year last quarter you talked about there being $90 million under the full RPO that would be delivered in fiscal '23. There's still $80 million remaining on that. Plus, I think there was about $21 million that was recognized in the quarter. Is that correct? So it's roughly a little over $100 million versus $90 million. So the RPO in terms of fiscal '23 has continued to increase in the most recent quarter.

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

Yes, Scott, so we were really pleased with the RPO growth. So we ended last fiscal year at about $200 million to $202 million. At the end of this quarter, we were about -- for our core business, about $215 million. When you include what was leftover for the vehicle finance business, maybe $216 million. So that growth I think is very healthy. It does reflect the efforts of us converting over these telematics device customers into a subscription model. It's forward looking, so it gives you some of that visibility into what we think we could recognize and we'll have to service over the next one, two, and three years. We have indicated that 37% or approximately $80 million of that $215 million will be recognized in the upcoming, say, 12 months. And we do expect that number to continue to grow as we continue our momentum on converting more customers and driving new logos. So pretty pleased with the RPO expansion over the last several months.

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

And if I could, BMW, Volkswagen, how meaningful, how big are they, what does that do from an ARPU standpoint, how quickly does it ramp up? And blending that against the conversion of the remaining 2/3 of the existing MRM customers that are converting? How should we be thinking about the ARPUs trending over the next couple of quarters?

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

Yes, I'll take a shot at that and then, Kurt, if you would tip in because you'll have some more insight I'm sure. But, first of all, on BMW, that's a very significant opportunity for us. It's very early days in terms of that relationship. We issued our first PO, but that's a pan-European opportunity for us. And, of course, BMW has a significant market share in that region. So we're very excited. It's a very sophisticated application, which means good things in terms of ARPU. Overall, on ARPU, you've got to remember that our transformation has really two steps. Step one is the conversion of the base, which gets many, many subscriptions to our total subscriber base at a relatively lower ARPU to begin with. But it sets us up to sell all kinds of things in the future. And as we turn our attention to new logos and upselling our existing base, I believe that you'll see the ARPU at the Company continue to drive up over time. And I'd say the ARPU on some of these initial conversions is lower than you'll see on new logos, when you when you think about the difference between going to the base and going to a new customer. So on the ARPU front, we're very keenly focused on that. We still feel good about converting all these lower ARPU customers to a subscription model to begin with because that's step one. And it sets our sales team up to do more in the future. And, Kurt, you might have something more to add there.

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

Yes, I just wanted to just touch a little bit about on BMW. So, Scott, I don't know if many people are aware, but BMW is a fantastic story of what we characterize as land and expand and shows how we can penetrate large OEMs to drive incremental-type service arrangements with them. We've been doing business with BMW for a number of years out of our Italian office, and BMW came to us with this, what I would call, an advanced telematics vehicle recovery solution that they want to embed within most, if not all, of their vehicles that they ship in the pan-European area. So that in and of itself shows you that we have the ability to expand on the account. And what typically comes with expanding within accounts is what ARPU expansion and incremental service opportunities. So on BMW itself we do see that as a fantastic example of what we can do to expand ARPU.

On the broader question of where our ARPUs will trend in the next say year or so, there will be downward pressure primarily because we're converting our base of telematics device customers and moving them into multi-year service contracts, which in and of itself creates stickiness but in the near term, as we start to build on that installed base, and we deliver just access to our platform and some of the services we have on our platform, we might see some downward pressure on ARPU, but in the long run that will be a very favorable thing for us.

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

Got you. And lastly if I could, Kurt, from a modeling perspective. Looks like non-GAAP OpEx was flattish. How should we be expecting that to trend over the next couple of quarters?

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

Yes, on the OpEx, obviously, that is certainly an area of focus for us. It's become a key area that we're concentrating on here in the near term, especially as we really target two things that we need to navigate through: one, converting the base of our customers and moving them into multi-year service contracts; and two, navigating through some of these supply chain challenges. So we are absolutely focused on OpEx. As we pace the conversion of our customers and we navigate through the supply chain challenges, in particular Jeff and I will be working with the other departments and functional groups to ensure that we're keeping our expenses in check and rationalizing those as we see appropriate based upon how things are unfolding through the transformations.

Operator

(Operator Instructions) Our next question is with Jerry Revich with Goldman Sachs.

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

Yes. Can you talk about your expectations for gross margins this coming quarter given the revenue outlook that you mentioned? I know it's tough to put a fine point on it, but any high-level comments about the sequential progression would be helpful.

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

So, Jerry, as I mentioned before, we aren't giving guidance -- forward-looking looking guidance. I do believe given that there's an expectation that we will have revenue growth and that the supply chain challenges will ease up a bit going into the second quarter that there will be some improvement in gross margin, but in terms of quantifying it, right now we're not in a position to do that given that we're not giving guidance.

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

Okay. Maybe to ask differently. So you folks laid out 50% gross margin targets. We're at 40% today. Just what's the path to get there? How much of that is reduced supply chain friction and improved price/costs or other moving pieces? Can you just bridge for us how we get from 40% to 50%?

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

Sure, Jerry, I'll take that. And the biggest part of that is, as we move to more and more of our revenue coming from software and subscription services, in general, the margins on that are in the low-to-mid 50s compared to our product margins. So that dynamic of moving more of our revenue to software and subscription will be an important driver. And then you're right, in the short run, we've been affected by the supply chain situations. And over time, as Kurt said during his comments, our PPV or increases to our customers have lagged those increases that we're seeing, but 100%, I'll assure you that we are passing on these additional costs to our customers. We've been successful with that. We're doing that in a way that's respectful of our customer relationships, and we're working with them on that. But over time, we're getting caught up there. And that lag should diminish over time as we see fewer challenges in the supply chain.

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

Okay. So the reason from the question is we're working towards the conversion and gross margins have gone from 41% to 40%. So I'm just trying to understand what's the path from 40% to 50%, to the extent we could put maybe a finer point on price/cost improvement expected and other moving pieces, I think that would be helpful.

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

I can layout, Jeff, if you want me to, some of our thoughts on that.

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

Sure.

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

Jerry, it's a multifaceted response in the sense that as we move or convert our basic customers over, and as we mentioned, we've converted about 1/3 of the total population of somewhere between 60 and 65 customers. They will come over with a multi-year subscription arrangement. In those multi-year subscription arrangements, we are charging for active subscribers. As those active subscribers come on base, they are actually going to be monetized over a period of a minimum of three, maybe as high as five years, and that will provide incremental revenue that will help us improve our gross margins.

In parallel with that, we are doing everything possible to optimize our cost structure to ensure that some of these challenges we're experiencing and the incremental costs that are coming through the supply chain are addressed. By that I mean, we're doing things like trying to ensure that we have a very tight base of devices that we are going to use as part of these subscription arrangements. We are trying to improve the overall design and proficiency of the devices. We are trying to work within our supply chain to cost down various components and the overall build of the devices, and also monetize in parallel with that the subscription arrangement. So it's a multifaceted approach to improving margins. We've been trying to target the margin improvement around the overall mix of revenue being more concentrated to software and subscription services. This quarter we were at about 60%, 61%, which we think is a healthy level for where we are in the transformation. We do think that can increase potentially as high as 70% over the course of the next few years, and so as that concentration increases and the installed base grows and we monetize that installed base while trying to optimize the supply chain around the device and delivery of that service, we believe the margins can gradually tick up to that 50% range. But that's going to take a couple years, probably three to five years.

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

Appreciate the discussion.

Operator

Our next question comes from Orin Hirschman with AIGH Investment Partners.

Orin Zvi Hirschman - *AIGH Investment Partners - CEO*

I know it's been asked a little bit in different variations before on the call, but there were a lot of different variables that caused the slight sequential decline in the recurring line. You mentioned in the call that you feel that there will be quarter over quarter growth as we go through the year. Does that mean that the pain points have either completely gone away? Pain points meaning things that are causing a decline in that line, pressuring the line in the other direction, have drained off mostly at this point? What should give us confidence that things can grow sequentially in that business every quarter or in that line of business?

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

Yes. One, as I talked about, as we get more of these conversions done, our sales teams are able to focus more on new business. That's a big part of it. The conversion of the base, especially for these initial customers, required some amount of effort, and I think every day we get better and better at that and that will allow us to spend more time on new logos and upselling to our base. So that will be helpful. In addition, we're going to continue to make progress on converting the base going forward and in terms of the percentage. At the same time, as I said in my script that all new customers will -- their purchases will involve a subscription. So we feel good about that over time. Certainly, in our business, a device-enabled solution business, we're not -- the supply chain just doesn't impact the product side, it also impacts the software side because we've got to get those devices, and that absolutely was impacted this quarter as some of the finished goods inventory were stranded in some of those locations in China that we mentioned earlier that were on lockdown, so that will get better as well. We've already seen the China situation ease immensely. So all of those will help the sequential growth.

Orin Zvi Hirschman - *AIGH Investment Partners - CEO*

Just one more question on that note. You went through some of the items that put pressure in the other direction. The beauty of the recurring revenue is typically the sequential growth, assuming that there's not much attrition, and in your case, you actually have a good line of visibility in terms of additions, particularly on the new contracts, how they're designed. So I guess, is there some underlying revenue metric that we can look at, let's say, for the last two quarters where it's been rising rapidly in recurring, whereas some of those, what I would say, end-of-life items, if you strip them out, you could see the underlying growth on the recurring itself.

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

Yes, Kurt, would you take that please?

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

Yes. So we've been working to disclose really two key metrics that we think provide forward-looking insight to where we're going, and the first one is the growth in the RPOs, the remaining performance obligations. So that grows from $202 million, $215 million, $216 million we believe is actually very good. We also think that the increase in subscribers also gives you greater visibility. Now I know that there's this thought process of well within that RPO, there's an element of the device, and that is true. We sell device-enabled solutions. So in every customer bundled arrangement, there will be a device element. There's no getting around that. But what we are doing in these multi-year service contracts and what is being observed in the RPO is the fact that we are working with our customers to have multi-year volume commits as to adding incremental subscribers and to a path to monetizing those incremental subscribers.

So as parts of our legacy business are winding down and are becoming less of a distraction for us, we have some short-term trends that we are addressing. But as you can see, the forward-looking metrics and the forward-looking trends to us look very healthy given that we have been able to bring new subscribers on, convert new customers, and it is showing up in two real places on the RPO growth and on the subscriber base.

Operator

There are no further questions, so I'll pass the call back over to the management team for any final remarks.

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

Sure. Thank you, Jason. Thank you all for joining us today on the call and for your continued interest in CalAmp. We do plan on attending Oppenheimer's 25th Annual Technology Internet & Communications Conference on August 10. Please contact your Oppenheimer sales contact or Shelton Group if you'd like to schedule a meeting with Kurt and I. We look forward to speaking with you again during our second quarter earnings call in late September. Operator, you may disconnect the call.

Operator

That concludes the CalAmp's first quarter 2023 financial results conference call. Thank you for your participation. You may now disconnect your lines.
