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ChargePoint Holdings, Inc. (CHPT)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Abby, and I will be your conference operator today. At this time, I would like to welcome everyone to the ChargePoint Fourth Quarter and Full Year 2021 Earnings Conference Call and Webcast. All participant lines have been placed in listen-only mode to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I will now turn the call over to Rebecca Chavez, General Counsel. Rebecca, please go ahead.

Rebecca Chavez

General Counsel & Corporate Secretary, ChargePoint Holdings, Inc.

Good afternoon and thank you for joining us on today's conference call to discuss ChargePoint Holdings, Inc.'s fourth quarter and fiscal 2021 financial results. I'm Rebecca Chavez, the company's General Counsel. This call is being broadcast over the web and can be accessed on the Investors section of our website at investors.chargepoint.com.

With me on today's call are Pasquale Romano, our President and Chief Executive Officer; and Rex Jackson, our Chief Financial Officer.

This afternoon we issued our press release announcing results for the fourth quarter and fiscal year ended January 31, 2021, which can be found on our website. We would like to remind you that during this conference call, management will be making forward-looking statements, including statements regarding our expectations related to financial guidance for the first fiscal quarter and fiscal year 2022 outlook for the sector and company, and our expected investment and growth initiative.

These forward-looking statements involve a number of risks and uncertainties, some of which are beyond our control, which would cause actual results to differ materially from those anticipated by these statements. These forward-looking statements apply as today. You should not rely on them as representing our views in the future, and we undertake no obligation to update these statements after the call. For more detailed description of factors that could cause actual results to differ, please refer to our Form 8-K filed with the SEC on March 1, 2021, and our earnings release posted a few minutes ago on our website and filed with the SEC on Form 8-K.

Also please note that certain financial measures we use on this call are expressed on a non-GAAP basis and have been adjusted to exclude certain charges. For historical periods, we've provided reconciliations of these non-GAAP financial measures to GAAP financial measure in the supplemental financial information that can be found on the Investors section of our website located at investors.chargepoint.com. And finally, once we've completed our full remarks, we'll be posting them to our Investor Relations website under the Quarterly Results section.

And with that, I'll turn the call to Pasquale.

Pasquale Romano

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

Hi, everyone. Thanks for joining and welcome to our first earnings call as a public company. We are very happy to be here. As a category creator, ChargePoint sees electric mobility having come into its own. We're operating across nearly all segments of EV charging, including commercial, fleet, and residential. We believe we are well-positioned to take advantage of the growth in the market. We are very happy to have begun trading on March 1 on the New York Stock Exchange. We've raised \$480 million in net proceeds as a result and have \$615 million in cash on our balance sheet to fund growth. I will point out that that is more cash than we have net spent in our 13-year history to get to this point.

I'll cover achievements for the year, then I'll talk about the outlook for the sector and the company, and I'll hand it to our CFO, Rex Jackson, who will review our fourth quarter and year-end financial results, then I'll share some closing comments, and we'll open it up to your questions.

Our story began 13 years ago with the vision that all people and goods can move around the planet on electricity, which is a pervasively distributed resource. When we set out to create this new fueling network, we understood we had to be everywhere drivers parked, at home, around town, or on the road. Beyond that, the world tends towards fleet over time, ride-hailing services, goods delivery, new kinds of work, et cetera. We created one single complete product portfolio of solutions for nearly every segment of EV charging, commercial fleet, and residential.

Today, we are both a pioneer and an established leader in EV charging with proven technology, top tier customers, and more importantly, our business model is capital-light. We have 71% market share of network level 2 charging in North America and thousands of commercial customers, including many of the Fortune 50.

Turning to the market. Every major automaker is committed to electrification. It's the biggest race since the invention of the automobile. Bloomberg New Energy Finance projects that by 2030, 29% of new vehicles sold in the US and Europe will be electric, and that should be supported by \$60 billion in charging infrastructure investment, and that's where we fit in. And the bigger point here is that demand for our charging solutions is driven by the collection of EV models. No need to pick the next EV winner because ChargePoint is an index for the electrification of mobility.

In a new market, it's common to have a variety of business models with notable differences grouped into the same category. And it's important to establish first why our customers provide charging services in their parking lots. For employers and businesses serving consumers, it's an inexpensive way to provide a benefit and align with sustainability initiatives. For fleets, it's all about improving their economics.

We sell annual, high-margin SaaS subscriptions to the ChargePoint network, charging stations, parts and labor warranty subscriptions, and design-build services. We offer an all-recurring revenue model as an option where the charging station is bundled into the annual SaaS subscription.

In the case of fleets, all of that applies, and we sell additional software for charging, scheduling and energy cost optimization. In both fleet and commercial, we have comprehensive service and support offerings, and we sell annual subscriptions to our cloud service regardless of the utilization of the stations or energy flowing through them. We don't own the majority of our stations. We don't monetize energy. We only monetize the driver in the case of home charging. Therefore, our model is inherently capital-light. And because we are in nearly every segment of charging on two continents, there's substantial OpEx leverage because much of the technology is common to serve all of those markets and geos.

The quality of our products and services generates higher driver satisfaction that attracts new customers and repeat engagements, further driving greater brand awareness and market penetration. There is a significant recurring component in our business, which is not only the subscription revenue, but the incremental electrification of parking spaces within a customer proportional to the incremental EV penetration in their parking lots. This business model is tested, and we are operating currently at scale. We are an established company with the right model, and we are very well-capitalized.

Turning to 2020. It was a remarkable year on many fronts, and I would like to acknowledge the resilience and dedication of our customers, partners, and employees. Because ChargePoint's business scales with vehicle adoption, I'll start by noting the Bloomberg New Energy Finance data on total global passenger cars. While sales were down 16% in 2020 for overall automobile sales, EV sales were up 48%, indicating the long-term shift to electric is happening even during a health and economic crisis.

Despite COVID, demand for ChargePoint solutions was strong across segments. We've long operated on the premise that being in all segments helps insulate our revenue from behavioral changes in fueling. Notable shifts in driving patterns really prove the benefits of serving a range of segments. Demand shifted as there was less commuting and fewer road trips for fun. Delivery of goods became more critical than ever, which benefited fleets and accelerated their interest in achieving better cost efficiencies through electrification. And we observed significant investment in new construction, continued interest from utilities in providing incentives and programs to facilitate the buildout of infrastructure. We saw increases in residential demand as more consumers looked for the convenience in home charging.

Some highlights from our business. We have one of the world's largest EV charging networks. At the end of 2020, we had more than 105,000 active public and private charging spots in our network, with access to an additional 157,000 active public places to charge through roaming integrations with other major EV charging networks across North America and Europe. In addition, we continue to aggressively expand our network and customer reach, activating more than 24,000 new charging spots and an additional 100,000 places to charge through roaming integrations.

More than 0.5 billion electric miles were driven in 2020 using our charging solutions, avoiding 129 million kilograms of greenhouse gas emissions. Our fleet business, which includes delivery and logistics, sales, service,

and motor pool and shared mobility segment saw significant growth in demand. In 2020, we saw businesses from a range of fleet types including 11 municipal fleets, 5 Fortune 500 sales and service fleets, 12 utility fleets, 5 transit organizations, and a Fortune 100 retail furniture company.

Europe is important to our growth strategy, and we made notable progress last year. In addition to the port growth, we are in 16 countries and providing around-the-clock support in nine languages. We continue to expand our partnership with a leading full service leasing and fleet management company, providing lease EV solutions for employers. We are starting to see referral business coming from that partnership. With fellow industry participants, we became a founding member of ChargeUp Europe, the European Trade Association for the EV charging industry, creating the building blocks for an open, competitive and harmonized market for EV charging infrastructure.

And turning to single-family homes, buoyed by a strong consumer rating, industry recognition and increased interest from utilities wanting to enable residential charging programs, our ChargePoint Home Flex business saw strong demand. In addition, we are seeing the beginnings of fleet customers who operate take-home fleets expressing interest in our managed home charging solutions.

Drivers continue to rely on ChargePoint, whether that is our top-rated mobile app, our integrations into Google Maps, Apple Maps, Google Wear OS, Apple Watch OS, Apple Pay, Google Pay, PayPal, and many more popular consumer platforms. Joining the growing list of software integrations, we've made notable progress on automotive experiences, including integrations with Apple CarPlay and Android Auto, as well as native OEM experiences such as in-car apps in Volvo Recharge models and Polestar, and dynamic integration into the myChevrolet app.

Turning to 2021. The shift in electric drive is accelerating, and we're excited about the year ahead. The lineup of EVs includes 20 new models across passenger car and fleet segments. I'll remind you that our growth scales with EV adoption, and according to Bloomberg New Energy Finance estimates, for global EV sales increased 48% last year, and they expect EVs to make up 3.8% of new passenger car sales globally in 2021, with approximately 5% in Europe and 2% in the United States.

On the commercial side, we're well-established in commercial charging in North America. Our commercial business is in scale mode. We're established in nearly all segments and can support high growth rates. We had our best fleet quarter ever in Q4 from a billings perspective, and the RFP activity is up 61% quarter-over-quarter. These facts reinforce our confidence about this segment. The category has historically been vehicle-limited, and we are ready when that unlocks. On the residential side, the overwhelming demand by consumers for large battery BEVs is catalyzing interest in connected home chargers, and our ChargePoint Home Flex is ready to meet that need.

In North America and Europe, national, state and city governments are accelerating implementation of electrification policies, including mandates or commitments to electrified buses, trucks, and fleets. We have positive early indication that President Biden is committed to transportation electrification from signing the Paris Climate Agreement on the first day of his administration to announcing a commitment to electrify federal fleets. This is in addition to the momentum at the state level. This commitment to electrification is also echoed in the roadmap for a renewed US-Canada partnership announced earlier this month.

With established policy teams in place, we believe we are well-positioned to engage with government agencies to inform public investment, including grants, tenders, and rebate programs, and enable our customers to take advantage of these opportunities. Utilities across North America are rolling out incentive programs that provide customers with a rebate towards the purchase of a charger or cover a portion of the cost to make a site ready to

install charging infrastructure. We have honed, over many years, the teams and processes to leverage these programs. In 2021, we expect to see more utilities propose new programs and extensions of their current programs and expanding the fleet. And we estimate that the multi-year utility program dollars will expand to \$830 million, available over multiple years.

We also expect utilities to address the operational costs for charging by establishing new electricity rates designed specifically for EV fuel that leverage managed charging. We have more money on our balance sheet than we have net spent to reach this point from 2007 to today. We have a long history of being good stewards of capital. And I'll remind you, the use of proceeds for the recent transaction are to continue to scale in Europe, continue our investment in fleet, and keep some powder dry in case an opportunity presents itself for selective M&A.

Now, over to Rex on the financials.

Rex Jackson

Chief Financial Officer, ChargePoint Holdings, Inc.

Thank you, Pasquale, and thank you all for joining our first earnings call. As Pasquale said, we are very pleased to be here.

To start, I'd like to offer a few baseline comments. First, my comments are non-GAAP as we define in our earnings release. The primary exclusions are stock-based compensation and the effect of the valuation of our preferred stock warrants. Second, after a quick review of our results, I will provide revenue estimates for Q1 and for this fiscal year, which ends January 31, 2022. Third, as you can see in our earnings release, we report revenue along three lines: Networked charging systems, subscriptions and other. Networked charging systems represent our network hardware. And as Pasquale said, all of our hardware is networked. Subscriptions include our cloud services, our Assure warranties, and ChargePoint-as-a-Service offerings where we bundle solutions into an annual service fee. Others, energy credits, professional services, and certain non-material revenue streams.

Turning to our results. Q4 revenue was \$42.4 million, down 2% year-over-year, but continuing the year's sequential improvement. Networked charging system revenue is down 5%, due primarily to the impact of COVID on commercial sales. Subscription revenue is up 39%, demonstrating the strength of our business model as recurring revenue from our installed base continued to grow. Other revenue declined 43%.

In the near-term, we will not break down revenue by business lines which, as Pasquale mentioned, are commercial, residential, and fleet. However, to give you context, billings by percentage for the fourth quarter were commercial 68%, fleet 17%, residential 12%, and other 3%. Notably, fleet, the core component of our go-forward strategy, at its best quarter to date nearly doubling its percentage contribution from last year's fourth quarter.

From a geographic perspective, Q4 revenue from North America was 92% and Europe was 8% compared to 90% and 10%, respectively, in Q4 of last year. The lower Europe building business more broadly to largely offset no revenue this year from a large network systems customer, that was a significant factor last year, and progress billing on a large professional services contract from an auto OEM customer that did not reoccur this year. We added hundreds of new customers in the quarter, higher than our average last year. Customer rebuys, also a cornerstone of our strategy, was strong at over 60% of total. As Pasquale described, our business is a land and expand model. Small first purchases create sticky relationships and a significant rebuy rate.

For the full year, we are pleased that revenue of \$146.5 million was up 1% versus last year despite COVID and exceeded our expectations for the year described in our published model. The full year reflected the factors I mentioned in the fourth quarter, with a 40% increase in subscription revenue offsetting a 9% decline in networked charging systems revenue. Other revenue was down 4% year-over-year due to COVID effects.

Across our business lines, billings for the full fiscal year were commercial 70%, fleet 11%, residential 14%, and other 5%. Geographically, for the year, North America contributed 93% of revenue and Europe posted 7% compared to last year's 90% in North America and 10% in Europe due to the factors I've just referenced.

Turning to gross margins. Entering the year, we're coming off of a FY 2020 non-GAAP gross margin of 20% for the fourth quarter and 13% for the year, driven down from historically higher percentages, primarily due to ramping new products, margin challenges associated with certain major customers, and the resale of third-party products as part of our EU strategy.

Non-GAAP gross margin for Q4 was 22%, up from last year's fourth quarter of 20%. The improvement reflects higher margins yielded by strong subscription performance and our improving cost structure, partially offset by a mix shift this year towards lower-margin products.

With fewer drivers going to the workplace due to COVID shutdowns, our higher-margin workplace products experienced a slowdown compared to last year. As we look forward, we believe our commercial business will recover when we all get back to work, and the fleet will also be a significant driver as vehicles become available, all supporting our overall outlook and improving blended gross margin.

For the full year, non-GAAP gross margin was 23% compared to 13% in the prior year due to the reasons I've just mentioned and consistent with our published model.

Turning to operating expenses. In the fourth quarter, our non-GAAP operating expenses increased 5% year-over-year to \$42.1 million compared to \$40.2 million in Q4 FY 2020. Full year non-GAAP operating expenses were \$148.1 million, 1% higher than last year. For the quarter and the year, these rates reflect our efforts to manage expenses in a difficult 2020 environment.

We ended the fourth quarter with a cash balance of \$145 million. With the completion of our combination with Switchback Energy Acquisition Corporation on February 26, we increased our cash balance to approximately \$615 million. We expect to use this cash to fund our growth initiatives, including our expansion in Europe and continued growth in North America.

Moving now to guidance. For the first quarter of fiscal 2022, which is typically seasonally lower than Q4, we expect revenue of \$35 million to \$40 million, a 7% to 22% increase versus Q1 of last year. For the year, we expect revenue of \$195 million to \$205 million, consistent with our model and, at midpoint, a 37% increase year-over-year.

Thank you again for joining us. And I'll turn it back to Pasquale for closing comments.

Pasquale Romano

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

Thanks, Rex. In closing, I'll reinforce that ChargePoint has focused on our vision to move all people and goods on electric power since 2007, and that still drives us today. The company had never pivoted. This shift to electric mobility is accelerating. We have a great opportunity here that is still in its early innings. Charging infrastructure is

now expected by Bloomberg New Energy Finance's measure to be a \$190 billion market by 2040. Aligned with that, our business model is designed to scale proportionally to the adoption rate of vehicles in the geos we serve. We have a 13-year foundation to build on, and I will remind you that our business model is capital-light.

As a leader in EV charging, ChargePoint is well-positioned to capitalize on the growing market with great technology, a large customer base and a business model that has been pressure tested over more than a decade. We are the only EV charging company with solutions across segments on two continents. We have operating expense leverage across geographies. We have cost structure scale benefits on our products and services. And we are excited to be a public company and are committed to continued strong execution across functions. We are also committed to providing our shareholders with timely and transparent investor communication.

In closing, I would like to thank our team at ChargePoint for their incredible effort and dedication to getting us to this point. And as I shared with the employees on our listing day on March 1, I described this moment in our company's history as a semicolon in the sentence that is ChargePoint. It's a brief breath as we continue the journey with most of the growth ahead of us.

With that, I'll be joined by Rex, and we'll open it up for your questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Shreyas Patil from Wolfe. Shreyas, please go ahead.

Shreyas Patil

Analyst, Wolfe Research LLC

Q

Hey. Thanks so much. So, just wanted to dig into the revenue guidance a little bit. You're maintaining the guidance for fiscal 2022. But can you give us some of the underlying assumptions either around industry EV demand for North America, Europe, and our new charging installations? And then also around gross margin, I'm curious as I think previously you talked about 31% for this year, this will be fiscal 2022. Is that what you're expecting, and how do we think about those drivers as well?

Pasquale Romano

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

A

Hi, Shreyas. I'll provide some color on that, and then I'll have Rex get into some specifics on the numbers. Thank you for the question. First of all, I believe you'd asked a question about penetration of EVs into the geos that serve, and I think that's a very – that's a bright spot in what has been a challenging auto industry for sales numbers.

What you're seeing in the industry is an overall decline in auto sales, but an overall increase in the percent of sales that are EVs that offsets that decline in our particular market that's driving essentially demand for our products and services. So, we expect that strength to continue for a very long time. And if you look at the new makes and models that are being introduced, I'd talked about that in my remarks, you have 20 new EV models in this year alone coming out in both the passenger car space and the fleet space that should drive demand.

I'll remind you that our revenue has been historically and is predicted to continue to map directly to vehicle penetration in both the consumer segment, the residential segment – excuse me, commercial segment, residential segment and the fleet segment, we're all vehicle attached across the board. And so, if you believe, which we do, that the vehicles will continue to come in greater and greater percentages and greater and greater numbers, our revenue should follow suit.

In terms of gross margin, I'll make one comment, and then I'll hand it over to Rex. Our gross margin, we believe, as COVID begins to subside, our revenue mix will return to a pre-COVID revenue mix that will be a favorable trend with respect to gross margin. And also, as our overall volumes increase on both the hardware and software products that we sell on to the market, we expect that the trend that we have in gross margin will continue nicely. Rex?

Rex Jackson

Chief Financial Officer, ChargePoint Holdings, Inc.

A

Thanks, Pat. So, Shreyas, first of all, nice to see you on our first earnings call, so thank you for joining. Secondly, from a revenue guidance perspective, first thing I would say is we're embracing the number that's out there as we look out over the next four quarters. Secondly, there is some seasonality, so that's why we've put Q1 where we put it. We're typically down Q4 to Q1. That would tell you mathematically we're looking at a strong second half. I think there's two things there. One is that's very typical from a pattern perspective for the company. And secondly, we do think that people are going to get back to work sometime later this year and that will have the beneficial effects for the top line and gross margins that Pat just mentioned.

From a confidence perspective, as Pat said, there are a lot of vehicles coming out this year. I think the percentage is up and actually the unit count is up as well. So, we directly correlate to that. As you know, our model is 100% built on our attach rate to new vehicles. So, that's how we build our outlook. We do have a pretty good pipeline. And in terms of pipeline visibility, we have a great pipeline, but the visibility is pretty good, sorry. And so that's how we have constructed our view of the year.

One thing you'll note in Q4 is that fleet really picked up. Fleet had its best quarter from a billings perspective in the history of the company. And the one place in our business where nobody fell asleep in COVID is fleet. Fleet has really picked up from an RFP perspective. They get the total cost of ownership, and they're just – it really comes down to vehicles for those guys. So, that's how we constructed our model to begin with, and we're comfortable saying we think that we'll execute against that.

Lastly, on gross margin, I'm not going to guide on gross margin. I don't think that makes sense because we're so heavily mix-dependent. As you know, our commercial business has different products and different gross margin profiles. Fleet is very different as well. So, I really want people to think about us on a blended basis, and I think we're going to see margin expansion, as Pat said, as we go through the year.

Shreyas Patil

Analyst, Wolfe Research LLC

Q

Okay. Great. And then, wanted to maybe touch on Europe. You mentioned 7% of revenue in 2020. Looking out, I think, by mid-decade, roughly mid-decade, you're thinking about, it looks like it's supposed to maybe be roughly a third of the revenue. Can you maybe just help frame what some of the expectations are around either L2 market share? Where would that be today and by 2025?

And I wanted to better understand the partnership with the leasing company that you mentioned because I think they are talking about pretty aggressive growth in terms of that penetration. I think they recently talked about

increasing that mix in terms of vehicles they leased to 30% by 2025 and maybe 50% by 2030. So, I'm just trying to understand how that would flow through to ChargePoint either from a residential and then a commercial perspective.

Pasquale Romano*President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.*

A

So, thanks for the question. All components of that, I think, were insightful. The way – so, first of all, I want to establish a couple of things. We based our long-term model on the Bloomberg New Energy Finance estimates for vehicles, and any revisions that might happen or any changes that might happen in the future could move that vehicle number up or down. We think that there is a lot of positive sentiment and momentum, especially in Europe with respect to makes and models, especially given the automakers all have – the automakers that serve that market have all made broad statements about fully electrifying their product lines as they move forward through the decade.

So, I think what you'll see is continued – for us, continued penetration into Europe. Europe's a very fragmented market right now. And we think we can be a tremendous consolidating force in that market to provide the same driver experience that we have here – there. And as you mentioned, with the lease co's they're serving the employer-provided vehicles as part of compensation. That phenomena doesn't exist here.

So, it actually provides a nice concentrated way for us to establish market share quickly in Europe. And so, we're leaning in heavily there because, obviously, it's a great way and a coordinated method to get a new customer up and running at their workplace. And then also, there's a home component there as well where that lease co bundles that home charging solution optionally into the contract with the employer. Rex?

Rex Jackson*Chief Financial Officer, ChargePoint Holdings, Inc.*

A

Yeah. So, focusing on Europe, last year, Europe was – I'm sorry – Q4 Europe was about 8% of our billings. We're looking at a meaningful increase over the next year on the percentage basis, something on the order of 50% increase percentage-wise. Obviously the companies we're anticipating will grow next year and therefore the actual dollar values will grow as well. So, I think we're in good shape. You mentioned market share. Our market share in Europe is in the low, mid-single digits. Hard to project what that might look like at the end of the year. But I can tell you, we're putting a lot of wood behind the arrow in Europe this year, and would expect a meaningful growth both on a dollar and percentage basis.

Shreyas Patil*Analyst, Wolfe Research LLC*

Q

Okay. Great. Thanks so much, and congratulations on the quarter.

Pasquale Romano*President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.*

A

Thank you.

Operator: Our next question comes from Colin Rusch from Oppenheimer & Co. Colin, please go ahead.

Colin Rusch*Analyst, Oppenheimer & Co., Inc.*

Q

Thanks so much, guys. Can you just give us a sense of trends on sales conversion rates and cycle times particularly related to the commercial customers in North America as you've kind of gone through the back half of 2021 and looking into the first half of fiscal 2022?

Pasquale Romano*President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.*

A

So, Colin, thank you for the question. And so, obviously, things are converting as EVs penetrate and as it becomes abundantly clear to facilities managers in all segments that this trend is here to stay. The conversion rates, obviously, in the pipeline improve. We have a very strong pipeline going into the year. And one of the things that we are – one trend that we are seeing in our sales force is the ability to, on an increasing basis, close and win business in our sales telephone contact center, which I think is an interesting indicator to us. It's a leading indicator on a significant part of our sales right now, but it will continue to grow, and I think it's a leading indicator in the conversion, the ability to convert the pipeline to real sales.

With respect to our business in terms of how much pipeline at the beginning of a quarter or how much of the quarter is visible at the beginning of the quarter, it is roughly, roughly in the half, maybe a little less, perspective in terms of how much we see at the beginning of the quarter versus how much is closing one, and this is in the highly granular commercial segment. The fleet segment is a bit different. We get more visibility there.

So, what does that tell you? That tells you that it's moving pretty fluidly, and we expect that to increase. And what gives us confidence in our numbers on a go-forward basis is just the historical attach rate model that we've developed that shows that as long as we're in a geography and serving it well with support and sales coverage, good deep channel coverage, well-trained installers, et cetera, that we've got the ability to convert the demand that those cars generate in sales. Rex, do you have anything to add?

Rex Jackson*Chief Financial Officer, ChargePoint Holdings, Inc.*

A

That's perfect.

Colin Rusch*Analyst, Oppenheimer & Co., Inc.*

Q

All right. That's super helpful. Thank you so much for the detail. And then within the fleet segment, looking at the competitive dynamics of deeper design and some of the software offerings in terms of operating multiple chargers and being able to manage multiple charging vehicles that I think [indiscernible] the moment, can you talk about where are you sitting in terms of the competitive landscape and how important that is in terms of some of those fleet – that fleet backlog you're looking at developing over the next, call it, year or year-and-a-half?

Pasquale Romano*President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.*

A

Yeah. So, Colin, we view ourselves as a very complete solution provider in the fleet segment. We have very comprehensive software solutions, and the engagement with the free customer really starts there. It's a software conversation from the beginning because of the need, especially in very large fleets, to integrate with their route planning and telematics business systems that determine when a vehicle needs to leave the next day and also what its mileage for its routes will necessarily be. And also the energy economics, depending on where the depot is situated, may have some fluctuation as to when or how best to optimize the dispensation to minimize the cost of the energy.

So, our software focuses on that problem set. And as a result, we have built our support operations which, with our Assure Pro product, has all of the necessary options to engage with different kinds of fleets that like to be – like to support their depots in a different way. Some wanted fully turnkey, some may want to do some of the support themselves and stock spares, so we can engage in that way with fleets.

And then lastly, we have the charging solutions, the hardware itself that we built. It's very flexible and it's completely designed with our software in mind and also completely designed without time in mind for mission critical applications like fleet. So, we're pretty confident that our package is very, very, very competitive there on the fleet side from a functionality perspective.

Colin Rusch*Analyst, Oppenheimer & Co., Inc.*

Q

Okay. Helpful. And then follow-up question for me, just around supply chain. I'm sure there's a lot of lumpiness within various industries in terms of components and being able to deliver full solutions on time. Can you guys just touch on any sort of inefficiencies in the supply chain, expediting fees, component charges, and how you're expecting that to impact gross margins here in the first or second quarter of fiscal 2022?

Pasquale Romano*President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.*

A

Yeah. That's a great question, subject to a lot of conversation inside ChargePoint. Obviously, on the operation side, we're trying to stay very, very focused on this, especially given that we're in a high-growth market. And so, a couple things. First of all, last year we did not miss shipments based on supply chain issues. We – and as you see by the numbers, the mix, as Rex has mentioned in his remarks, the mix shifted pretty substantially between segments, which means the hardware mix, which is affected by the circumstances that you're outlining, changed. And we were – we managed to be resilient against that through a whole lot of hard work on the part of our operations team. As we move forward, and I'll remind you that we use – we have three contract manufacturing relationships in the company. So, these are, our large CMs that have good supply chain mechanisms of their own right. But we are actually putting in mitigation strategies and have been with respect to safety inventory.

I can't say that we're perfectly going to be able to avoid whatever comes around the corner, but we did, I think, yeoman's work in the past year; and on a go-forward basis, we're really focusing on it to keep ourselves as insulated as possible from this. We obviously – last year, you asked specifically about expedite charges. We saw some. I don't think they were massively material, Rex? But they were – but you always will get that to some degree when you have mix shift around and the business scale beyond what our initial models were for the beginning of the year.

Rex Jackson*Chief Financial Officer, ChargePoint Holdings, Inc.*

A

Yeah. And Colin, what you might expect, that do you think this will happen, is our inventory is probably going to trend up a bit because there's some silicon stuff you want to make sure you have exposure to, and some other components. And obviously, we want to plan for growth. The good news is, is I think our obsolescence risk is really low. So, we're going to try to take the risk out of the supply chain by bulking up a little bit.

Colin Rusch*Analyst, Oppenheimer & Co., Inc.*

Q

Okay. Thanks so much, guys.

Operator: Our next question on the line comes from Gabe Daoud from Cowen. Gabe, your line is now open. Please go ahead.

Gabriel J. Daoud

Analyst, Cowen Inc.

Q

Thank you. Good afternoon, guys. Congrats on getting the deal done and on your first quarter here. Maybe I was hoping to start or just go back to Europe. Could you maybe just remind us – Pat, in your last comment you did mention that the three contract manufacturers you do have, but could you – so, could you maybe just give us an update on the Europe strategy and whether you're now 100% on contract manufacturing for the AC products in Europe? I think you guys were anticipating to be 100% on your AC products using contract manufacturing. But just curious if you had an update there.

Pasquale Romano

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

A

So, our products almost across the board are built by contract manufacturers now. We may do some small things with local manufacturers for new product introduction and early engineering, or very, very, very early customer engagements. But nothing – no major supply now comes from anything but our contract manufacturing partners. The contract manufacturing partners have global supply chains, and they have the ability to cover us globally. And also, along with the supply chain partners are our distribution partners that we're using for logistics.

So, your specific question with respect to Europe, we are currently using some white label products in Europe that has been generally customized for us on the AC side because your question was specifically on AC, and that will – that – obviously, we will continue to evolve our product line on the AC side in Europe, and stay tuned.

Gabriel J. Daoud

Analyst, Cowen Inc.

Q

Okay. Okay. Thanks. That's helpful. Maybe just a follow-up. Do you feel at this point the team and the human capital that you have behind the effort to expand in Europe is sufficient? I know you're building out the team and you've made a number of expansions in that area, but just curious if you think, from a people standpoint, you're well-staffed now for the growth initiatives ahead.

Pasquale Romano

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

A

Yeah. So, we're at around – about 100 people or so in Europe, maybe higher now, and we're going to be increasing that pretty significantly over this year. In fact, it's a big focus for us on the hiring side. I'll remind you where our locations are. We have our European headquarters in Amsterdam. We have a collection of individuals also in the Munich, Germany area, and then we have a decent-sized facility in Reading, right outside of London in the UK.

We are putting – we are positioning pretty much all functions – all corporate functions in Europe. So, we have finance, legal, R&D, sales, marketing, et cetera. So, we're essentially multi-local and that we need to make sure that we have the functional coverage in the region to operate quickly in the region and also make sure that we can deal with all the nuances of selling and building products for local regions.

Now, with respect to R&D, I want to point out something that's incredibly important. The product line is a generally world product line. There are some areas where the hardware product line may have things that are specific to a

region over time. Even that will be a world product line. And the software, while it has its language nuances, support nuances, things like that in different regions, it is a world platform. Therefore, the R&D operating expense leverage in being in Europe and North America is very high and that we do not have to have a separate product line with separate software and very separate processes and procedures for Europe. This also helps us greatly in fleet, where there's a lot of commonality in product line as well.

So, the real – so, the people that we have positioned in the European market now, and as I said it's going to be a big head count growth area for us, that's just the tip of the iceberg because our R&D team and lots of other functions in the company are operating, producing intellectual property and products for the world essentially.

Gabriel J. Daoud

Analyst, Cowen Inc.

Q

Got it. Thanks so much for the color, guys.

Operator: We have a question now from Craig Irwin from ROTH Capital Partners. Please go ahead, Craig.

Craig Irwin

Analyst, ROTH Capital Partners LLC

Q

Hi. Good evening, and thanks for taking my questions. So, I wanted to ask a little bit about the guidance for this year. Obviously, you're expecting strengthening into the end of the year. Can you maybe describe for us the contribution from people returning to work? Are you assuming something related to sort of a taper down of this COVID effect and a benefit from your strength in workplaces as people do return to the workplace? And I guess, as a second part in there, is there activity going on right now with your customer base preparing for obviously the additional charging spots given that EV fleets are growing quite nicely while everybody's stuck with work from home?

Pasquale Romano

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

A

Yeah. Great question. Our expectations with respect to full return to work, and that will probably have a new twist – sort of twist to it in the kind of work styles and methodologies that evolve during COVID, we expect that to be back-end loaded in the year, the second half of the – a second half phenomena, and we'll be coming out of it. Over Q1 and Q2, we expect that fully to show up in the numerics towards the back half of the year. With that said, we've had incredible resilience in the business where the mix has moved around as evidenced by the overall performance relative to our expectations for the last year.

So, going into the year, we see fleet being really strong on a year-over-year basis. Even within last year, it grew substantially in percentage over the year. And we see workplace coming back. We see residential staying strong. We see the sub-segment of multi-family inside of residential really getting a lot of attention. We have now – the plans aren't fully hatched, of course, but we have the Biden administration providing potentially some stimulus in the form of support for infrastructure, and our little corner of that will be charging infrastructure. And how that plays out we don't exactly know yet, but we're participating in the discussions with the administration. So, hopefully, that will also be a tailwind. So, we see a lot of general tailwinds.

The specific question with respect to, are people prepping for the return to work? We do see construction happening during – throughout the COVID period where people with an eye towards the long game. In real estate, we're preparing and renovating properties given that there was limited occupancy. In those segments, we did see plenty of activity. You also have a backbone of utility programs. You notice in my remarks that the

available funds on a go-forward basis are climbing. These utility firms are multi-year. I want to make sure you get that clarification from my comments. But we – those programs have time fuses on them typically. And so, if there's a program enforced in a particular geography that's providing some subsidy for either the make-ready or even beyond that on things that – on sites that have been more largely affected by COVID, that will put counterpressure on the business erosion there – the temporary business erosion due to COVID.

Craig Irwin*Analyst, ROTH Capital Partners LLC*

Q

Thank you for that. Thank you for that. The next question I wanted to ask is about the new product roadmap. So, you did touch on the new AC products allowing you to move away from third-party products in Europe maybe into the end of the year. I believe there's also a fleet product that's in the roadmap for this year. Can you update us on the status of these two products? Do we have a specific quarter or time point where these are expected to be launched? And what sort of margin implications does this have both, I guess, on European opportunity and then your success you're seeing in fleet these days?

Pasquale Romano*President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.*

A

So, obviously I can't comment on unannounced product launches. I wish I could tell you. I'm really excited about a lot of the things that we're doing in the R&D team, but I really can't comment on specifics of dates and markets that we'll be launching product into. What I will tell you is that with your first margin question, obviously, it's a big focus for the company. And as we continue to evolve our product line and work our supply chain, move up the scale ladder as more and more volume exist on the hardware side specifically, I would expect the gross margins to continue on the trends that we've indicated in the past.

Rex Jackson*Chief Financial Officer, ChargePoint Holdings, Inc.*

A

Yeah. And I can certainly say, add to that, we've factored in new product introductions to our planning this year. So, when you look at our model, we know when we're planning on doing X and Y, as Pat said we can't say what X and Y is, but they're in the plan, and so it's not a surprise kind of thing. We just need to get the launch COGS right.

Craig Irwin*Analyst, ROTH Capital Partners LLC*

Q

Understood. That makes sense. My last question is directly about gross margins on the DC fast charging products. So, the skeptics out there have been critical about the margin progression at ChargePoint over the last two years, and people that unpacked the margin progress obviously understand this is a business mix issue and it's also the DC fast charging product coming into the market quite nicely. Can you maybe comment a little bit about margin progress on the DC fast charging units? Where are we versus your plan? Is there room for that to continue improving over the next few quarters?

Pasquale Romano*President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.*

A

So, I'll have Rex speak to the specifics on the trajectory there. I want to just provide a bit of color, which I think is important. Our fast charge product line is not a product line, but it is a modular architecture that is going to continue to evolve into derivative products over time. And so we made a very ambitious investment in the initial set of products built on that architecture and are continuing to evolve it.

And when you start out with ambitious products like that in what is low volume, because the market is a low volume market there, in general, as you start up those product lines and you get contract manufacturing moving and you invest in all the test infrastructure you need, you are going to have, as a first time through the system, you're going to have gross margin impact on the company. It's just a result of investing. And then – but, obviously, we have good plans in place to continue to evolve and move that.

Rex, I'll let you comment on the specific numerics.

Rex Jackson

Chief Financial Officer, ChargePoint Holdings, Inc.

A

Yeah. So, Craig, the margin, as you know, on the fast charge product is currently very thin, shall we say. So, it's very thin. I think by the end of this year – we've made great progress last year. This year, we'll break into meaningful – flat to positive territory on the gross margins. One of the things about a DC fast charge architecture, which Pat just mentioned, yes, we've made investments, but there's also an element of market education, customer education, and ultimate acceptance, not all products are created equal.

So, we did manage to – I think we taught the market something from an AC product perspective, which is why I think we've been as successful as we've been in the US, and hopefully increasingly so in Europe on that side. Our DC fast charge product is a better product than anything else in the market. It's not all about a single number. The number in terms of output is strong. It's all the features functionality, the reliability, et cetera. So, we have some additional market education to do. So, I think that will help us from an ASP perspective. And then we're going to take the cost curve down notably this year, and we'll be fine by the end of the year.

Craig Irwin

Analyst, ROTH Capital Partners LLC

Q

It sounds like a great plan. So, congratulations on the successful listing, and thanks for taking my questions.

Rex Jackson

Chief Financial Officer, ChargePoint Holdings, Inc.

A

Thank you.

Pasquale Romano

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

A

Thank you.

Rex Jackson

Chief Financial Officer, ChargePoint Holdings, Inc.

A

Thank you very much.

Operator: So, we don't have any further questions on the line. So, I hand back over to the management team for any closing remarks.

Pasquale Romano

President, Chief Executive Officer & Director, ChargePoint Holdings, Inc.

Certainly. So, first of all, thank you to all that are attending our first earnings call here. We're very excited to be here and to be listed on the New York Stock Exchange. Thank you to the folks that asked questions. I think it

helps a lot. The questions help a lot to educate investors out there on the dynamics of what is a very new and exciting market. We're very happy to finally have this market after a 13-year journey with the – that the company has been on to finally see all the pieces coming together in the market, vehicles, battery technology, consumer user experiences for charging, just a myriad of things, plus all the secondary things that have to get integrated there with respect to energy and policy, and all those pieces.

So, on a go-forward basis, I think there's just a lot of – there's going to be a lot of excitement in this industry. What we're going to do is we are going to keep our head screwed on straight and execute. And for us, it's all about execution. We know exactly what we're doing. We've been in this space for a very long time. And it's not theoretical for us. Right now it's all about practical execution. And we hope to turn in good results for our shareholders. Thank you so much for attending.

Operator: Ladies and gentlemen, this concludes today's call. Thank you for joining. You may now disconnect your lines.

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