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ShotSpotter, Inc.

Second Quarter 2019 Earnings Call

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C O R P O R A T E P A R T I C I P A N T S

Ralph Clark, *President, Chief Executive Officer & Director*

Alan Stewart, *Chief Financial Officer & Secretary*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Matthew Pfau, *William Blair & Company*

Joseph Osha, *JMP Securities*

Richard Baldry, *Roth Capital Partners*

Charles Erlikh, *Robert W. Baird & Co.*

Christopher Van Horn, *B. Riley FBR, Inc.*

Timothy Klasell, *Northland Capital Markets*

Reed Motulsky, *Imperial Capital*

P R E S E N T A T I O N

Operator:

Good afternoon, and welcome to ShotSpotter's Second Quarter 2019 Earnings Conference Call. My name is Chantel, and I'll be your Operator for today's call. Joining us are ShotSpotter CEO, Ralph Clark, and CFO, Alan Stewart.

Please note that certain information discussed on the call today will include forward-looking statements about future events and ShotSpotter's business strategy and future financial and operating performance. These forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict and may cause the actual results to differ materially from those stated or implied by those statements.

Certain of these risks and assumptions are discussed in ShotSpotter's SEC filings, including its registration statement on Form S-1. These forward-looking statements reflect Management's beliefs, estimates and predictions as of the date of this live broadcast, August 6, 2019, and ShotSpotter undertakes no obligation to revise or update any forward-looking statement to reflect events or circumstances after the date of this call.

Finally, I would like to remind everyone that this call will be recorded and made available for replay via a link available in the Investor Relations section of the Company's website at ir.shotspotter.com.

Now, I would like to turn the call over to ShotSpotter CEO, Ralph Clark. Please, go ahead.

Ralph Clark:

Thank you for joining us this afternoon. As usual, I'll start with an overview of our Q2 results and a general update on the business. Then Alan will dive deeper into the numbers before we take your questions. We're pleased with the progress in Q2 towards both our full year and long-term strategic growth objectives. For the quarter, we posted record revenues of $10.3 million, which included some modest revenue from ShotSpotter lab. We were also GAAP profitable in the second quarter, earning $0.03 per share.

Despite that forward momentum, however, we are adjusting our full year 2019 revenue guidance downward to $42 million to $44.5 million while reiterating our guidance for full year 2019 GAAP profitability. Al and I will review the rationale for the revenue adjustment later on in our prepared remarks.

We went live with 25 square miles through existing customer expansion in five new city captures. In only the first half of 2019, we deployed nine new cities compared to the 11 cities we added for all of 2018. These new city deployments reflect the excellent progress we've made in growing our Tier 2 and 3 city pipeline. In addition to the 25 miles added in Q2, we've already gone live on another 17 square miles quarter-to-date here in Q3.

Q2 city additions were Columbia, South Carolina; Lake Park and Tampa, Florida; Newport News, Virginia; and Toledo, Ohio. There's no attrition in the quarter, although we anticipate we may have some minor attrition in the second half of this year, representing less than 1% of annual revenue. As we have discussed, our domestic focus this year is expanding our penetration in Tier 2 and Tier 3 cities, so we're very pleased that our efforts are paying off. We're particularly excited about our first city capture in the state of Virginia and with the continued penetration of our footprint in Ohio, which now totals five cities, not including Dayton, which we just booked last week. Including Dayton would represent four new cities in Ohio in just the past 12 months. And, although we're pretty excited last week about booking the Dayton contract, that excitement has given way to a deep sense of shock and grief given the tragic events over the weekend. Our thoughts and prayers go the residents of Dayton, especially those who lost loved ones.

We do believe that this type of geographic clustering that we're experiencing in Ohio and other regions reflects the word-of-mouth endorsement that is a key part of our expansion strategy. We find that police chiefs and city officials are all too happy to share solutions that produce positive results with their peers. We believe this network effect is a key revenue driver and a reason our customer acquisition costs remain low.

Our customers are seeing positive outcomes with our solutions. As publicly reported, Columbia, South Carolina, went live April 18, and through July 1, ShotSpotter alerted on 360 separate gunfire incidents in which Columbia PD was able to recover 306 casings, enter 27 investigative leads into NIBEN, made 21 arrests and take 30 guns off the street, six of which were stolen. This is just one example of the significant positive impact ShotSpotter can have. As I just noted, our customers are talking about it over and over again. While domestic Flex is an important contributor to our revenue, we also see very encouraging trends in diversification of our future revenue stream. We increasingly do our internal planning and assessment by looking at four sources of pipeline, bookings and revenue, represented by domestic Flex, international Flex, Missions and other, which includes security, ShotSpotter Labs and professional services.

On the international front, we have submitted budgetary and price quotes for close to $5 million in annual recurring revenue in four key markets in Latin America. Unfortunately, even though we expect many of these proposals to be ultimately awarded with new customers in new market, it is challenging to predict the specific timing of contract execution and project deployment.

Our existing three year-old customer in Cape Town, South Africa, has publicly stated their intention to renew and expand ShotSpotter across more of the city. We expect their tender notice to be published very soon, although the timing is later than what we had been previously advised. In summary, it is fair to say that ShotSpotter interest in international markets is actually exceeding our initial bookings expectations, but it's also true that it's taking longer than we had originally expected to convert them in time to drive material revenue in 2019.

Domestically, we're encouraged to report progress on the $1.5 million RFP opportunity we highlighted in last quarter where the original RFP was canceled due to lack of competitive bids. That RFP was republished, and we have already resubmitted our proposal and are optimistic that an award will be shortly made. But again, the timing is uncertain. We still see a path to achieve the low end of our previous outlook if some of these opportunities convert in the next 30-plus days. But to be transparent and cautious, we're assuming that very little of this business closes in time to generate measurable revenue for this fiscal year.

Missions is a newer part of our business, but we're equally excited by the market response we're seeing and look to book a handful of customers later this year. As public safety agencies increasingly pursue precision-oriented policing strategies, we know they'll be turning to providers with the best and most actionable data and intelligence. We believe our mission service offering furthers our reputation for technological excellence, reliability and effectiveness. We're leveraging that reputation. It is helping us accelerate the Missions pipeline and putting us in a position to get more share of wallet within our customer base.

In the other category, we recently, through ShotSpotter Labs, implemented Phase 1 of our Kruger Park deployment, which addresses the serious problem of rhino poaching. This deployment is critical, not just for the important conservation impact that it has, but it also gives us insight into deploying ShotSpotter technology in rugged, difficult environments. We are, in effect, getting paid to learn. We're pleased with how Labs is evolving and contributing to our growing body of innovation while supporting important sustainability works.

And, when it comes to the reputation for superior technology, I want to stress that we're not resting on our laurels. We continue to advance our already strong competitive position in the acoustic gunshot detection and surveillance space through continuous innovation. For example, our machine classification technology has exponentially increased with the adoption of sophisticated machine learning techniques combined with our vast and proprietary dataset of acoustic gunshot signatures collected over 12-plus years. This is a critical asset whose value should not be underestimated when evaluating our competitive moat. We've also been building out an internally focused tool set for our customer support and incident review center teams. These tools help them perform their duties faster and more accurately, thereby improving the overall customer experience. Think faster alerts, better location accuracy and even fewer false positives and false negatives and even greater on-team contact as delivered by our mobile ILS, or Investigative Lead Summary, report.

We're also providing more resiliency, flexibility, security and scalability through our re-architecture within AWS. This is not your father's Oldsmobile ShotSpotter. And, although we'll never take anything for granted, it's difficult to see how anyone could replicate and scale to meet our technology advantages without initially producing a subpar customer experience at great expense and risk. This combination of strong technological and market barriers to entry, plus efficient, successful execution is the heart of why we're so confident about the company's long-term profitable growth prospects.

Before I turn the call over to Alan, I want to quickly touch on our announcement last week on the privacy audit conducted by the policing project at the NYU School of Law. There's an increasing amount of public discourse on the tradeoff between privacy and public safety. At ShotSpotter, we take this conversation very seriously, and in order to take a leadership position in this area, we engage NYU to audit ShotSpotter's technology and independently weigh in on the potential friction between appropriate surveillance and the positive public safety outcomes we help provide.

After a thorough and detailed analysis, the NYU policing project opined that ShotSpotter Flex presents extremely low risk of any inappropriate voice surveillance. The study did make several recommendations as to how we can further reduce surveillance risk with our solution. Many of these changes were already part of our road map. In other cases, we added the recommendations to our release plan. We're excited to take a leadership position in engaging in this important conversation about privacy and surveillance.

So, it's been another busy quarter for ShotSpotter. Of course, we're very disappointed to be reducing our FY 2019 guidance again, but we expect that this is only a timing issue. We believe the pipeline and interest in our offering is only growing. More than ever, I feel that ShotSpotter is getting closer to becoming the standard of care for connecting law enforcement agencies to the communities they serve through data-driven policing.

Now over to Alan.

Alan Stewart:

Thank you, Ralph, and good afternoon, everyone. We made progress in Q2 on many of our objectives, including adding 25 new live miles and recognizing both record revenues and income. With the 17 miles that have gone live since quarter end, we are making progress towards the 50 go-live miles in the 90-plus days that we highlighted on our last earnings call. In Q2, we added five new cities, generated initial revenues from ShotSpotter Labs and gained more traction in attracting the interest of new international customers. We're also very pleased that we were again profitable in Q2 while still increasing our investment in the business. We now expect to maintain profitability on a quarterly basis.

As Ralph outlined, we're reducing our full year revenue outlook due to the uncertainty in the timing of certain domestic contracts and the timing of new international client additions. We now expect revenues to be in the range of $42 million to $44.5 million. To be clear, the business that we anticipated when we provided the original guidance is still in our pipeline. And in fact, in most cases, proposals have already been submitted to the prospective clients. None of it has been lost. And there's a path where we may still achieve $44.5 million in 2019 revenues, which is reflected in the wide revenue range so late in this year.

But as we ramp our international business, we felt that it was the best path to take those opportunities out of our guidance. As we mature in these markets, we're optimistic that the cadence will more closely match our domestic business, but it will take more time to get there than we anticipated earlier in the year.

Finally, early in the quarter, our Board of Directors authorized a share buyback program of up to $15 million. As of the end of the quarter, we have not yet repurchased any shares. However, we're prepared to implement the buyback when the window opens if we feel our stock price does not reflect its intrinsic value.

So, let's take a closer look at the quarter. Revenues increased 15% to $10.3 million. While this growth rate is below our recent results, we were comparing to a particularly strong Q2 last year. In addition, many of our new miles were added late in the quarter.

We expect a significant revenue ramp into the end of the year based upon the miles that have been deployed year-to-date. The backlog of miles is expected to go live during the remainder of the year. We anticipate adding approximately 70 miles in the second half of the year, although some of those miles will go live later in Q4 and may not materially affect revenue for 2019 but will provide an entire year of revenue for 2020. We expect third quarter revenue will be up modestly from Q2 with fourth quarter higher than Q3.

Gross profit for the second quarter was $6 million or 58% of total revenues, up from $5 million or 56% in the second quarter of 2018. Adjusted EBITDA for the second quarter, which is calculated by taking our GAAP net income and adding back interest, taxes, depreciation, amortization and stock-based compensation, almost doubled to approximately $2.4 million versus $1.2 million in second quarter of 2018.

We continue to invest appropriately to fund long-term growth while benefiting from the unique leverage in our business model. Our operating expenses for the second quarter were $5.7 million or 55% of revenues versus $5.3 million or 59% last year. We continue to increase our investments in each area of our operating expenses but still expect overall OpEx to increase less than our rate of top line revenue growth, increasing our operating margins for 2019.

Looking at each of the line items, sales and marketing expenses for the second quarter were $2.4 million or 24% of total revenues versus $2.2 million or 25% of total revenues for the prior year period. We continue to make strategic investments to expand our sales and marketing programs and are pleased with the early returns on these investments. We expect this level of spending to increase on a dollar basis for the balance of the year.

Our R&D expenses for the second quarter were $1.4 million or 13% of total revenues compared with $1.3 million or 14% of total revenues for the prior year period. We continue to invest in R&D to add features and functionality to our missions product to improve our analyst capabilities and fund new initiatives. We expect this level of spending to increase on a dollar basis for the balance of the year.

G&A expenses for the quarter were $1.9 million or 18% of total revenues compared to $1.8 million or 20% of total revenues for the prior year period. We expect that our G&A expenses will increase modestly on a dollar basis throughout the year.

Our GAAP net income for the second quarter was $387,000 or $0.03 per share based on 11.4 million basic and 12 million fully diluted weighted average shares outstanding. This compares to a GAAP loss of $369,000 or $0.03 per share the prior year based on 10.6 million basic and diluted weighted average shares outstanding. As I noted above, we are particularly pleased to have returned to profitability even with the increased spending that is funding our future growth.

We added 25 net new go-live miles in Q2. As we have discussed, we are focused on adding 300 gross miles over a two year period, and we continue to believe that, with our current pipeline, we will still meet that plan. We ended the quarter with 685 miles live in 100 cities and 11 campuses and sites. At the end of Q2, we had approximately 700 miles under contract.

Deferred revenue at the end of Q2 was $23.1 million. Of this amount, $22 million was short term and $1.1 million was long term. Our balance sheet remained strong during the quarter with cash flow used in operations of $1.2 million primarily due to the timing of accounts receivable collections. We ended the quarter with $27.4 million in cash and short-term investments.

As always, we appreciate your loyalty and look forward to speaking with many of you in the coming weeks and months.

Now back over to you, Ralph.

Ralph Clark:

Thanks, Alan. I can't tell you how proud I am of the ShotSpotter team leaning in every day in doing this important work. Doing well by doing good is more than just a slogan for us. We truly believe in our purpose and our mission. It's very exciting to see the impact we're having on these communities we serve while we manage a profitable, growing business.

Again, we're disappointed with the time shift impact on our full year revenue outlook, but we expect to end the year positioned for a very strong 2020 and beyond. We're now happy to take your questions.

Operator:

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star, then one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, then two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions.

Thank you. Your first question comes from Matt Pfau from William Blair. Go ahead, please.

Matthew Pfau:

Hey, guys. Thanks for taking my questions. First, I wanted to ask on the international markets and what's going on there. Maybe you can just give us some more detail about what changed, I guess, between last quarter and this quarter that made you start to think that these deals are going to take a bit longer to close than originally expected.

Ralph Clark:

Yes. So maybe I'll start, and Alan can jump in. I think one of the encouraging things we saw actually was a broadening of the pipeline, the number of conversations that we're having with various markets primarily in Latin America is quite encouraging. I think in hindsight, probably one of the things that we did was we applied our, I would say, our domestic sales cadence over the process internationally with a little bit of discounting with respect to timing. So typically, when you engage a client, you have that very first meeting. They're expressing an interest. Then you take the next step. They're sharing data. You're using that data to define a coverage area. Then you go to the next step, where they're asking you to put together budgetary proposals. You're kind of talking about pricing and the like.

And then in the case of international, we're seeing the very next step where they are requesting to make trips to the U.S. to kick the tires with several of our deployments. And, I should definitely give a shoutout for all the customers here domestically that have participated in many, many meetings that we've had over the past several months from visitors from Latin America, Chicago, Camden, NYPD, Miami, Miami Gardens and others. And so, these are all very encouraging signs.

Even in some cases, we took it to the point where they were identifying budget. They were identifying a procurement process, RFP versus sole source. In the case of a couple of opportunities, we even got down to trading paper on the contract terms, and that actually led to us establishing a Colombian subsidiary because we thought we were that close.

But I think in hindsight, even though we're getting all these encouraging signs, just dealing with the complexity of various kind of national governments, their processes are more, I would say, kind of persnickety time-wise and—from a procurement point of view. So it's just—frankly, just taken longer than we anticipated. But, the encouraging thing is I think that the number of customers and the size of the pipeline is much larger than we had originally anticipated.

Matthew Pfau:

Got it. And, it sounds like a lot of the issues are timing, but anything changed in your view as you sort of think about the long-term growth potential of the business? I know like last year, you sort of previously communicated that the target would be 30% growth or so over several years. Any change in your thinking there given some of the current events?

Ralph Clark:

No, not really. I think we've talked about trying to grow domestically about 300 square miles—gross square miles every couple of years. We knew this year we weren't going to have a Tier 1. So, I think it stands to expect that we expect it to be less than 150 square miles for 2019, and that's clearly going to be the case this year. And those miles are going to be probably more back-end loaded than front-end loaded, which is a situation I think we enjoyed in 2018. That was really quite favorable to us. We had a whole bunch of miles that went live in 2018, and 65% of those miles went live in Q1/Q2, and they were able to produce GAAP revenue.

I think when you think about growth, I think it's fair to say that we're taking two maybe three really interesting business lines that are effectively almost $0 and growing them very rapidly over the next four plus years. So, I think in terms of international, Missions and then the other category, including professional services, security, etc., these businesses, we think, in the next four plus years can represent $20 million, $25 million in revenue. And, that's how we get to that kind of 25% to 30% CAGR growth over the long term, recognizing fully, of course, that, as we've always communicated that our sales are lumpy. We're going to have years where we have a Tier 1, and we're going to have years where we don't have a Tier 1, but we're pretty comfortable with the idea that, domestically, we can drive 600 square miles over the next four plus years. I think we're still very much on that cadence.

Matthew Pfau:

Great. That’s it for me, guys. Thanks for taking my questions.

Ralph Clark:

Thank you.

Operator:

Thank you. Your next question comes from Joseph Osha, JMP Securities. Go ahead, please

Joseph Osha:

Hi, gentlemen. A couple questions for you. First, looking at—of your comments about the existing customer expansion and five new deployments during the past quarter. I mean, you do a little math, and those new deployments are fairly small. How do you feel about the expansion potential for some of those new city deployments over the next six to eight quarters?

Alan Stewart:

Yes, Joe, this is Alan. I would say—well, first off, we are pleased that we've added nine new cities already this year. But I would also say that we are expecting more expansions from our existing cities in Q3 and Q4. One of them, we already started. There is still more to go or the one that added some of the miles of the 25 for Q2, we've a couple more miles that we've already gone live in Q3. We already know of one fairly sizable expansion for another customer that's going to occur hopefully in Q3 or maybe into a little bit of Q4. So, I would say we're optimistic and feel pretty good about the expansions for our current customers.

Joseph Osha:

So, if you were to sort of sit down and say, over the next several quarters without boxing you in too much and think about the composition of new adds in terms of expansions versus new customers, what might you expect that mix to look like?

Alan Stewart:

Yes, this is Alan again. I would say, just based on what we know right now, we're probably going to have more in expansions for the second half of the year than we are necessarily in new cities. And that is basically with contracts that we're already aware of or are close to being signed.

Joseph Osha:

Okay. And then moving back to this question of the 300-mile cadence, understanding, of course, that that's kind of a good rule of thumb over time, you do if assuming this 70 miles happens, that works out to $107 million for this year on my math. That's a heck of a 2020. Are you still comfortable with people publishing models that would have almost 200 miles added in 2020?

Alan Stewart:

Yes. This is Alan. I would say our expectation is that we will get close to that 300. We are expecting to have a Tier 1 sometime in 2020, which will contribute to those miles. So I would say, at this point, we're still positive with our pipeline and expect to be able to do that.

Joseph Osha:

Okay. And then final question from me, understanding that you don't probably want to get to into details, how—what kind of contribution can we realistically expect from Missions, do you think, in that 2020 outcome?

Ralph Clark:

Yes. So this is Ralph. I think I would say not a significant number in terms of GAAP revenue. But I think what we're more excited about and paying much closer attention to are the number of customers that we get to sign on to the platform and getting them up and running and productive as quickly as possible. Of course, if it were taking Missions Customers live in October, as an example, you'd only expect to get maybe two, two and a half months of GAAP revenue from those customers.

So I think the overall revenue number will not be significantly material. But I think strategically, it's really quite impactful because this is a new category, new TAM space that allows us to tap in to get an increasing share of wallet from our existing customers and the dialogue we've had with customers has been extremely positive. I think when we think about the use cases around using ShotSpotter Missions with our ShotSpotter gunfire data and the impact that can make on law enforcement and helping them be much more successful in implementing precision policing-oriented strategies is incredibly exciting.

Joseph Osha:

Okay. Thank you very much.

Operator:

Thank you. Your next question comes from Richard Baldry, Roth Capital. Go ahead, please.

Richard Baldry:

Thanks. Recognizing that the churn potential in the second half seems pretty small, less than 1% of revenues, I'm sort of curious, is that risk sort of from budget or maybe a change of administration or leadership in the geography that you're looking at?

Ralph Clark:

Yes, this is Ralph. Rich, I'd say it's both. Those are two customers in one situation. It is a—definitely a change of leadership and some amount of budget prioritization. And the second case, I think it's frankly much more around budget prioritization. We're still engaged in the conversation with that particular customer—that latter customer. So, we're not going to give up complete hope—at least, I'm not going to give up complete hope that we can keep that customer on the platform, but we felt it was appropriate given they're signaling of intentions that we mentioned the possibility that there could be some minor attrition going on to the second half of this year.

Richard Baldry:

Since you talk about believing there's a Tier 1 in 2020, can you maybe talk a little bit about the pipeline of Tier 1 customers because things like budgets and administration changes can have big impacts there. Are there multiple ones you're dealing with that you look and sort of probability wait for years? Or can you have a view that it's a fairly stable environment, therefore, you can view that or can estimate or forecast that it could hit in 2020 with some confidence?

Ralph Clark:

Yes. I think there's a couple of really interesting named Tier 0 or Tier 1 customers out there that are not ShotSpotter customers today that we're paying close attention to or engaged with, to some degree, more than others, but I'll just mention a few. There's Los Angeles. There's Houston. There's Philadelphia. Dallas would very much be considered a Tier 1 city as well. I would say Seattle is another kind of Tier 1-like city that has a need for our services. That could ultimately be a, call it, 20 square mile customer at full deployment. So, there's a number of these cities in our sights, so to speak, and we think that 2020 can be a year that we can get one or more of those cities on our platform.

Richard Baldry:

I think, if my memory serves, that you've been either looking at or already rolling out sort of increased pricing. I'm curious about that impact on either your pipeline renewal rates, your customer dialogues overall?

Alan Stewart:

Sure. This is Alan. We do intend on increasing our standard pricing to about $70,000 per square mile per year in January of next year. We have communicated that to our customers that aren't on longer-term contracts at this point, certainly, to the ones it would affect. And so far, we have not seen any significant pushback at all and none that we would expect would cause attrition related to the price increase.

Richard Baldry:

Last to be sort of curious about your comfort level with the current sales headcount, maybe any hiring plans for 2020 and 2021 that you'd need to keep up the sort of 300-mile adds over an extended period of time? Thanks.

Ralph Clark:

Yes. So this is Ralph. So we're continuing to look at and evaluate our kind of go-to-market resources and are continuing to invest both, not only in sales but also marketing as well as customer success. Quite recently, we doubled the capacity of our kind of marketing BDR capacity. These are the folks that are making outbound calls and helping schedule meetings for potential prospects for our field reps.

We're also doing a little bit of reorganization on the sales side to kind of add more intentionality around subject matter experts or overlays that are working with the field sales directors and driving through security, driving through missions, and we have a really interesting set of resources around even flat sales where we can bring a real executive experienced sales capability to partner with our territory sales reps and selling Flex. So, more to come there.

But we think we're investing smartly and rightly in a way that we can continue to drive the domestic business. Again, let's not forget a fairly significant investment we made several months ago about hiring a VP of International focused on Latin America and that just proves with that wide-open field opportunity, what he's been able to do in such a short period of time has really been quite remarkable.

Richard Baldry:

All right. Thank you.

Operator:

Thank you. Your next question comes from. Go ahead, please.

Charles Erlikh:

Great. Thank you for taking the question. I think you mentioned that you've already gone live on 17 miles this quarter. So, was July exceptionally strong? Was there any pull-forward in your opinion? Or do you think the rest of the quarter could continue the momentum seen in July?

Alan Stewart: Charlie Erlikh from Baird

So, this is Alan. I would say that just sort of a testimony to what we saw when we did our earnings call last quarter. We have good visibility in terms of things that are coming up in the next three to four months, in most cases. I would say that it's a good start for our quarter. We expect to continue to add miles for the quarter. We've sort of given our guidance for where we think the end of the year will be. That's basically how we see it right now.

Charles Erlikh:

Yes—no. fair enough. And then just one last quick one from me. How much revenue came from Labs in the quarter?

Alan Stewart:

Well, we had about $300,000 from Labs.

Charles Erlikh:

Okay, great. Thanks guys.

Operator:

Thank you. Your next question comes from Chris Van Horn, B. Riley FBR. Go ahead, please.

Christopher Van Horn:

Good afternoon. Thanks for taking my call. I was wondering if you could just touch further on the guide and your ability to kind of maintain your commentary around profitability. What are the kind of the main levers there that are allowing you to do that?

Alan Stewart:

So, this is Alan. I would say, if you take a look at our OpEx spend, even last year, Q1 to Q2, last second quarter to this second quarter, we have not had to increase significantly in any of the operating expense categories. Clearly, year-over-year, we've had to spend and have spent quite a bit more on the sales and marketing. But we have a lot of operating leverage in the business, which allows us now that we've reached profitability to have pretty good confidence that we can stay there as our revenues continue to go up. We are adding, as Ralph mentioned and we believe wisely in certain areas. So, we are continuing to invest, but we don't necessarily have to invest in a lot of areas that would cause us to dip back into the loss position.

Christopher Van Horn:

Okay, got it. And then focusing on missions, is there any difference in the sales cycle there? Any difference in who you're selling to? Any nuances around distributing that product?

Ralph Clark:

Yes, this is Ralph. I mean, it's still quite early, but we're learning a lot. Missions is very much a different sale kind of same channel, but the buying center is slightly different. We're going in, obviously, the—the buying center is the police department, but we're finding that the pull-through is happening much more effectively when we engage the analyst community within a police department before taking it directly to the folks that we tend to have very good relationships with in terms of the senior leadership of a police department, chief deputy, chief, etc. And that's why I think this overlay organization that we mentioned earlier is so critical kind of developing that very specific domain expertise and go-to-market expertise that a territory sales director can pull on—pull on or leverage inside of their territory is going to be really important for us.

But we're, again, really quite excited about the uptake that we're seeing there, and expect, again, a handful or more of customers to be booked on missions toward the end of this year.

Christopher Van Horn:

Okay, great. That's it for me. Thanks for the time.

Operator:

Thank you. Your next question comes from Tim Klasell, Northland Securities. Go ahead, please.

Timothy Klasell:

Good evening, guys. First question has to do with on the guidance on the range. As we get into the second half of the year, you would expect the range to narrow a little bit. You mentioned you had some things standing out there that could swing these numbers. Is there 1 or 2 really large deals that could go live fast enough to swing these numbers sort of dramatically? Can you help us sort of understand that?

Alan Stewart:

Sure. So, this is Alan. I would say the short answer is yes. I mean, there are—as Ralph mentioned, in the prepared remarks, we have almost $5 million in proposals that are out there. Those are all related to Latin America. We have several other opportunities for other areas around the world that, if they come in, and frankly, we had expected a couple of them to come in already at this point. But if they still come in the next month or so, could significantly help us hitting a higher revenue number—GAAP revenue number for the year. So, we're still waiting. It's not just one or two, could be three or more that if they still come in could positively impact where we end up 2019.

It's just, I think, as Ralph mentioned earlier, we have sort of learned our lesson with international and thought it was appropriate to give you a wider range, given the uncertainty that we're seeing in the international closing or the closing of the international contracts.

Timothy Klasell:

Good. Thanks for that color. And then I wonder—jump off to the $75,000 from Mission. Is there a whole lot we can read into that or that you guys have learned as far as the size of the market and what we could typically see from a Missions deal? Or, is it such an early customer and pricing sort of in flux that we shouldn't read that much into it.

Ralph Clark:

So, this is Ralph. I just want to make sure I understand your question. You referred to $75,000, are you talking about the average selling price?

Timothy Klasell:

Or what are the initial contract you've got for your first Mission sale. Is that something we can sort of apply to maybe other customers? Or is that such a new…

Ralph Clark:

Yes, that's what I thought. Yes. So it's kind of annual recurring revenue. Yes, I think from a TAM point of view, I think you can think in terms of average, it's kind of $50,000 to $75,000 of per customer per year. Then I think you might consider applying an attach rate to—currently, we're sitting at just north, I think, of 100 customers. So those days, we got a 50% attach rate with an average selling price of anywhere from $50,000 to $75,000 across 50 customers, which will represent a 50% attach rate. Where we are currently in terms of our installed base, I can kind of give you a sense for the opportunity for us on the Mission side as a specific revenue category.

Timothy Klasell:

Okay, great. That’s very helpful. Thank you guys.

Ralph Clark:

Yes. Thank you.

Operator:

Thank you. Your next question comes from Reed Motulsky, Imperial Capital. Go ahead, please

Reed Motulsky:

Hello. Are you guys finding that larger or smaller cities are more focused on the analytics solutions such as ShotSpotter Missions, or that these are equally interested regardless of their size or any other characteristic?

Alan Stewart:

Yes, I don't think we're quite prepared to apply any market segmentation rules at this point in time in terms of customer size. I mean, we're seeing a mix of small, medium and large customers that have expressed an interest in Missions. By the way, just as a frame of reference, Chicago PD, prior to us acquiring the technology assets from Azavea HunchLab, was a very big user of that solution. So, that's an example of a very large kind of Tier 1 city using kind of predictive, if you will, precision-oriented policing analytic tools. And some of the customers that we're in discussions now are quite a bit smaller than that. So, it really is quite a range between small, medium and large.

Reed Motulsky:

Got it. And for international cities, like the new expansions you guys are trying to make in Latin America, are you guys trying to similarly adopt ShotSpotter Missions there? And, is it adapted yet for non-English language users?

Ralph Clark:

Yes. That's a fantastic question. I would say, we're trying to get to first and second base internationally with our Flex solutions at this point in time, so that's kind of what we're focused on right now. And of course, once we get a little bit better cadence there and get some direct customer relationships there, Missions certainly represents an interesting opportunity to up-sell into our international deployments once we get those international deployments. But, the first order of business for us is get the international deployments on Flex.

Reed Motulsky:

Got it. Thank you very much.

Ralph Clark:

Yes. Thank you.

Operator:

At this time, this concludes our question-and-answer session. If your question was not taken, you may contact ShotSpotter's Investor Relations team at ssti@gatewayir.com. I would now like to turn the call back over to Mr. Clark for closing remarks.

Ralph Clark:

Great. Thank you very much, and thank you, everyone, for joining our call. We're certainly very grateful for all your support, and we look forward to speaking with many of you in the very near future. Thank you, then. Thank you again very much.