



ShotSpotter, Inc.

First Quarter 2019 Earnings Conference 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

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Alan Stewart, *Chief Financial Officer and 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

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Jeremy Hamblin, *Dougherty & Company*

Matthew Galinko, *National Securities Corporation*

Tyler Wood, *Northland Securities*

Reed Motulsky, *Imperial Capital*

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

Operator:

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

Please note that certain information discussed on this 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 actual results to differ materially from those stated or implied on those statements. Certain of these risks and assumptions are discussed in ShotSpotter's SEC filings, including its registration statement and Form S-1. These forward-looking statements reflect management's beliefs, estimates and predictions as of the date of this broadcast, May 9, 2019, and ShotSpotter undertakes no obligations to revise or update any forward-looking statements to reflect events or circumstances after the date of this call.

Finally, I'd 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'd like to turn the call over to ShotSpotter's CEO, Ralph Clark. Sir, please proceed.

Ralph Clark:

Thank you very much and good afternoon to those of you joining us today. I'm going to start with a quick overview of the quarter, and then Alan will review our financial results, before we take your questions.

We're very pleased with our first quarter financial results, which were in line with our expectations. We grew year-over-year revenue 39% to \$9.6 million. Our net loss was only \$362,000 versus \$1.2 million for the prior period, and Adjusted EBITDA increased to \$1.6 million from just \$26,000 a year ago. On a sequential quarter basis, revenue was essentially flat as we guided in our last call. This comparison includes a one-time payment of approximately \$170,000 we received in Q4 from the U.S. Virgin Islands. Our gross margin of 58% was in line with our expectations, and our reported net loss of \$362,000 or \$0.03 per share, primarily reflects our focused investment in marketing and sales.

We're very excited about the four new cities that went live including Greenville, North Carolina; Pleasantville, New Jersey; Columbus, Ohio and our first international deployment outside of South Africa in Nassau, Bahamas. Many of you have heard me explain that ShotSpotter's business is the best viewed annually rather than quarterly. Through that lens we believe our future is bright reflecting solid technology and service performance, our strategic expansion into adjacent markets, and our unmatched customer loyalty. Illustrating the somewhat lumpy characteristics of our quarterly cadence, we went live with 19 gross miles, which netted to 12 miles after factoring in the loss of 7 miles from one customer in the Northeast.

The pullback in this deployment was due to limited gun violence incidents in large portions of their coverage area, after seven years of ShotSpotter service. We're in discussions with the customer about pockets of gun violence in a targeted portion of their jurisdiction and believe a subset of the miles can possibly come back. But for now, we're netting the seven miles against our go-live miles for the quarter and for the cumulative miles of our installed base

Given this backdrop and development that I will describe in more detail later, we've decided to modestly tighten and reduce at the mid point our full year 2019 guidance by a \$1 million. As we've previously stated, the quarterly cadence of our business can be quite lumpy. It's the nature of our business that we're going to have some quarters with a great deal of contract and go-live activity, and we're going to have calmer quarters where the pipeline is active, but with fewer confirmed contracts and more modest go-live activity. Case in point, we currently have several projects including expansions underway totaling over 50 new miles that we expect to go live over the next 90 plus days. A portion of these miles are already live and producing positive results for our customers.

Here are few other initiatives in place that only reinforce my excitement about our growth opportunity. We spoke a bit about our trauma and healthcare initiative at our Investor Day last year. We remain very active in engaging this advocate and funding source for our solution. Hospitals are looking for ways to improve response to gun fire events for three very important reasons. One, fewer gunshot wound victims that are often uninsured and can cost up to \$100,000 to treat can offer significant financial savings for the hospital. Two, faster law enforcement response to shootings can potentially lead to faster trauma care interventions and improved patient outcomes. And three, solutions like ShotSpotter that help to improve safety in the broader community or hospital staff, work and live is simply good corporate business. We've had a great deal of interest from leading urban medical centers, and we look forward to collaborating with these community leading organizations to increase adoption of ShotSpotter technology.

We recently announced a major Flex feature enhancement call Investigative Lead Summary, or ILS. ILS is a detailed report that is generated in near real time and provides a time sequence spatially separated

round by round count of the incident. It is designed to help police conduct more effective on-scene evidence collection, witness interviews, and is essential to responding to and investigating multiple round incidents or when multiple shooters are involved. The user response has been strong, and more than 500 reports have been downloaded and delivered in the past two weeks. ILS is a no charge feature available as a part of the Flex subscription service.

We continue to invest in core technology innovation as well. We recently put into production a new AI based machine classifier that can ultimately reduce by 40% the number of incidents degree reviewed by our incident review center, bringing up our acoustic analysts to spend more time evaluating border line incidents and adding context to published alerts improving the overall quality of the customer experience. The approach we have taken in applying machine learning to acoustic classification is still novel. We are pursuing what we hope will become our thirty third issue patent, if successful.

We're equally excited about creating ShotSpotter Labs, which is currently supporting two modest sustainability projects. Our Kruger deployment is helping combat rhino poaching and our South East Asia project will be deploying an aquatic version of our technology to help address the problem of blast fishing. What we can learn here about using our technology in low power and limited infrastructure environment can help inform our ability to develop and deploy better, more resilient technology for Flex in our other urban ready services. We believe these technology innovations will help drive growth, deliver more customer value, and increase the overall stickiness of our solution, while we widen our already large competitive mode.

Before I hand it Alan, there are a few more thoughts I want to share. One, I want to reaffirm our commitment to expanding ShotSpotter's international footprint. Beyond our projects in South Africa and now the Bahamas, we're actively building a pipeline in Latin America. Our progress here has been methodical and steady. We're encouraged by all of the positive feedback and interest from prospects in Colombia, Mexico, Brazil, and Argentina resulting in our submission of a few budgetary proposals, and we hope to have more to share with you later in the year on this front.

A second avenue for expansion continues to be building out our public safety platform to deliver high value, pre-incident intelligence to the public safety market. Last year, we acquired HunchLab, the premier provider of AI based analytics for predictive policing application. This is a growing area of public safety and a way for police departments to maximize limited financial and personnel resources. Precision based real-time analytics can help police do their job faster, better, and more efficiently. We have been diligently working on tightly integrating the predictive model with ShotSpotter incident data along with some other reporting and analysis enhancements. We plan to formally introduce our first ShotSpotter based Mission's release to the market later in Q2 of this year.

Our sales and marketing teams have been collaborating on engaging a target list of customer prospects in order to build a robust sales pipeline. As you can see, we're expanding in so many exciting areas, and the future has never been brighter. Nonetheless, as I said earlier, we are going to tighten and reduce the midpoint of our full year 2019 revenue guidance by \$1 million to \$44.5 million to \$45.5 million versus the earlier \$45 million to \$47 million communicated in our last earnings call. There are a couple of key factors that went into adjusting our 2019 revenue guidance. In addition to the seven miles of attrition I mentioned earlier, there were also two projects where we formally submitted RFP responses to in late 2017 and one in 2018. In one case, we were officially awarded the bid, but we had not been successful in getting agreement to the terms and conditions of our standard form of contract.

The second opportunity is a fairly large one, representing \$1.5 million of annual recurring revenue. That RFP is yet to be awarded and is facing bureaucratic delays and administrative obstacle, which is pushing out the date for a formal award, and a negotiated and executed contract. As a result, we no longer expect material revenue contributions in 2019, if and when the contract is awarded. We believe both

opportunities will ultimately come to fruition as the gunfire detection need is compelling. However, we also want to be clear eyed and prudent in how we think about the near-term revenue guidance. Although our 2019 outlook is slightly lower, our optimism and confidence in 2020 and beyond has only increased.

Okay, that's it for me. I look forward to answering your questions, and here's is Alan to review the Q1 numbers.

Alan Stewart:

Thank you, Ralph, and good afternoon, everyone. The first quarter came in largely in line with our plan. As expected, we reported a small loss for the quarter, but are still on track to be GAAP profitable for 2019 as a whole. We also significantly improved our cash position at the end of the quarter (inaudible) the proceeds with the equity offering completed in March, but also from the almost \$9 million in operating cash flow that we generated during the quarter.

Revenues in the first quarter increased 39% to \$9.6 million. It was also largely flat with the Q4 run rate and up slightly from \$9.5 million, which is where Q4 would have been if we exclude a one-time contribution of approximately \$170,000 from U.S. Virgin Islands. As a reminder, while quarterly performance can be lumpy depending on the point and schedules, we generally experience flat revenues Q4 to Q1, an uptick in Q2, then flat to Q3, with another step up in Q4. We expect 2019 results will follow this pattern with the exception that Q3 revenues should be up from Q2 due to the expected cadence to go-live mile.

Gross profits for the first quarter was \$5.6 million or 58% of total revenues, up from \$3.6 million or 52% in the first quarter of 2018. Gross profit continues to increase as we gain leverage from a higher revenue base. Adjusted EBITDA for the quarter, which is calculated by taking our GAAP net income and adding back interest, taxes, depreciation, and amortization and stock based compensation was \$1.6 million. This is a step-up from the \$26,000 in Adjusted EBITDA for first quarter of 2018, demonstrating the power and efficiency of our business model.

Now, turning to our expenses. Our operating expenses for the first quarter were \$5.9 million or 62% of revenues versus \$4.8 million or 70% last year. We are pleased that as we grow, we continue to gain leverage on our spend even as we make thoughtful increases in key areas. We will continue to increase our investment in each area of our operating expenses, but still expect overall op ex to increase at a rate that is 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 first quarter were \$2.6 million or 27% of total revenues versus \$1.6 million or 22% of total revenues for the prior-year period. As we've discussed, we've made the strategic decision to expand our sales and marketing program such as the healthcare initiative Ralph mentioned as well as increasing spending on our customer success program, which contribute to our score of 50 in our net promoter score. We are pleased with the early returns on these investments, and we expect this level of spending to continue for the balance of the year.

Our R&D expenses for the first quarter were \$1.3 million or 13% of total revenues compared to \$1.2 million or 18% of total revenues for the prior-year period. We continue to invest in R&D to add features and functionality to our Mission's product, to improve our analyst capabilities, and conduct others initiatives. G&A expenses for the quarter were \$2 million or 21% of total revenues compared to \$2 million or 29% of total revenues for the prior-year period. Our G&A expenses will continue to increase modestly throughout the year.

Our GAAP net loss for the quarter was \$362,000 or \$0.03 per share based on 11 million basic and diluted weighted average shares outstanding, reflecting the \$250,000 shares issued in the equity offering in

March. This compares to a GAAP loss of \$1.2 million or \$0.12 per share in the prior-year period based on \$10.1 million in basic diluted weighted average shares outstanding. The loss was in line with our expectation reflecting increased operating expenses, with flat revenues from Q4 to Q1. We're still guiding that we will be profitable for Fiscal Year 2019 as a whole.

We added 12 net new go-live miles in Q1, reflecting the unevenness inherent in our business. As Ralph mentioned, we expect go-live miles to pick-up in Q2 in the balance of the year. As we discussed, our internal plans are built around the goal of adding 300 gross miles domestically over a two-year period, and quarterly variability is to be expected. We ended the quarter at approximately 660 live miles in almost 100 cities and 11 campuses/sites.

Deferred revenue at the end of the first quarter was \$24.5 million, flat with the prior quarter. Of this amount, \$23.4 million was short term, and \$1.1 million was long term. In general, we expect short-term deferred revenue to be recognized within four quarters. We ended the quarter in a very strong financial position. Cash at quarter-end was \$29.6 million, which included almost \$11 million generated from the offering completed in March. A strong cash position increases our flexibility, funding not only our organic growth, but allows us to pursue selective strategic initiatives to expand our platform in adjacent markets.

Our confidence in ShotSpotter's opportunity remains very strong, and we continue to believe that approximately 30% CAGR growth for the foreseeable future is achievable given expected revenue contributions from international expansion, Mission sales, and as we continue to target new Tier 1 and Tier 2 cities.

As always, we appreciate your confidence and 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. We'd like to take your questions now, but before we do, I want to take this opportunity to congratulate and thank my work colleagues at ShotSpotter on achieving a Great Places to Work commendation. I'm proud of the collaborative and customer centric culture we're building at the Company. We're truly making a difference.

Lastly, I would like to remind all of you that we recently published our 2018 Annual Report and 10-K that includes a shareholder letter where I cover our strategy and the dynamics of our business in more detail. And although I am no Warren Buffett quite yet, I did try to explain the what, the how, and most importantly, the why and the moral purpose of our business. Hopefully, the letter will provide you more insight into why we're so confident about the future of ShotSpotter. I would be grateful if you were to read it and be generous with your constructive feedback.

We can now take your questions.

Operator:

Thank you. At this time, if you would like to ask a question, please press the star and one key on your telephone keypad. Keep in mind you may remove yourself from the question queue at any time by pressing the pound key.

We will take our first question from Joseph Osha with JMP Securities. Please proceed.

Joseph Osha:

Ralph, I'll have to make sure I read that letter. You kind of built up expectations. I want to make sure I understand what you're saying on net new go-lives. That's 300 for total of calendar 2018 and 2019. Is that that essentially what you're saying?

Alan Stewart:

Yes, this is Alan. I think what we're looking is in general I would say that's more over '19 and '20.

Joseph Osha:

Okay. Are you willing to talk about a net new go-live number for 2019 only, and then also I'm curious, if you can maybe give us a little color on the break down of, well, this number—this quarter wasn't that big, but how you think about the breakdown between new additions and adds with existing customers?

Alan Stewart:

This is Alan, I would say we went live in 168 miles last year, 68 of those were from Chicago, the Tier 1 expansion. We aren't currently projecting a Tier 1 expansion or new city in 2019. So, it will be logical to expect that 2019 miles will be less than that. We are still targeting Tier 1 cities and do expect that we'll have some of those coming in 2020. So, 2020 would be a higher number versus the two years. In terms of expansions versus new cities, we did add four new cities this quarter. We are seeing an increasing number of cities joining our platform. They generally start with a smaller footprint, but still adding new cities at an increasing rate is exactly what we're expecting and have forecast for 2019.

Operator:

We'll take our next question from Matt Pfau with William Blair. Please go ahead. Your line is open.

Matthew Pfau:

Hey, guys. Thanks for taking my questions. First, I wanted to start-off on the two deals that were delayed. I'm sure with all the deals you signed, you face a certain level of bureaucracy. So, maybe just, you can help us understand, are these deals just facing you know significantly more approval headwinds than you would see in the typical deal? And then are there other deals included in the guidance that could be a potential issue for as well?

Ralph Clark:

Yes. So, this is Ralph. Thank you very much for that question. I would say these two particular deals that we referenced in our earnings call are actually really quite unique. We have never faced or encountered a situation where we're actually awarded a bid and then ultimately weren't able to get to a final contract based on negotiating terms and conditions. I want to make it very clear, it wasn't about price it was really about terms and conditions. And, ultimately, we believe that we are going to prevail because in this one particular case, the gun violence issue is really quite persistent.

In the other case, this really is a situation of a very significant amount of bureaucratic delays and administrative delays, I would say. Ultimately, we think we're going to prevail in this situation as well. This is a fairly large opportunity, but the level of, I would say, administrative bureaucracy is probably not like any we've ever faced before. Again, we're highly confident that this deal is going to come into fruition for

us again like the other case. The need is so compelling, and we're very familiar with this particular customer, I would say.

Matthew Pfau:

Okay. Got it. And then on the customer that elected to turn off the ShotSpotter service, if I recall correctly, few years back you had a similar situation like this with the town in Washington state. So, you can see all the gun incidents that are occurring. You would presumably be able to tell if there's customers that maybe would be at risk to turn-off service because they're just not having very many gun violence incidences. As you look across your customer base, are there other customers like this one where they're just not seeing that many gun violence issues, or was this sort of a unique case>

Ralph Clark:

Yes, I'd say this is a fairly unique case in that one. This was a customer that actually started out with a significant amount of gun violence. This is probably one of our longest lived original Flex customers, they've been with us for seven years or so. We believe that across their seven square miles or so, there is some portion of those miles that are still exhibiting some amount of gunfire. And so, for them, I think, it's really issue of helping them understand that it doesn't have to be a binary situation kind of going zero to seven, but there's something probably in the middle that is still reasonable for them to be concerned about. And so, we're hoping/expecting that we're going be able to recapture some of those miles. I mean, literally, this particular customer they have several different arrays across that seven square miles in different hamlets without naming the particular customer.

It's a bit of a happy circumstance, I guess, in some degree because I think what we are about is helping customers address gun violence. In this particular case, they're extremely successful in a good portion of their array, and so we're going to just get them to focus on the areas where that continue to exhibit or experience gun violence. This doesn't really have any impact across the rest of our installed base as we as we do. It is something we obviously pay very close attention to.

Matthew Pfau:

Got it. And last one for me, just on the Verizon partnership, the re-seller agreement. Any update on how that's progressing?

Ralph Clark:

Yes, so we're still in conversations with Verizon. They've actually been very constructive in terms of getting us introduced to a couple of potential opportunities that we're hoping we're going to be able to talk to you more about in the next earnings call. Still onward and upward with Verizon.

Matthew Pfau:

Got it. That's it for me guys. Thanks a lot.

Ralph Clark:

Thank you.

Operator:

Question from Charlie Erlih with Baird. Please proceed.

Charlie Erlikh:

Great. Thanks for taking the question. Could you provide a little bit more detail on the Missions product in terms of initial interest or traction from existing customers? Anything surprisingly there, positive or negative, now as you've had the product in the market now for a couple more months?

Ralph Clark:

Yes. Thank you for that question. This is Ralph. With respect to Missions, we're really excited about the conversations we're having with our existing installed base. That's really has been our focus for two reasons. One, we already have a relationship with those customers and really quite familiar with their strategies is around how to use kind of real time gunfire alerts to address gun violence and now introducing this concept of using kind of pre-crime intelligence, if you will, to be even more impactful is really quite exciting.

And so, we're doing two things. We're building up the pipeline, but we're also getting some really critical feedback as well in terms of feature enhancements to take this already fairly robust platform that we acquired from HunchLab, to make it even more meaningful in the context of the way our customers like to move in this particular space. So, what we've been doing from an engineering point of view is we have a fairly reasonable amount of investment that we're engaged in to, kind of do two things: one, more tightly integrate the ShotSpotter data into the predictive model. That's something we heard very consistent feedback around from our customers on. And then two, I think there was a 2.0 version of kind of reporting and analysis tools that our customers or potential customers thought was very important. So, we're—been working on that in partnership. We do have some of our own internal resources, but we're also doing some work in partnership with (inaudible) to kind of bring those features to bear and a release we expect to make happen later this quarter.

So, it's going to be a very intentional and focus, we've also got some inbound interest, interestingly enough, from a few customers that aren't our—few potential customers, I would say, that aren't existing ShotSpotter customers. But our real focus is to work with existing customers where we have relationships, and then build our success stories for them that we think can help us more deeply penetrate our 100 plus or so customer installed base. We were expecting to have a reasonable uptick in emissions from a reasonable percentage, I would say, of our customers. Does that answer your question?

Charlie Erlikh:

Yes, absolutely. If I could just get one more in too. Do you have any updated thoughts Puerto Rico? Are you more or less confident now than you were three months ago about Puerto Rico coming back, or anything you could share on that front would be great.

Ralph Clark:

I think we've pretty much said all we can say about Puerto Rico.

Charlie Erlikh:

Okay, all right. Thanks for answering the question.

Operator:

We'll take our next question from Jeremy Hamblin with Dougherty & Company. Please go ahead.

Jeremy Hamblin:

Thanks. I wanted to start actually on the expense side of the equation, and you noted that you have made some commitment on sales and marketing and making some investments there. I think on a year-over-year basis it's up almost 70% versus your R&D investment that's up about 5%. As I think about this for the remainder of 2019, how do you expect those relationships to drive the remainder of the year? It sounds like we're going to see some deleveraging overall on sales and marketing, but what about in terms of investments on the R&D side?

Alan Stewart:

Sure. This is Alan. We are continuing to invest in R&D. You may have heard that Ralph mentioned a couple interesting things that we've been able to do in the algorithm side. We're going to continue to invest there. We're continuing to invest in R&D on the Missions development, call it the Missions 2.0, essentially what Ralph just alluded to. You are going to see an incremental increase in op ex spend for R&D and also for G&A throughout the year. Sales and Marketing is our focus area though, so that's where most of the increases are going, and, frankly, have already sort of built themselves into the op ex run rate right now. I would say though that also, across the board, we are going to see op ex increases, but still at a rate lower than our top line revenue growth. So, our operating margins will continue to improve.

Jeremy Hamblin:

Okay. Great. You've provided some nice color, I think, on the next 90 days turning on, I think, 50 plus net new miles. What about in terms of the back-half of the year, visibility that you might have now to help us maybe understand any potential lumpiness in your net new go-live mile in the back half of the year. Any color you might be able to share on that front?

Alan Stewart:

Sure. This is Alan, I think as we looked at our revised guidance, we had to make some assumptions in what we knew to be true for the next 90 plus days, plus what is in our pipeline is expected to go-live. That's where the build-up kind of comes in. I would say that we certainly expect Q3 and Q4 from a go-live mile perspective to be stronger than we have in Q1.

Jeremy Hamblin:

Okay, great. Thanks that's it for me. Good luck, guys.

Alan Stewart:

Thank you.

Operator:

As a reminder, if you would like to ask a question, please press the star and then one key on your telephone keypad.

Next, we'll take a follow up from Joseph Osha with JMP Securities. Please go ahead. Your line is open.

Joseph Osha:

Hi. I'm sorry. I got kicked off the call there in mid-question. I won't go back to the miles question. I did want to ask, given the shift in mix that you all are seeing, how you think about ASP on a per-mile basis because you've talked before about how nice the rates were in that South Africa business you have. Just in general, how you think about the shift and mix potentially impacting your ASP per mile?

Alan Stewart:

Sure. I would say the one thing that we know for sure is our international deployments have a much higher ASP price. You can take 2 times to 3.5 times, what we charge domestically. As international rolls in more the latter part of the year, (inaudible) the price in average go up. We are also planning on, in 2020, changing or increasing, actually, what we call more of our MSRP price increasing that baseline from 65,000 to 70,000. So, we're not seeing pricing pressure on the downside. We're seeing that we do have the ability to continue to increase the prices on our standard contracts.

Joseph Osha:

Okay. Thank you very much.

Operator:

We'll take our next question from Matthew Galinko with National Securities. Please go ahead. Your line is open.

Matthew Galinko:

Hi. Thanks for taking my questions. Regarding the customer that disengaged, can you sort of peg their decision to whether it was, you know, did it come down to budget or maybe just big picture. How do you avoid becoming a victim of your own success if you are able to ultimately demonstrate that you are able to cause a reduction in gun violence?

Ralph Clark:

Yes, this is Ralph. I guess I'll try to answer that. This is a customer, again, that had been with us for seven years. I think their array is pretty interesting. In many ways you could probably think of them being like maybe 3 to 4 customers in a way. It's like if two of the customers just really knocked out their gun violence problem in total, but you still have another two that still have some level of gun violence issues that we think, again, that we can be helpful to helping them address that. It's a fairly unique situation. We're kind of calling it one customer, but they really have kind of very different hamlet situations that that we're that we're dealing with.

Most of our customers, I would say, there are just ongoing issues with gun violence and although they can work really hard to reduce it, it still exists in some form, and it's really difficult for most customers to decide to go completely deaf and blind to gun violence. We saw in one particular situation, in fact, where there was a turn off of service for just a very short period of time where it caused a lot of problems because they were having these gun violence event that their officers weren't aware of, couldn't respond to, it is an officers safety issue etc.

Our application is fairly, fairly sticky, and I think customers get accustomed to the idea of being responsive to these events that are underreported, and it's very tough for them to go back. What we're left with is this one particular situation that we're talking about, and just in terms of a general reminder of something, when you have a subscription, SaaS based subscription business, there is a thing called attrition that we just have to expect to some degree, and we work really hard to mitigate it as much as

possible, but it does happen, and I think this is our first customer attrition for the past three or four quarters, so it's not a very frequent issue that we deal with.

Matthew Galinko:

Got it. All right. Thank you.

Operator:

We'll take our next question from Tim Klasell with Northland Securities. Please go ahead. Your line is open.

Tyler Wood:

Yes. This is Tyler Wood on for Tim. First, given you've had some time now since the HunchLab acquisition, and now you're talking about ILS and the upcoming labs offering. When should we expect to see revenue from these additional solutions kind of move the needle? Then with ILS being included in the platform with no cost versus, for example, HunchLab selling separately, how do you approach that decision as far as selling something back into the base versus including it in Flex? Thank you.

Alan Stewart:

Yes. This is Alan. I would say that we would expect an increasing amount of revenue coming in probably more towards the end of Q3 and Q4 for both labs, which we do expect to be a revenue contributor as well as Missions. What we look at more from a cadence is Q2 is going to be a lot of the reduction in the guidance is probably going to be taken out of the earlier part of the year primarily in Q2 maybe earlier in Q3, and then as the Missions ramps up, and the lab ramps up, and then they go-live miles continue to ramp up, we would expect to see the revenue contributions to go into Q3 and Q4 and set us up very nicely into 2020.

Tyler Wood:

One more. You talked about customer attrition. How do you think about the possibility that maybe a customer wouldn't totally turn but would turn off a certain area like we have in this six neighborhoods, and crime has gone down significantly in this one, so we don't need it there anymore, maybe?

Ralph Clark:

This is Ralph, again. I think in this particular case, again, just to emphasize these were separate non-contiguous coverage areas. The decision to kind of cut them off because of a different characteristics at each of the coverage areas is probably something that be considered. In our own situation, we're typically talking about continuous coverage area, so it's really hard to kind of you know dissect and slice a total coverage area. You basically would have to decide all or nothing. And again, historically, we would recognize that most of our customers always pretty much decide to go all in, and that's why we don't have a lot of attrition as a Company.

Operator:

If you would like to ask a question, please press the star and one key on your telephone keypad.

We'll take our next question from Reed Motulsky with Imperial Capital. Please go ahead. Your line is open

Reed Motulsky:

Hi. How does ShotSpotter's new software integrate into not just police and law enforcement, but also into security cities, peace apps, and other civil safety solutions?

Ralph Clark:

This is Ralph. I'll try to answer that question. We have a solution called Notification Engine, and what Notification Engine does it takes our alert, our digital alert, and through XML and a pushing technology, we can push that digital alert into other systems to basically adjust that digital alert. Think in terms of video management systems, CAD systems, computer aided dispatch, record management systems and the like, analysis systems, and we have a number of our customers that exploit that technology. You're on a very important point because we find that were ShotSpotter's integrated into other technologies and other processes, it creates more value to the customer and also kind of creates more stickiness as a result of that. So, we're very thoughtful and intentional around trying to be able to support those integrations through (inaudible).

Reed Motulsky:

Great, thank you. Are you guys beginning to see regional differences and international differences between what law enforcement is looking for from the information ShotSpotter provides, or is it just simply city by city?

Ralph Clark:

I think it is city by city, but I would note that we're beginning to see a little bit of, I guess, tipping point viral impact in certain geographies where agency demonstrates and success with a ShotSpotter, and that news carries over very quickly, and gives confidence to another agency. So, if you look at some regions like South Florida, as an example, or the New England area as, an example, more recently, I think, Ohio as a state in a region, we have a number of recent wins there, and some very interesting discussions going on with other cities in that region. As a result of the early positive experiences of cities like Cincinnati, as an example, we saw a little bit of that at play in California. So, what we're really about is really trying to plant flags particularly for this year because we knew that we weren't going to land a kind of Tier 0 city like Chicago.

It's really about hitting a lot of smaller cities, and so getting them successful, and then the news spread to other cities that might have an interest in ShotSpotter. So, case and point for this quarter, two of our cities, really quite interesting, and this is why we have so much confidence in our future, Greenville has a population of 68,000 citizens in it. That's incredible. That really wouldn't even come up on our 1400 TAM list. Pleasantville is even smaller than that, 21,000 residents in the city of Pleasantville, New Jersey. This is the city that figured out that this was important enough for them that they self assessed their property tax of some sort to be able to pay for ShotSpotter. This is incredibly encouraging and really says or suggests to me and hopefully others that the market is deeper and wider than maybe we thought. We're really excited about these because again once they've proved to be successful, we believe other agencies are going to want to weigh in on this solution as well.

Reed Motulsky:

Great. Thank you very much.

Operator:

This concludes our question-and-answer session. If your question was not taken, you may contact ShotSpotter's Investor Relations team at [ssiti@gatewayir.com](mailto:ssi@gatewayir.com).
I'd now like to turn the call back over to Mr. Clark for his closing remarks.

Ralph Clark:

Thank you very much for dialing in and for your questions. We're really quite excited about the remainder of 2019 or even more confident about 2020 and beyond. Looking forward to seeing you all out on the road as we participate in investor conferences and the like. Of course, in the meantime, if you have any questions or feedback for us, feel free to email, Alan or myself and, we'll be happy to engage with you. So, thank you very much again.

Operator:

Thank you for joining us for today's call. You may now disconnect.