



ShotSpotter, Inc.

Third Quarter 2020 Earnings Conference Call

November 9, 2020

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

Ralph Clark, *President and Chief Executive Officer*

Mary Hentges, *Interim Chief Financial Officer*

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

Matt Pfau, *William Blair*

Charles Erlikh, *Baird*

Joseph Osha, *JMP Securities*

Jeremy Hamblin, *Craig-Hallum Capital Group*

Jeff Kessler, *Imperial Capital*

Aditya, *Northland Capital*

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

Operator

Good afternoon, and welcome to ShotSpotter's Third Quarter 2020 Earnings Conference Call.

My name is Illy (phon), and I will be your Operator for today's call. Joining us are ShotSpotter's CEO, Ralph Clark, and Interim CFO, Mary Hentges.

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, November 9, 2020, and ShotSpotter undertakes no obligation to revise or update any forward-looking statements 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's CEO, Ralph Clark. Sir, please proceed.

Ralph Clark

Good afternoon, and thanks for joining us today. I hope everyone on the call is doing well.

Before we start, I just want to let you all know that Alan is doing well. I'm speaking to him regularly and I'm happy to report that his recuperation is progressing steadily. I also want to take a moment to thank many of you that have reached out with positive thoughts and prayers for Alan. He appreciates it, and so do all of us here at the Company.

In the meantime, we are very grateful to have an experienced Interim CFO taking up the reins during Alan's leave. Mary Hentges is an accomplished finance professional who has been a successful CFO at YapStone Incorporated, TBS Interactive, and PayPal. She's come up to speed very quickly, and is guiding the outstanding G&A organization that we have built until Alan's eventful return. Welcome aboard Mary.

As usual, I'll give you an overview of the third quarter operations, and a sense of how we see the year-end shaping up. Then Mary will go into a bit more financial detail before we take your questions.

Financially, the third quarter was very successful as we continue to rebuild momentum after the pandemic lockdown that started towards the end of Q1. We reported quarterly revenues of \$11.4 million, up 14% from \$10 million a year ago, and net income of \$566,000 or \$0.05 per share versus \$446,000 and \$0.04 per share in the third quarter of 2019.

Adjusted EBITDA increased 44% to \$3.3 million this quarter, compared to \$2.3 million in Q3 a year ago, again demonstrating the leverage in our model. In addition to these strong financial results, we are also quite excited to announce that we've entered into a definitive agreement to acquire Leeds LLC the developer of CrimeCenter, a leading investigative case management system.

I'll discuss our strategic rationale, and the market opportunity we believe this opens up for our business later in my prepared remarks. Operationally, however, we did experience some headwinds and our ability to get boots on the ground for our gunshot detection deployments. I want to stress that these delays were driven by local pandemic response and the social unrest that many of our police department customers were facing that required their focused attention.

Our teams are fully resourced and ready to drive deployments as opportunities present themselves. As a result, our go-live cadence of three square miles this quarter was below our expectations. In addition, we recognized the attrition of six square miles due to customer budget pressures, netting a total of minus three square miles this quarter. That attrition included the loss of Piscataway, New Jersey and a reduction of coverage in Brockton, Massachusetts. Cumulatively, this quarter's mileage loss, combined with the minimal attrition we recognized in Q1 and zero attrition in Q2, totals to less than \$500,000 revenue attrition year-to-date when offset with net price increases on some renewals. As we have previously stated, we are ahead of plan in mitigating attrition, and are now targeting a revenue impact for 2020 to be well below our previous estimate of approximately \$2 million.

We are very pleased to have exited Q3 with a very healthy number of new customer captures, and existing customer expansion projects in process, totaling over 50 square miles. These include seven square miles recently taken live in October and November, representing two new cities, Fort Lauderdale and Cleveland. We believe that we will be able to take another 18 to 23 square miles live before year-end, totaling at least 25 square miles for Q4.

The combination of new city go-lives and expansions of existing deployments underscores the attractiveness of ShotSpotter Flex, especially during challenging times like these with increased gun violence. Police chiefs routinely describe our services as, "critical, essential and something our department cannot do without". Once an agency experiences the impact that they can have in responding

to gun crimes and building community trust using our technology and our recommended best practices, we become indispensable.

It is no surprise that the value proposition and customer success experience that we deliver has catapulted us into the world class category of net promoter score, NPS, with a 70% attainment this year, up from 53% last year. This is remarkable, and it uniquely positions us as a trusted partner with law enforcement agencies and their strategies to combat violent crime.

Moving beyond our core Flex product, we also saw encouraging progress with ShotSpotter Connect, formerly Missions, which continues to build momentum. We went live with two new customers in Q3, and now account a total of 10 Connect customers that are producing approximately \$500,000 in annual recurring revenue.

We continue to extend Connect's feature set to transform it into one of more of everyday Patrol Management tool that directs the deployment of limited patrol resources to be more impactful at deterring crime, without over-policing or over-saturating disadvantaged neighborhoods.

As a result, we have a strong and growing pipeline of Connect prospects. Connect makes the natural extension of our Flex client relationships, but it can also serve as a standalone solution for police departments that do not have Flex. We hope to expand Connect's market penetration to new prospects beyond our Flex install base in the upcoming year, and we believe we can double annual recurring revenue to over \$1 million by the end of 2021.

The growing interest in Connect underscores ShotSpotter's platform strategy, because our experience has shown that our gunshot detection technology is only a part of how police departments handle violent gun related crime. Our goal is to become a trusted platform provider not only of the tools to respond to incidents as they happen, but also the tools to prevent such crimes before they happen, and then be able to fully investigate and resolve such crimes after they occur. We took the first step toward building this platform based suite of tools with our 2018 acquisition of the HunchLab Technology Assets that have become ShotSpotter Connect.

Now, with the signing of a definitive agreement to acquire Leeds, we're adding the third element to our precision-policing platform with their investigative case management solution, branded as CrimeCenter. CrimeCenter has been driving investigative case management with a major metropolitan police department in the Northeast for the last five years, and has transformed how their detectives track, catalog and share evidence and data for ongoing investigation. The tool simplifies collaboration between teams and communications across interdepartmental disciplines. It has digitally transformed a traditionally paper-based management system, and the results are impressive. Data solutions do work.

CrimeCenter is expected to increase ShotSpotter's estimated total law enforcement addressable market in the U.S. by more than 45%, not including additional potential market expansion internationally. Every law enforcement agency is required to investigate, document and empower the prosecution of alleged crimes, and we believe CrimeCenter does it in a new and better way. On a standalone basis, CrimeCenter opens up new selling opportunities to local police agencies that are beyond our typical targeted Flex prospects. We also see it opening up large new business opportunities with state and federal agencies.

Our job is to now leverage our relationships at key police departments and build market penetration for this new extension to ShotSpotter's platform. We intend to execute a go-to-market playbook additionally focused on existing ShotSpotter Flex customers that are increasingly adopting the Crime Gun Intel Center, or CGIC model, that is focused on investigating shootings and shooters.

With the addition of CrimeCenter to our product lineup of Patrol Management and Gunshot Detection solutions, ShotSpotter will offer the only complete end-to-end precision-policing platform that enables data-driven, prevention, response and investigation and resolution of crime. We believe that our precision-policing platform vision is exactly what those agencies are looking for today. The kind of intelligence-led, prevention-minded, community-focused policing that our platform enables isn't the future, it's the present.

Gunshot Detection helps police respond faster, and give citizens confidence that cops care about the safety of at-risk neighborhoods. Officers have accurate real-time data from us, so they can go into each call with a greater situational awareness and confidence. And our Patrol Management solution lets departments identify hotspots early, allocate resources wisely, and reduce risk with preventative measures rather than oversaturated shows of force. And now with the addition of a post-incident case management product, we can now help law enforcement increase their case close rate, thereby protecting residents by taking offenders off the street, and providing resolution to the victims of crime.

Before I turn it over to Mary, let me conclude with how we are thinking about year-end 2020, and provide our thoughts about 2021. We are going into Q4 with positive operating momentum, and we are on track for a strong year-end finish.

Given our visibility to recurring revenues and our strong renewal cadence, we are narrowing and slightly increasing our guidance to \$44.5 million to \$45 million for 2020. The midpoint increases to \$44.8 million. Any additional Q4 revenue attributed to Leeds post-closing would likely surpass the top end of our 2020 revenue guidance.

For 2021, we are targeting revenues of \$58 million to \$60 million, including approximately \$10 million of projected revenue from Leeds, putting the combined entity on a reaccelerated 30%-plus year-over-year growth at the midpoint for 2021.

Okay, Mary is ready to go into a little bit deeper into our results. So, I'll look forward to taking your questions when she is done. Mary, over to you.

Mary Hentges

Thank you, Ralph, and good afternoon everyone.

I certainly wish Alan a speedy recovery, and at the same time, I'm very excited to join Ralph, and the ShotSpotter team. ShotSpotter's mission of preventing and reducing gun violence, and leveraging data to make communities, campuses and facilities safer, is such a worthy one. I'm really pleased to be a part of this effort.

So, let me get started. First, I will highlight this quarter's results, and then I will provide some financial details on the acquisition of Leeds, which we announced today.

Overall, we are pleased with the financial strength of the quarter. Despite the slow deployment of additional miles, we achieved record revenue, as well as solid net income and Adjusted EBITDA.

Adjusted EBITDA growth in Q3 was particularly strong at 44%. We accomplished all of this, as Ralph mentioned, with COVID-19 still impacting our business, and social unrest continuing to distract our public safety customers. These headwinds exacerbated the normal lumpiness in go-live miles that we have mentioned in the past.

During Q3, we went live with just three new miles, which included small deployments in Albuquerque, North Chicago, Nelson Mandela Bay, and the SecureCampus. This was offset by Piscataway, New Jersey not renewing three miles and Brockton, Massachusetts shrinking their footprint from five to two miles. Both cities pointed to budget reductions as the reason for the change. We are pleased however that we could work with Brockton to reduce rather than cancel their deployment. So, we ended the quarter down three miles.

Since the end of Q3, we have deployed seven miles, which are part of 50 miles and projects that are at varying levels of readiness to go live. We anticipate being able to deploy an additional 18 to 23 miles in the fourth quarter for a total of at least 25 miles in Q4. We are very pleased that the programs we implemented to reinforce our value proposition and maximize renewals appear to be paying off. Despite the added pressure on municipal budgets, we expect to end the year with attrition of approximately 1%, down from the 5% we estimated last quarter.

Let me provide more details on the quarter. Then I will share some thoughts around the balance of the year and provide a high level look at our expectations for 2021, as well as provide some thoughts on the financial impact of the Leeds acquisition.

Third quarter revenues were slightly ahead of expectations at \$11.4 million, a 14% increase over the \$10 million in the third quarter of 2019. Although we had a net reduction in miles in the quarter, revenue increased, as our deploying miles are up year-over-year from 696 in Q3 of 2019 to 758 at the end of Q3 2020.

Gross profit for the third quarter of 2020 was \$6.4 million, or 57% of revenue, versus \$6 million, or 60% of revenue, for the prior year period. Gross profit was impacted by two items. First, when Piscataway didn't renew, we had to write-off the related equipment. Second, we had a backlog of regular maintenance work that was delayed when COVID-19 restrictions made travel impossible. As a result, we had to use more expensive resources to catch up. Without these costs, we estimate that gross margin would have been approximately 60%. We expect our maintenance efforts to continue in Q4, but to a lesser extent.

We saw significant improvement in Adjusted EBITDA after the third quarter, which was \$3.3 million, a 44% increase from the \$2.3 million in the third quarter of 2019. As a reminder, Adjusted EBITDA is calculated by taking our GAAP net income and adding back interest, taxes, depreciation, amortization and stock-based compensation.

Now, turning to expenses. Our operating expenses for the third quarter were \$5.8 million, or 51% of revenue, versus \$5.6 million, or 56% of revenue, in the third quarter of 2019. We continue to gain operating leverage across the business. In addition, with operations slowed we did benefit from lower travel expenses as compared to the prior period.

Breaking down our expenses, sales and marketing expenses for the third quarter were \$2.4 million, or 21% of total revenue, versus \$2.4 million, or 24% of total revenue, for the prior year period. Our sales and marketing teams continue to focus on building sales pipeline and expanding our marketing efforts. Our sales programs had a direct impact on increasing retention and minimizing attrition, so we couldn't be more pleased with our investment.

R&D expenses for the third quarter were \$1.4 million, or 12% of total revenue, compared to \$1.4 million, or 14% of total revenue, for the prior year period. We continue to invest in increasing the functionality of our Connect platform, along with expanding our analysis capability as we evaluate applications for our data and forensic support and litigation.

G&A expenses for the quarter were \$2 million, or 18% of total revenue, compared to \$1.8 million, or 18% of total revenue, for the prior year period.

Our GAAP net income for the third quarter was \$566,000, or \$0.05 per share based on 11.4 million basic shares, and \$0.05 per share based on 11.7 million diluted weighted average shares outstanding. This compares to a GAAP net income of \$446,000, or \$0.04 per share based on 11.4 million basic shares, and \$0.04 per share based on 11.9 million diluted weighted average shares outstanding for the prior year period.

In Q3, we ended the quarter with 758 miles live, with approximately 770 miles under contract.

Deferred revenue at the end of the quarter was \$20.7 million versus \$22.4 million at the end of Q2 2020. We ended the quarter with \$28.7 million in cash and cash equivalents versus \$25.8 million at the end of Q2.

In Q3, we did not repurchase any shares, and have \$6.7 million remaining in the \$15 million Board-approved repurchase program we announced in May of 2019. We have no short- or long-term debt outstanding. And as we discussed last quarter, in August 2020, we increased our available line of credit to \$20 million to improve financial flexibility.

Now turning to the Leeds acquisition. Under the terms of the agreement, we will pay \$17 million, with \$15 million in cash and \$2 million in shares of ShotSpotter common stock. In addition, there is a potential earn-out of up to \$5 million over the next two years. The deal is expected to close in November, and is subject to customary closing conditions. Leeds LLC, will become a wholly owned subsidiary of ShotSpotter.

The Company has been intentional in its efforts to extend ShotSpotter beyond acoustic gunshot detection to further enable precision policing. With the acquisition of Leeds, we add investigative case management software to the suite of ShotSpotter's law enforcement solution. This means we will be the only complete end-to-end platform solution that enables data driven prevention, response, and now investigation of crime, providing capabilities not available to law enforcement today.

The acquisition of Leeds also opens up many new potential customer opportunities, which in turn expands our total addressable market. In the market in the United States alone, ShotSpotter's TAM grows by approximately \$300 million as a result of the acquisition of Leeds. We anticipate that the acquisition will increase our topline growth.

Let's turn to our outlook for Q4 and next year. We are narrowing our full year 2020 revenue outlook and now expect revenue in the range of \$44.5 million to \$45 million, from our previous outlook of \$43.5 million to \$45.5 million, which results in a slight increase to the midpoint of the range. This revision reflects visibility into the timing of renewals, and adding new miles in Q4.

At the midpoint of our guidance, our revenue growth will be approximately 10% for the year. This guidance excludes the potential contribution from Leeds. Depending on the timing of the close, revenue generated by the acquisition of Leeds could allow us to exceed the high end of our range.

In the fourth quarter, we expect that expenses will increase nominally in absolute dollars, and we will again be profitable. Our current expectation is that revenue for the full year 2021 will be in the range of \$58 million to \$60 million, including \$10 million in revenue from the acquisition of Leeds.

At the midpoint of our revenue guidance for both years, the combined business will grow at 32%. And we expect to remain profitable in 2021 by taking advantage of the opportunities ahead of us, even as we continue investing in the build out of our platform.

Now, back to Ralph for some final thoughts. And then we will happy to take your questions.

Ralph Clark

Great, thanks, Mary. Excellent job.

In conclusion, our pipeline remains strong domestically, and is also increasing internationally. ShotSpotter Product Suite has expanded beyond real time gunshot detection to include Patrol Management with ShotSpotter Connect, and now also includes post-incident investigation with a revenue producing Case Management solution as a result of our Leeds acquisition.

We are thrilled to be able to offer additional capabilities that can drive impact and bring about more effective community engagement through precision-policing technology.

Our goal is to become a trusted platform solutions provider to public safety agencies around the globe.

We'll now take your questions.

Operator

We will now begin the question-and-answer session. To ask a question, you may press star, then one on your touchtone phone. If you're using a speakerphone please pickup your handset before pressing the key. To withdraw you question, please press star then two.

Our first question today comes from Matt Pfau with William Blair.

Matt Pfau

Hi, Guys. Thanks for taking my questions.

First, just wanted to start off with the change in the White House: anything we should think about in terms of impact on your business because of that?

Ralph Clark

Yes, I think it's too early to tell, I think a lot of our business is somewhat independent about what happens federally at the White House. I mean our engagements typically are at the state and local government level, they do oftentimes depend on funding from federal resources, we talked about that in the past, but those resources tend to be fairly set and in place, and doesn't really changed very much from administration to administration, or at least that's been our experience over the past 10-plus years.

Matt Pfau

Great, and then on the Leeds acquisition, do you need to hire additional resources or make any changes to the sales force to go to market with this product? And then when we think about that \$10 million contribution for 2021, is that just revenue you're acquiring, or is there also some sort of level of anticipated additional sales worked into that number? Thanks.

Ralph Clark

Yes, so with respect to Leeds on the commercial go-to-market of Leeds, we're definitely planning on investing not only in sales and marketing resources, but we also believe we're going to need to invest a little bit more on the engineering front to really integrate that platform into the ShotSpotter—that solution into the ShotSpotter platform. So that will be an area combined that we'll definitely be investing in.

Well, with respect to the \$10 million, you can think about Leeds revenue, we have very good visibility on that \$10 million by the way, and it comprises really of three buckets of revenue. There is recurring revenue, based on the maintenance and support of the CrimeCenter solution at this large metropolitan agency we spoke about. There is also some IT services or professional services that Leeds provides to that metropolitan police department, and we also expect to have some modest revenue contribution from the commercial sale of Leeds outside that particular agency.

Matt Pfau

Great. Thanks, guys. I appreciate it.

Operator

Our next question comes from Charlie Erlikh with Baird.

Charles Erlikh

Hi, guys. Thanks for taking the question.

Actually, just following up on that last one on Leeds, congrats on that acquisition. Just wondering, was the decision to buy them driven by your existing customers asking for a solution like that, or is it more your vision for the market? And then I'd also love some color if you're able to provide it on how fast they're growing revenue currently, and their level of profitability on a stand-alone basis? Thanks.

Ralph Clark

Sure. This is Ralph. And Mary, jump in of course.

We've always viewed this as a very attractive emerging opportunity. We've been working very closely with a number of agencies that are adopting the CGIC model, which is the Crime Gun Intel Center model where you're investigating shooting events and shooters, and as powerful as that process is, the CGIC process, we've observed how frustrating and challenging it could be for agencies really to embrace it fully in an automated and digital way. A lot of their processes were, I would say, stovepiped and manual to a large degree.

I think if you paid attention to what Alan and I have talked about previously on a number of calls, we talked about how we thought about kind of tuck-in acquisitions and extensions of the platform; I think we tended very much to the idea that we're really interested in terms of what happens after a ShotSpotter alert gets a cop to a dot, how does that investigation process kick-off. And the thing that we were really excited about with Leeds is, in a very similar fashion to our HunchLab acquisition, we shared a common customer, so it's very easy the diligence the efficacy of the CrimeCenter solution within this particular agency. And we also shared common values, which is very important for us being as a purpose driven as we have. So, we think there is a lot of opportunity.

I think they've done a really good job. I think on the technology platform. I think where we can add some sizzle, if you will, is our relationships, and how we can take this commercial product to market, given our relationship, so, we're really quite excited about it.

With respect to revenue, we're not really speaking on that right now. We're in the process of getting their financials audited. And so once those financials become audited, of course, I think we'll be much more, I guess, transparent with what's there in terms of revenue. But I can't emphasize enough: we're pretty strong on our visibility to the \$10 million of guidance that we put into 2021.

Mary, would you add anything to that, or do you have any other thoughts?

Mary Hentges

No, I think you got it. Once we have their GAAP revenues audited, we'll be able to provide a lot more color on not only the revenue, but more within the business model.

Charles Erlikh

Great, thanks. And if I can just squeeze one more in there, looking for an update on the recent price increases and how they've been received by existing customers; it seems like the attrition levels better than anticipated, which is good. How should we think about attrition going forward, especially given the price increases? Thanks.

Ralph Clark

Yes, so I think we've done...

Mary Hentges

For a certain...

Ralph Clark

Yes, I'm sorry. Go ahead Mary. Sorry.

Mary Hentges

At the beginning of the year, or at the end of the last quarter, we talked about expecting attrition about 5% as we had less visibility as we move through the impacts of COVID. You can see now that we're expecting our attrition level to be much less. And in that regard, what we see is that our attrition, net of our price increases, is yielding for us a positive outcome that's well below the 5% that we had previously highlighted. So, overall, our customers aren't looking for price increases, but what we're finding is that we're able to incorporate them and still retain the business, because our attrition levels haven't been impacted dramatically as a result.

You want to add something Ralph?

Ralph Clark

No, no, I think you answered it perfectly. I think, well just maybe I can add this is that, there's two types of price increases. There is price increases that are related to renewals and then there is the price increase that we've implemented as a part of new miles going forward, going from \$65,000 per square mile per

year to \$70,000 per square mile per year, and we haven't seen much pushback with respect to that. Our bookings this year are somewhat backend loaded, unfortunately, but we've seen a very strong uptick in bookings activities, and are looking forward to kind of talking about some of those booking activities going live in Q4 and then also Q1 of next year.

Charles Erlikh

Great, thank you.

Operator

Our next question comes from Joseph Osha with JMP Securities.

Joseph Osha

Hello there. First and foremost, my best wishes to Alan I hope he recovers quickly.

I have couple of questions for you. First just backing out the \$10 million for next year, that implies kind of midpoint to midpoint kind of 10%, 12% organic growth rate for the existing business. Is that something that you regard as kind of a reasonable marker going border? Or do you believe that that number is still might be depressed relative to what the potential of the Flex franchise is?

Ralph Clark

Do you want to take that Mary, or do you want me to take it?

Mary Hentges

Sure, I can take it.

As we—keep in mind this year, our bookings earlier in the year were not as significant as a result of COVID-19. And so, given the nature of our business, recurring revenue business, you don't see the level of growth in 2021. So, what we book in 2021 has a much more nominal impact on our growth, and so therefore what you're going to see is that there is still opportunity, but it won't be as significant in light of the bookings we had this year.

Joseph Osha

Okay. So, that makes sense. So, you would argue that once we kind of work through this period of disruption that there is a case to be made for return to a higher level of organic growth in the Flex business?

Mary Hentges

Yes, potentially.

Ralph Clark

I would say, one of the things that would be going on underneath the covers what—as international admissions contribute more to the revenue growth that's going to basically induce the growth as well, because they are growing much faster, albeit on much smaller levels, but they are growing much faster.

And so as those revenues begin to accumulate, they'll blend into an overall healthy growth rate we believe.

And I'll just add to that, timing does matter for us. I think this year, it was really challenging to drive the growth, given the fact that we only I think booked nine square miles in Q1 and I think 26 miles in Q2. Only booking nine square miles in Q1 kind of sets the table for what your growth is. We have really good visibility we believe into not only what we're booking in Q4, but things that we are unable to book in Q4—excuse me, go live in Q4, but as we are able to go live on a healthy number of miles hopefully in Q1 and then in Q2, that makes a very big difference to the GAAP revenue number. It's material.

Joseph Osha

Okay.

Ralph Clark

Miles in Q1 are much more relevant to GAAP revenue than many more miles potentially late in Q4.

Joseph Osha

Sure. (Multiple speakers). That makes sense. If I look at Leeds, it's interesting you all have gone from sort of a gunshot detection franchise to I'll call a computer aided dispatch franchise to now sort of trying to push more into the precinct. And it seems to me, though, correct me if I'm wrong, the unifying theme behind all of this is still gun crime. Is that correct? And if so, can we expect to see this sort of footprint continue to build out around that theme? I'm trying to just sort of put the Leeds deal in strategic context.

Ralph Clark

Yes, I think you're on the right track, but I would just maybe gently push back in terms of not being too limited to just look at gun data, gunfire data. I would say that all our franchise is really about taking data and translating that data into actionable processes. So our original franchise of course is the gunshot data that we're producing as a part of ShotSpotter Flex, right. But then when we moved into Missions, now ShotSpotter Connect, we're not only taking the ShotSpotter data, but we're taking RMS data, we're taking weather data, we're taking location of schools and liquor stores and all that stuff data, and we're putting it into a data model and using data science to basically create a—I'll describe it is a ways of patrol, right. So it's just taking that data and a lot of machine—our data science to it, making patrol officers much more impactful for the limited time that they're in these communities. So it's really about having impact without over policing or over saturating neighborhoods.

I think in the same true, if you look at the extension in case management, because we've been so involved on the front end of CGIC, we're getting cops to dots where they're having those interviews, recovering physical forensic evidence in the form of shell casings and the like. But then we lost a lot of visibility in terms of what happens to the case. And it was challenging for a lot of agencies frankly to kind of take that data and integrate it and make detectives very successful—or they have the opportunity to be much more successful, I would say, if they can digitize and automate that data, which is not only ShotSpotter data but also forensic data that they're recovering, as well as other RMS data and TAD data etc.

What's so exciting for us in this regard is that underneath even all the data relationships is our—and we can't over emphasize this enough, we have very strong relationship capital with agencies. We are truly a trusted partner. That's reflected in our net promoter score of 70%, which I am extraordinarily proud of the way the team has been able to kind of come together and have that kind of impact, even in the face of a

pandemic and defund the police, etc. The police departments really do rely on us and trust us. So, we're in a great pole position we believe to bring kind of new capabilities to bear, and we've proven ourselves in terms of helping make agencies be much more effective. So, they're much more willing to give us space to be able to recommend new ways of doing things. We're just leaders in that regard.

I hope we can—I hope we get folks to agree or see us go beyond Gunshot Detection to be something much more broader around precision policing to drive impact without over policing.

Joseph Osha

Okay, thank you. And then one quick final one. Like any good analyst I'm going to ask a question asked earlier a different way and see if I get an answer. Looking at Leeds, understanding that you can't say that much yet, would it be fair to assume that it's probably kind of a higher gross margin, higher Opex model relative to your existing business? Thank you.

Ralph Clark

Yes, be patient with us, we're going to share all that in due course.

Joseph Osha

Okay. Thank you.

Ralph Clark

Thank you.

Operator

As a reminder, if you have a question, please press star, then one to join our queue.

Our next question comes from Jeremy Hamblin with Craig-Hallum Capital Group.

Jeremy Hamblin

Thank you. And I'll also pass along my well-wishes to Alan.

I wanted to come back to the 50 miles under development and just make sure I understood that a little bit better. First, is that kind of a firm number where you have deals signed for 50 new miles in development that likely would be deployed over the—between Q4 and Q1? And then included within that 50 new miles, what portion of it would be international?

Ralph Clark

I'll answer that question.

It's a mix of deals that are booked, and deals that we believe are highly confident in getting booked, including a couple of expansions where we have ongoing relationships with the customers, and so fair to be trusted. And one of the things that we are able to do in support of the customers is kind of get going sooner before the deal actually gets booked, and kind of treating it as much more as a parallel process as opposed to zero process, so we can get them up and running sooner versus later. And that's particularly

important in a couple of situations where we are looking at fairly sizable expansions about cities they are really dealing with some very significant uptick in gun violence.

And those miles are 100%—50, you know the 50 miles that we are talking about are 100% domestic, so, international would be on top of that.

Jeremy Hamblin

Okay, great. But on the international side, then we are not quite there on the visibility and timing, I am sure that there is still, you know...

Ralph Clark

Correct.

Jeremy Hamblin

... some spokes in the fire, okay.

Ralph Clark

Yes.

Jeremy Hamblin

And then just coming on the expense side of the equation, you did have, you held sales and marketing flat year-over-year, your G&A was also only up modestly. Is the primary driver of that just the lower travel costs? Has there been anything else that's been changed from an infrastructure perspective due to COVID or budget tightening at all that suggest those numbers could be a little bit lower, even as we get into '21 and the end of this year and perhaps there is a little bit more travel?

Mary Hentges

I will take that one.

Our numbers within our expense structure are relatively consistent period over period, as you highlighted. As we move forward we'll see those numbers stay pretty consistent, although there might be a little more G&A costs associated with things like the acquisition and so forth. The costs where you will see the most changes are really in our cost of sales line item versus our expense line items as the business continues to grow and so forth.

Jeremy Hamblin

Got it.

Mary Hentges

Expect sales and marketing, we are going to maintain that spend. We are focused on—keep in mind our sales are focused on new business as well as maintaining our current business, the marketing side of the house is pretty consistent. And the G&A, we have probably—we will not increase our travel to any great degree until we see the restrictions lifted, and so right now we are at a level of travel that really is for

essential travel in order to enable deployment; anything that can be done remotely is being up way at this point, and we don't expect that to really ease up through the end of the year.

Ralph Clark

And I would just add, structurally, it's interesting that I will be very thankful and grateful when things get better from a pandemic point of view, but I think it's fair to say that we've learned that we can do some things that don't require someone jumping on a plane and traveling somewhere, primarily in our customer success organization which has been conducting a number of our annual account reviews, which we think is pretty critical to driving our net promoter score process. We have been doing it by Zoom and it's worked really, really, really well. And I think I would also add too, but correct me if I'm wrong Mary here too, but I think there was some reallocation of sales and marketing expense that had to do with the formalization of the customer success organization that's now moved up a portion of that, a significant portion that has moved up into COGS.

Mary Hentges

Yes, and that happened at the beginning of the year, so that should be consistent from Q1 through Q4 of this year. So, that will continue the way it is, with higher cost.

Ralph Clark

Yes, I was comparing it to 2019 when you look at it kind of year-over-year Q3 '19 to Q3 '20, the customer success organization within sales and marketing.

Mary Hentges

So we will see it moved up into COGS in Q4 as well.

Jeremy Hamblin

I wanted to just ask a couple of questions also on the Leeds deal, and just make sure I heard you. The \$22 million acquisition costs, you said that, did I hear \$20 million in cash and \$2 million in stock?

Mary Hentges

That's correct, but keep in mind that \$5 million of the cash is associated with an earn-out.

Jeremy Hamblin

Got it, okay. So, the \$5 million is not on top of the \$22 million?

Mary Hentges

Correct.

Ralph Clark

No.

Jeremy Hamblin

Okay. And then I wanted to—I know you have not obviously audited the financials. It does sound like a decent portion of their business, is it... What kind of customer concentration risk do they have here? It sounds like maybe more than half of their revenue is tied to one agency that they are serving. Any color that you could share on that?

Ralph Clark

Yes. So, I think it is fair to say—I would say a substantial portion of the revenues are concentrated into one customer relationship, yes.

Jeremy Hamblin

Okay, and then in terms of the \$10 million of guide for next year—I know it sounds like you have great visibility on that. Does that assume any growth for the Leeds business next year?

Ralph Clark

Yes, I think you are going to have to look at the...

Mary Hentges

First you have to look at the numbers.

Ralph Clark

Yes. I'm sorry, go ahead. Yes. Sorry.

Mary Hentges

Once we have the full GAAP numbers, we will be better equipped to answer that question, (inaudible).

Jeremy Hamblin

Got it. Okay. Thank you so much for taking the questions, and best of luck.

Ralph Clark

Thank you.

Mary Hentges

Thank you.

Operator

Our next question comes from Jeff Kessler with Imperial Capital.

Jeff Kessler

Thank you. It's good to be back on the call. And I also wish Alan a quick recovery. It's been a tough last six months.

One of the things I am interested in is, given the fact that Leeds is mainly focused on one customer right now, how have you—and this helps me with trying to put out a year-end planner for TAMs in various industries that do from a year-end security report. How do you see given that—is this a good data test? How is this going to show how big the TAM is, given that you can see it on a research or marketing study obviously? But what types of evidence have you gotten in the real world in talking to the people who are looking at what you are doing, what you may do with Leeds in terms of integrating into your Company that gives you the optimism that the TAM goes up to that much and increases your potential market that much?

Ralph Clark

Yes, Jeff. This is Ralph. Thank you for that question.

I think it's very straightforward. I think with respect to Gunshot Detection or even our ShotSpotter Mission/Connect solution, those were basically kind of new capabilities that were really kind of training or getting police departments to think about doing things in a different way. So, I mean, acoustic gunshot detection: who would have thunk, so to speak.

With respect to Case Management, that is something that every police department has to do in some kind of form, and it is just a question of whether or not they need to consider automating their not to be much more effective, so it's much more of a category or thing as opposed to us kind of creating a new category. Gunshot Detection was a category that we created. It didn't exist until there was ShotSpotter, you know full stop. And I think with respect to Patrol Management, I think the same thing could be said as well, that wasn't a thing or a category, and we are now in the process of making it a category.

Case Management is a category, no question about it. Every police department has the obligation to investigate, gather evidence, and hopefully it would lead to a successful prosecution. Our work with a number of agencies, just around the very narrow specific investigation of gun crime, showed us how frustrating and manual and stovepipe that process can be, so case in point.

If you don't have an integrated solution to do case management, someone investigating a gun crime and then you have another crew of detectives, maybe investigating armed robbery, right, those two things could be potentially related. They could lever off of one—they could lever each other's investigative processes, if they had the ability to have all that data in one place and be able to link it and share etc. and collaborate. It's virtually impossible to do that if you are any kind of agency size with the number of detectives in a number of case, you can't do that with pen and paper—or you can, but then your case closure rate is going to be 30% or 40%. I mean if you want to achieve very high case closure rates, you have to figure out how to automate that. You have to figure out how to collaborate with other investigations.

And then there is a big productivity saved with respect to how you package all this up to the most important step in the investigation, that's actually after you have identified, made an arrest, now you want to prosecute, being able to turn that package over to a DA to have better cases with better outcome is critically important. I mean, there is a greenfield opportunity here we believe to make that process a lot more effective. And the nice thing about the Leeds acquisition is we could see the impact that CrimeCenter solution has had in this one particular agency that has a version of it, and this agency is known to do a pretty good job, with respect to their case closure rates.

Jeff Kessler

And with regard to pressure on local budgets: obviously it's hard to see what goes on in the deliberations that are that precede somewhere like Piscataway or Brockton cutting back on you. What is your—

obviously we are going into a tougher period before it's going to get better. Are you able to have any visibility into - just by way of talking to your existing customers - getting a feel for what their level of fear in terms of being able to continue funding or being able to—or needing to cut back a little bit? I mean are these the types of things that you can always never predict 100%, but can you predict this with 25%, 30%? Obviously it bounces around, but you are obviously in touch with your existing customers, particularly some of the smaller towns in a tough, tough budgetary period.

Ralph Clark

Yes. We are obviously not really good forecasters of it because, earlier this year, we estimated \$2 million of attrition, and now it looks like it's going to be close to \$500,000. So, I would say our estimation skills were maybe a little bit off, and what we learned in that process is that ShotSpotter is a lot more critical and sticky than even we would have thought.

Now, that being said, you said something very important that I would just double-down or double-click on and emphasize on is that, although we had great success in 2020, we are not out of the woods yet. I mean we have to go into 2021 I wouldn't sit here—we don't have a number today. But the fact that we could kind of manage attrition would be like \$500,000 in 2021 would not be something that I think we would necessarily sign up for, because this is a tough environment and we are not out of the woods yet. There is still going to continue to be budget pressures. Some of that budget pressure is going to be offset by hopefully some stimulus money from time to time, and what we also have found in our work with agencies is that when they are being asked to cut their budgets—and the ones are being asked to cut their budgets significantly, they can get from here to there fooling around with cutting out ShotSpotter \$200,000 or \$300,000. I mean they're being asked to cut millions of dollars out of their budgets, and the vast majority of a police department's budget is headcount.

The only way they can get there is by reducing headcount, which then kind of creates the circular effect that says, hey, look I have reductions in headcount, but it's not like their mandate shrinks along with it. It's not, like they say, okay, we are cutting your headcount—you're cutting headcount by 20%, you can make 20% less arrests or follow-up on 20% less 9-1-1 calls, I mean, that isn't the case. So, technology has to be a part of the solution going forward to help these agencies continue to do more with less.

We believe precision policing is so critically important to police departments, even in the face of budget cuts. So, we are really constructive, but we are also very realistic as well to recognize that pandemic-induced budget pressures are real, and it is not like they are going to go away at the end of this year into 2021. So, we have a lot of work to do and we will continue to work really hard to put up really great, low attrition numbers as possible, but it's still going to be a bit of a challenge.

Jeff Kessler

Okay. If I could just quickly throw in like a last question. You mentioned that the addition of Leeds gives you essentially an integration that nobody else has, obviously there is some—once you start getting into that area of Leeds of case management, you begin to start knocking heads with some other companies, obviously, people are figuring out which companies they are pretty quickly. I am wondering if you have that—what gives you the confidence that the area that you are—the three parts of your plan here that you are in is going to distinguish you as unique in the industry and absolutely that your value proposition is just absolutely needed so that you can keep the margins and don't have to start competing on perhaps on price when it comes to the Leeds part of the equation. If Leeds is ultimately completely integrated into the company, it's clearly a different item, but some other companies are going to say what we can do that too.

Ralph Clark

Sure. I would say we have a very differentiated and unique value proposition, as it relates to the specific investigations of violent crime, gun crime, just because of what we're doing with ShotSpotter Flex. So, that goes without saying. I think the other differentiation that this acquisition provides us is the long-term experience of a pretty smart agency using this over five years - I mean this thing has really been honed to incorporate a number of features - and watch how those features are being used to drive higher case closure rates: that's real world, it's not kind of experimental, it's not a product manager is sitting back there on a whiteboard trying to figure it out. I mean this thing is ground tested with the agency. I think that gives us a little bit of a running start I would say.

And we think, by the way, that we go to market and the relationships that we formed in our existing kind of core business are going to be quite leverageable assets kind of going forward to carve out a reasonable part of this market. But, I think I would acknowledge your point that there is competition out there, which is very different than maybe what we know in Gunshot Detection, but I would say most of the competition frankly is manual paper-based processes, and that's really straightforward to compete against those. So, we are excited.

Jeff Kessler

Right. Great. Thank you very much, and again I'm glad to be back with you guys again.

Ralph Clark

Thank you.

Mary Hentges

Thank you.

Operator

Our next question comes from Mike Latimore with Northland Capital.

Aditya

Hi, this is Aditya (phon) on behalf of Mike Latimore.

Can you provide some color on the opportunities that you see in the verticals such as schools and corporates?

Ralph Clark

Yes, Mary, I will take that. I apologize.

Really quite interesting, we—this past quarter Q3, we did light up a SecureCampus deployment. We have had some inbound activity from more corporate campus interest. A pretty interesting powerful analogy is as I think a lot of us have kind of witnessed a lot of the kind of social unrest that's taken place over the past few months, and you have individuals, homeowners, and the like kind of going out and buying guns to protect themselves, you also have kind of corporations kind of rethinking their security apparatus and platform, and so we have had some interesting inbounds from some corporate entities that might have distributed assets out in the world—excuse me, the United States primarily, and oftentimes these assets, these physical locations are in areas that or maybe transitional areas that could experience, maybe not ongoing persistent gun crime, but gun crime in and around their particular campus locations and the like.

So, we're encouraged, it is still a bit early, but we're encouraged about the interest and I'm hoping we will be able to share more on that in future earnings calls.

Aditya

All right, all right, fine. And about the bookings and the pipeline: like, what percentage of it is coming from new wins and how much is coming from the up-sells?

Ralph Clark

Yes, I don't think we get down to that level of detail, I mean...

Aditya

Okay, all right. All right, fine. I will pass then. Thank you.

Ralph Clark

Thank you.

Operator

This concludes our question-and-answer session. If your question was not taken, you may contact ShotSpotter's Investor Relations team by e-mailing sssti@gatewayir.com.

I would now like to turn the call back over to Mr. Clark for his closing remarks.

Ralph Clark

Awesome. Thank you so much, and really appreciate everyone joining us today. We appreciate your support.

And then just again another word about Alan, I mean, he is doing extremely well, and he wants you to know that he is very excited to kind of come back. He was involved—he wanted me to share with you all that he was involved in an accident, but his recovery is remarkable. And Mary is doing a great job in the meantime, but we are going to be excited to get Alan back as soon as he is able.

Thank you all very much again, and we will be chatting soon.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.