



**ShotSpotter, Inc.**

**Third Quarter 2019 Earnings Call**

**November 12, 2019**

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

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

**Alan Stewart**, *Chief Financial Officer & Secretary*

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

**Matthew Pfau**, *William Blair & Company*

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

**Hilary Cauley**, *JMP Securities*

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

**Reed Motulsky**, *Imperial Capital*

**Tyler Wood**, *Northland Securities*

**Matt Galinko**, *National Securities*

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

### **Operator:**

Good afternoon, and welcome to ShotSpotter's Third Quarter 2019 Earnings Conference Call. My name is Omar and I will 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 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 12, 2019 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](http://ir.shotspotter.com).

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

**Ralph Clark:**

Thanks very much, and hello to everyone on the call.

As usual, I'll provide a general overview of the business and Alan will cover our Q3 results in more detail before we take your questions.

If there is a theme for this quarter, it is the same theme we've been stressing since going public. ShotSpotter's business is best viewed through a longer term strategic lens rather than from a shorter term quarterly perspective.

We can experience lumpy results, especially when our deals get pushed out in time due to the bureaucratic procurement processes and contract negotiations to which our public agency customers are sometimes subjected to. This thing continued to be in play in Q3, as we're on the cusp of securing a few, but material contracts that have had their final signings push forward for a variety of reasons. As a result, we only added 20 gross miles for the quarter, which was below our original expectations. These miles were primarily driven by expansion projects in six cities and Piscataway, New Jersey as a new customer.

We reported Q3 revenues of \$10 million, a net income of \$446,000 or \$0.04 per share. We also generated positive cash flow from operations, again proving the operational leverage in our business. While this quarter's results did not reflect our strong growth potential, ShotSpotter's long-term business fundamentals remain strong. The pipeline for our core ShotSpotter Flex service continues to grow broader and deeper with expansion opportunities from existing customers and a growing number of deals being formally bid with new public safety agency customers.

Additionally, our ShotSpotter Missions offering is gaining traction and nearing the point of making measurable revenue contributions to our financial results. We believe, given our first mover advantage and lack of any serious competition, ShotSpotter remains the only viable candidate to effectively serve this market. Although, we never take anything for granted, we rarely lose to an alternative solution in a true bake-off situation and don't see any other company or technology that can deliver the proven efficacy of gunshot detection services that ShotSpotter provides.

Our recent experience with Puerto Rico is an illustrative case study on the competitive and timing dynamics of our business. Puerto Rico originally published an RFP for gunshot detection back in July 2018, post Hurricane Maria and after being a successful ShotSpotter customer from 2014 to 2017. After receiving no other bid that they determined to be viable besides ours, they reissued a second RFP almost a full year later in June of this year, with slightly modified requirements in an effort to introduce more competition. We're pleased to have recently received official notification that ShotSpotter was awarded the project, a \$4.6 million three year deal, which is still subject to successful contract negotiation that we hope to conclude by year-end.

Based upon the agency's published evaluation we've already learned that the second RFP yielded only one other deemed viable proposal as compared to ours. That proposal scored much lower in the agency's technical evaluation while the price they bid was over two times the ShotSpotter price. We're very excited to be reengaged in Puerto Rico and are looking forward to the collaborative work in helping make those communities become safer.

We continue to see strong evidence that our core value proposition is still very much intact, is increasingly being validated by independent research. The Urban Institute, a nationally respected non-profit research group published an evaluation last month on how ShotSpotter's gunshot detection system is being used by police departments and the value it provides when accompanied with fundamental best practices.

It illustrates the positive impact that fast accurate detection can have on response and investigative efficiency, the overall reduction of firearms violence and the ultimate cost benefit to the community. A separate retrospective study published in October this year in ScienceDirect, showed a 52% decrease in shootings in Camden, New Jersey in the year after installing ShotSpotter, and how ShotSpotter has been a part of a set of new policing techniques.

We also regularly see and hear third-party endorsements for ShotSpotter from our many clients. For example, Cincinnati major, John Cranley recently called out ShotSpotter, in his 2019 State of the City address asserting that, "In Avondale, we saw 50% reduction in shootings using ShotSpotter." The Las Vegas Metropolitan Police Department, which is soon going live on an end process 17.5 square miles ShotSpotter expansion, revealed at their press conference, a 26% reduction in violent crime in the areas covered by ShotSpotter.

Collectively these validations and others are indicators of the approaching tipping point where gunshot detection becomes a standard-of-care solution. Looking forward into Q4, we will continue building out our third expansion in Cincinnati and complete the 17.5 square mile Las Vegas expansion, which at 23.5 square miles will make Las Vegas our third largest deployment after Chicago and New York.

I also want to recognize the University of California at Irvine, which has recently contracted for our campus security solution. Irvine will be our third campus in the University of California system when it goes live later this year.

With every single customer engagement, we set out to keep that customer for a lifetime, but we also recognize that attrition is a natural part of any subscription based business. So we do bake in some attrition in our annual forecasting. As noted in last quarter's call, we called out some limited expected attrition of approximately \$500,000 of annual recurring revenue involving three cities that decided to not renew. In one case, it was primarily driven by department leadership change, in another case, a city publicly stated their intention of deploying a smart city-based alternative that claims to do gunshot detection. We'll be paying very close attention to see how closely the vendors' claims match up to the real world challenges of delivering precise reliable gunshot detection services at municipal scale.

Looking beyond our technology, I want to reiterate that we continue to sharpen, expand, our sales organization and go-to-market approach. We recently added a VP of Domestic Sales reporting to Gary Bunyard, our current Senior VP of Sales. Our five Territory Sales Directors will report to this new VP, who will provide more day to day direction designed to increase deal cadence and enable those deals to move forward more expeditiously.

Additionally, we've also established a Sales Overlay Organization, which is led by our recently promoted sales VP who will also report to Gary. Our Overlay Sales Group will develop and maintain deep functional consultative sales expertise in flat security emissions and will collaborate with the Territory Sales Directors to drive our solutions through their respective territories. These collective organizational adds and changes will free up critical cycles for Gary to focus on highly leveraged strategic sales initiatives, including taking the lead on a selected number of Tier 1 opportunities.

We're also elevating our critical customer success practice by breaking out the customer success team from the sales organization. A recently hired VP level leader will direct our customer success organization and collaborate with the senior leadership team, while reporting directly to me. We've invested in

expanding the capacity and capabilities of our customer success organization, so they can continue to execute a best of breed on-boarding process in order to generate even more net promoters providing even more positive customer referrals.

Before I conclude, I want to update you on Missions and ShotSpotter Labs. We've made solid progress with Missions. We've added two new customer bookings to-date and expect to close another three to five by year-end. The pipeline for Missions has grown ahead of plan and we're especially encouraged to see a high degree of interest from non-current ShotSpotter customers.

Last quarter, I discussed our ShotSpotter Labs anti-poaching initiative in Kruger National Park in South Africa. I'm very pleased that the results have exceeded our expectations. In very short order ShotSpotter alerts have led to at least two successful poaching interventions. The area where there is a ShotSpotter dome of protection has gone from three poaching events per month to zero poaching events over the last several months. Officials believe that the chilling effect of ShotSpotter's precise real time alerts has been a game changer. As a result, it is possible that some of the poaching activity has been displaced to other adjacent private reserve properties that currently lack ShotSpotter protection. These private reserves have the financial resources to engage in anti-poaching strategy and are becoming viable commercial opportunities for our business.

Just a final couple of points before I turn it over to Alan. Factoring in where we are, we decided to tighten our full year 2019 guidance even further, cutting the topline expectation to \$40 million to \$40.5 million, while ending the year with almost \$43 million of annual recurring revenue.

Looking forward our 2020 guidance of \$48 million to \$50 million, reflects our expectations that we can add another \$5 million to \$7 million of GAAP revenue on top of our year-end revenue run rate. This includes expected GAAP revenue of over \$1 million from Puerto Rico and a reasonable assumption for attrition.

As you can probably ascertain from these remarks, my optimism about the future for ShotSpotter continues to be strong. It may be taking longer to get business across the line, but I'm very confident that when we see the conversion of our expanding pipeline, our growth will reaccelerate as we continue to drive adoption of our solutions and positively impact public safety outcomes.

Okay, that's it for me. Here is Alan.

**Alan Stewart:**

Thank you, Ralph. Good afternoon everyone.

As Ralph mentioned, our third quarter revenue results were below expectations. We are again reducing our full year 2019 revenue outlook. We're disappointed with the reduction in our revenue outlook. However, as Ralph stressed in his comments, the primary issue has been the elongation of sales cycle and delays in the final contracting process on a few material deals, which we view as a when, not an if. Puerto Rico would be an example of this. We expected to sign that deal much earlier in the year and I'm pleased to finally announce that we have formally been awarded the contract and are aiming to sign it as soon as possible.

Despite the lumpy growth this year, the leverage in our model has allowed us to maintain profitability both in the third quarter and year-to-date. We continue to stand behind our guidance as to the full year 2019 profitability. Revenue for the third quarter was \$10 million, an 8% increase from \$9.2 million in the third quarter of 2018.

Our year-to-date revenue growth was 19% over 2018. It's also important to remember that the 2018 results reflect the very large deployments in Chicago and New York that drove the 2018 mileage growth. However for 2019, we completed a large expansion of over 15 miles Miami-Dade County this quarter and have another large expansion of 17.5 miles under way in Las Vegas. These large Tier 2 city expansions are encouraging even as we pursue new Tier 1 contracts.

The quarterly results were also impacted by delay in closing some deals and a couple of delayed renewals, which is not unusual in our third quarter. We added 20 gross new miles during the quarter, but lost nine from three small customers who did not renew for 11 net new miles added in the quarter. Note that we discussed last quarter that we anticipate a few of these losses. Including these losses, our overall churn is still expected to be less than our planned 3% for 2019.

Of note, we had originally expected Las Vegas to deploy their entire 17.5 miles of expansion during the third quarter, but at the request of the agency, we delayed most of deployment to Q4. The balance of their expansion should go live this month.

Gross profit for the third quarter was \$6 million or 60% of total revenues, up from \$5 million or 55% in the third quarter of 2018. We continue to invest appropriately to fund our long-term growth, while benefiting from the unique leverage in our model. Our operating expenses for the third quarter were \$5.6 million or 56% of revenue versus \$6.6 million or 72% of revenues last year.

Note that the operating expenses in the third quarter of 2018 included approximately \$900,000 and \$200,000 respectively related to non-recurring litigation and M&A expenses. We still expect overall operating expenses to increase less than our rate of top line revenue growth, leading to increased operating margins in 2020.

Looking at each of the line items, sales and marketing expenses for the third quarter were \$2.4 million or 24% of the total revenues versus \$2.5 million or 27% of total revenue for the prior year period. We expect this level of spending to increase slightly on a dollar basis for the balance of the year. Our R&D expenses for the third quarter were \$1.4 million or 14% of total revenues compared to \$1.2 million or 13% of total revenues for the prior year period. We continue to invest in R&D to add features and functionality to our products and improve our software algorithms and applications. We expect this level of spending to increase slightly on a dollar basis for the balance of the year.

G&A expenses for the quarter were \$1.8 million or 18% of total revenues compared to \$2.9 million or 32% of total revenues for the prior year period. We expect that our G&A expenses will continue modestly to increase on a dollar basis throughout the balance of the year.

Our GAAP net income for the third quarter was \$446,000 or \$0.04 per share based on 11.4 million basic and 11.9 million diluted weighted average shares outstanding. This compares to a GAAP loss of \$1.4 million or \$0.13 per share loss, the prior year period based on 10.8 million basic and diluted weighted average shares outstanding. As I noted above, we are particularly pleased to maintain profitability even with the increased spending that is funding our future growth.

Adjusted EBITDA for the quarter, which is calculated by taking our GAAP net income and adding back taxes, interest, depreciation, amortization and stock-based compensation was \$2.3 million, up from \$200,000 in the third quarter of 2018. We ended the quarter with 696 miles live in 99 cities and 11 campuses and sites. At the end of the third quarter, we had approximately 720 miles and 12 campuses and sites under contract. Deferred revenue at the end of the third quarter was \$21.4 million. Of this amount \$20.6 million was short term and \$800,000 was long term.

Our balance sheet remains strong. We ended the quarter with \$26.1 million in cash and short-term investments, down only slightly from the \$27.4 million at the end of Q2. You should note this was after spending approximately \$3.5 million repurchasing shares under authorized share repurchase program. We added one new city in the third quarter for a total of 10 new cities year-to-date. As we shared last quarter, we expect our second half growth would be driven primarily by expansions and not new cities. Finally, as mentioned above, we repurchased 120,000 of our shares under our corporate repurchase program during the quarter.

Turning to the full year guidance, with the Las Vegas miles coming in so late in the year and some of our other delayed customers we're reducing our fiscal year revenue outlook to \$40 million to \$40.5 million. We've been clear that the cadence and customer adds especially in international markets was slower than we originally expected, but again we do not see this business as being lost to a competitor and we are optimistic that much of it will close in the near future. Ralph has shared our 2020 full-year guidance of \$48 million to \$50 million, which would represent over 20% growth at the midpoint.

Let me add just a few more details.

We expect the revenue cadence will be similar to the historic trends with first quarter relatively flat with fourth quarter, unless we're able to deploy Puerto Rico rapidly, an increase from Q1 to Q2, flat to the third quarter, and an uptick again in the fourth quarter.

Expenses will increase on a dollar value across all operating expense categories, with the most pronounced increase in sales and marketing. We also expect to remain profitable on a go-forward basis and expect both gross and net margins to continue to improve although there may be some quarterly variation.

We continue to evaluate the upcoming replacement of our 3G sensors, LTE sensors and will begin incurring some expenses related to that process in the fourth quarter. Overall, we expect this to cost between \$4 million and \$6 million throughout the entire process. We are evaluating the timing of this rollout and we'll keep you posted.

Lastly, we are planning to have an Analyst Investor Day on Tuesday, December 17. We will provide more details as we get closer to that date, but please mark your calendars for that event. We'd love to see you all there.

Now I'll turn the call back to Ralph and then we'll be happy to answer your questions.

**Ralph Clark:**

Great, thank you very much, Alan. I think we're just prepared to go directly to the questions at this point in time. So thank you very much for joining.

**Operator:**

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

Our first question is from Matt Pfau, William Blair. Please proceed with your question.

**Matthew Pfau:**

Hey, guys. Thanks for taking my questions. First, I wanted to ask about the 2020 guidance, and I was wondering if you can give us any sort of additional details in terms of what is factored into that guidance and how much visibility you have into that number? Basically just trying to figure out if some of the delays that have sort of plagued you during 2019 have the potential to impact that 2020 guidance as well.

**Alan Stewart:**

Sure, this is Alan. I think if you look at what Ralph just mentioned in terms of how we're going to end 2019, we know we're going to have about \$43 million in annual recurring revenue at the start of the year. In addition to that, we expect to add somewhere between \$4 million and \$5 million in GAAP revenue between our new domestic go-lives and Puerto Rico, assuming we can light up Puerto Rico as quickly as we believe we can. Then on top of that, there's probably another \$1 million in miscellaneous new GAAP—in GAAP revenue related to Missions, security, some other projects we have. Then the balance will be filled in by International. So international at that point, somewhere around \$1.5 million to \$2 million which is frankly less than we had started with in our guidance last year, and even though we have more proposals and more bids out there and are much more optimistic going into 2020.

**Matthew Pfau:**

Got it. Thanks for the additional detail there. It's helpful. On the Puerto Rico deployment, I know you were—you guys had a fairly sizable deployment there prior to the hurricane coming in a few years ago. Is this deployment reactivating those same areas or is this in areas that you previously weren't deployed in?

**Ralph Clark:**

Yes, this is Ralph, great question. So I think it matches up pretty well with our original deployment. It's approximately 20 or so miles, and again it's a three year contract for us. So we're quite excited to get reengaged in Puerto Rico, and to enter into another relationship with them providing gunshot detection services.

**Matthew Pfau:**

Got it, and last one for me on the Missions product. You mentioned you're seeing some nice interest from non-current ShotSpotter customers. Do those customers that are showing interest have the potential to eventually use the core ShotSpotter solution as well for gunshot detection? Or are these customers that are just using Missions. Just trying to get an idea if this could be potentially a customer onboarding tool for your core gunshot detection product as well?

**Ralph Clark:**

Yes. So great question again. So the interest is really coming from two types of non-ShotSpotter customers, those that will probably never be ShotSpotter customers because they maybe lack concentrated violent crime in their areas, so they're looking at that solution more as a property crime solution. And then those customers that have both property crime and violent crime where they could potentially become ShotSpotter customers in the future. I think it does bear mentioning that our focus really is in these first set of customers that we are signing up and hopefully be deploying over the next few months; that we're really focused on making sure they have an incredibly positive experience and represent net promoters that can help us bring on board the next set of customers.



So this is something that's relatively new for our Company and frankly for customers that are using this kind of precision policing capability around kind of patrol management and the like. So we want to be very intentional around making sure we're kind of tracking the value that they're seeing from that, deploying that solution and kind of using that, that positive experience and bringing on the next wave of customers. So I wouldn't expect us to really engage even though we are seeing interest from non-ShotSpotter customers. I think our first priority has to be on really working with this handful or two handfuls of customers that we'll sign up between now and the end of the year.

**Matthew Pfau:**

Great. Now that's all I had. Thanks for all that guys.

**Ralph Clark:**

Thank you.

**Operator:**

Our next question is from Chris Van Horn, B. Riley FBR. Please proceed with your question.

**Christopher Van Horn:**

Hello, everyone and thanks for taking my call. I guess just on the margin front, it seems like margins are going to continue to expand and I'm wondering if there is a main driver there or if it's just lot of different things you are doing, whether it's pricing or cost controls and how do you feel about your kind of longer term goal of somewhere around \$100 million in revenue and potentially 40% EBITDA margins?

**Alan Stewart:**

Sure, this is Alan. I would say where—we continue to spend where it's appropriate. I think we're going to be increasing our spend, as Ralph mentioned earlier, in our sales and marketing, as we have been ramping that up over the last year to 18 months. We're not necessarily going to be increasing at the same rate of revenue in G&A and R&D. We feel pretty good about where our level of expenses are there. There will be selective investments there.

So you see two things. You see control throughout the operating expenses, but you also see as the revenue grows, some of our semi-fixed cost and our cost of goods sold aren't growing as much as the revenue is. So the gross margins are going to continue to improve as well. So improving gross margins and improving—or controlling the operating expenses are going to lead to continued improving in our overall margins. I would say on that path to that \$100 million share, we still feel pretty comfortable about getting that 40% or \$40 million in EBITDA when we hit that \$100 million mark.

**Christopher Van Horn:**

Okay, got it. Thanks for that detail. From a competitive landscape perspective, we do our due diligence, I think the more you dig into the core competitors that you have, there are some stark differences. Just want to confirm with you, maybe how you stack up, either from a pricing perspective or from a solutions perspective, now that there's been some chatter that the competitive landscape is getting—is ramping up?

**Ralph Clark:**

Yes. So this is, Ralph. Great question. I think at this point in time, it is just a bunch of chatter. I mean we haven't seen any successful deployments of any kind of scale in any other customer situations. Of course we all saw the recent news with Canton, that decided not to renew their ShotSpotter solution because they're going to try another solution, which we haven't actually seen deployed anywhere. I think architecturally, I think it's important to note that the folks that are out there claiming to do gunshot detection are doing it on a proximity-based sensor basis which is a very challenging thing to do at scale.

One of the significant architectural advantages we have is using kind of multiple sensors and using our really robust machine classification and human review classification to make sure that we're delivering not only fast, but precise alerts, right. Precise in terms of location, and precise in terms of really minimizing false positives, things that claim to be gunshot that aren't gunshots, which is difficult for proximity-based sensor to figure out; and also reduce false negatives as well, things that you don't claim are gunshot that actually are gunshots. So our ability to deploy kind of multiple sensors over a square mile working together along with our machine and human review classification, we think builds a best of breed solution.

So we're going to be watching very carefully, at least this Canton implementation, to see in fact how closely the vendor's claims match up to reality. We've seen other attempts at some of these proximity-based sensors companies that try to do things. They haven't been very successful. In one particular case, we've really kind of gone behind this one particular vendor, in three cities at least, and kind of cleaned up, I guess, their original deployment, if you will. So we'll continue to kind of focus on doing what we do and kind of watch these competitors to-date, but we really haven't seen much pressure at all from them at this point because they don't have these successful deployments.

**Christopher Van Horn:**

Okay, got it. Thank you for that commentary, and thanks for the time.

**Ralph Clark:**

Yes, thank you.

**Operator:**

As a reminder we are now conducting a question-and-answer session. If you would like to ask a question please press star, one on your telephone keypad. One moment please while we poll for questions.

Our next question is from Joseph Osha, JMP Securities. Please proceed with your question.

**Hilary Cauley:**

Hello, this is actually Hillary on for Joe. I just wanted to kind of circle back to the sales headcount. I know you guys had the one new hire this quarter. I was just kind of wondering kind of thoughts on if you're comfortable with your current headcount or if we might see you bring on another one or two sales people as you look to pursue some of these different growth strategies?

**Ralph Clark:**

Yes. So, great question. So we did bring on a VP of Sales—that our current five Territory Sales Directors are reporting to that individual. We are formally building out a sales overlay organization taking one of our very successful Sales Directors and promoting him to the VP role, where he is now going to build out an overlay organization that will have kind of very precise skill sets around selling Flex services, our security

solution and most importantly, our Mission solutions and working collaboratively with the sales organizations on kind of pushing those solutions through their respective territories.

We'll continue to invest in and build out our customer success organization. I think in many ways that's a little bit of the secret sauce around how we do what we do in terms of really building these loyal net promoter customers out there that then really help us from a kind of referenceability point of view, help sell other customers. That's a critically important process for us. We'll probably grow that headcount even faster than what we're going to do on the direct sales, because I think in this particular market other chiefs of police pay attention to the chiefs of police that deploy ShotSpotter.

So we want to make absolutely 100% sure that when a customer deploys ShotSpotter, they're having a positive experience. I think I would point no further and no more recent than the Las Vegas press release. If you have an opportunity to look at that, you can see what a loyal, committed, customer implementing best practices that we help bring about with our customer success organization; how they talk about that ShotSpotter solution, what difference it's made in their particular city, in this particular case, Las Vegas. That's marketing and sales goal. So that's the area that we're focused on mostly, that customer success organization.

**Hilary Cauley:**

Okay, great, and then just secondly, when we were in Chicago, we spent some time over at the NIBEN booth, and I was just wondering if you could provide some color—thoughts around how that might play into your growth strategy over the next couple of years?

**Ralph Clark:**

Great. Yes. So we're always—this is Ralph again. I mean we're always better when a customer adopts our solution and is integrating it with other technologies and bring about other processes. It's literally kind of two plus two equals five. For those of you on the call that aren't familiar with NIBEN, you can think of it as there ATS kind of fingerprinting of shell casings. What's make this NIBEN so critical in the prevention and reduction of gun violence is ShotSpotter is getting cops the dots (phon) and because the vast majority of gunfire events go without a 911 call, we're able to help police departments recover much more physical forensic evidence in the form of shell casings. Those shell casings then get processed by NIBEN and then you can literally connect the dots. You can see the movement of a crime gun in various parts of the city.

That combined with the additional intelligence that ShotSpotter is bringing about because now you're able to interview witnesses and you're able to see the cadence of gunfire, you're more quickly able to identify the very few serial shooters that drive most of the gun violence problem. So there's overall concept out there called Crime Gun Intelligence Centers and it's basically the philosophy of combining ShotSpotter along with NIBEN and taking a very robust intentional approach to investigating all shootings, just not shootings that result in a homicide or gunshot wound victims, but even shootings that just don't have a physical blood trail, but they might leave a shell case and which can be critically important in your investigation, in stopping that serial shooter before they ultimately shoot and hurt or kill someone.

So it's a great, great question and we love NIBEN and we love to be integrated with that because it makes it more sticky. It makes it more valuable to the customer, that's going to combine those technologies and processes.

**Hilary Cauley:**

Great, thank you.

**Operator:**

Our next question is from Will Power, Baird. Please proceed with your question.

**Charles Erlikh:**

Hey guys. This is actually Charlie Erlikh on for Will. Thanks for taking the question. I just wanted to ask on Puerto Rico, what exactly is still left between where we are now and getting that completely across the finish line and starting to generate revenue?

**Alan Stewart:**

So this is Alan. As we mentioned we received the formal award document. We are in communications with them now to take the next steps to actually go down there and do the negotiation to the final contract. Hopefully this time it will be a little faster than last time. The RFP did contain a sample contract. So both parties are already at least cognizant of what most of the terms and conditions are going to be. That said, it is Puerto Rico things sometimes do take a little longer than we might expect. We certainly expect and hope to have that completely signed and executed before the end of the year with an opportunity to even start some of the go-lives.

**Charles Erlikh:**

Great, and then I also just wanted to ask generally on the international pipeline, how close are we to the finish line on some of these other international deals and how might they compare to Puerto Rico in size?

**Ralph Clark:**

Yes. So this is, Ralph. I'll answer the second part of your question first. So in terms of size because we have the pricing leverage that we have internationally, these deals are sizable. You can think in terms of anywhere from on the low side of \$500,000 of annual recurring revenue and as much as like \$2 million on a kind of reasonable sized deployment of international customers. So they tend to be very large and chunky.

We're super constructive about the size and depth of the market I would say. We're seeing an increased amount of interest. Just to remind folks in Latin America, we're focused primarily on four countries, Brazil, Mexico, Colombia and Panama and then we've been able to be successful in the Caribbean with the Bahamas, which came on, I think, this year. We also had a very long-standing relationship with a customer in South Africa: Cape Town, who publicly discussed their need for expansion of ShotSpotter. They continue to have a really tough time with gun violence and they also have a budget to address the issue.

So we're feeling quite constructive about it, but I think one lesson learned, if you will from kind of 2019, this year is that as good as we're feeling about the size and depth of the market, I think we're being a little bit more intentional about the timing characteristics of what it actually takes to get a signed executed contract because they're resembling much more kind of I will call it Puerto Rico behavior than maybe say even for an existing customer like Cape Town that has talked about expanding, that knows us, that we have an existing contract with, it's still very, very difficult from a procurement, logistics point of view to kind of get paper across the line.

So we're hopeful and expectant of getting some amount of international revenue contributing to our GAAP revenue contribution in 2020, and we like the way the pipeline is developing.

**Charles Erlikh:**

Great, that's really helpful, thanks guys.

**Operator:**

As a reminder if you would like to ask a question please press star, one on your telephone key pad. Our next question is from Reed Motulsky, Imperial Capital. Please proceed with your question.

**Reed Motulsky:**

Hi guys. Last quarter you guys talked about prices increase—price increases starting next year. Have you guys made any progress negotiating them? Has there been any push back or is that going along smoothly?

**Alan Stewart:**

Yes. So, this is Alan. We have talked about and are still intending to implement a base price increase from \$65,000 per year per square miles, to \$70,000 per year per square mile. That will go into effect January 1. It will be phased in, basically all new miles that are sold will be at that price. If customers have price points that slightly below that from historical ones they'll have a call increase until they reach that price. We haven't gotten any substantial push back and it is something that's still on the docs to execute on.

**Ralph Clark:**

Yes, and I would just add, it's not like we have been increasing prices every year. We haven't had a price increase in what for four years. So we were due.

**Alan Stewart:**

We have had COLA increases in many cases, but would not a broad-based price increase to our standard price per mile.

**Reed Motulsky:**

Got it, great, and I know you guys have a lot of strong data on the success of ShotSpotter Flex impact and now with the growing footprint of Missions have you guys started to compile data on how it impacts the community and the policing there and if it's positive or not?

**Ralph Clark:**

Yes. So it's too early for that just yet, because we just recently deployed our first customer. Again, we have another, I'd say, kind of three to six that we hope to deploy in the next few months. But that's very much on our roadmap is to provide that kind of narrative to help people understand the value and the various use cases of our Mission solution.

**Reed Motulsky:**

All right, great, thank you very much.

**Ralph Clark:**

Thank you.

**Operator:**

Our next question is from Tyler Wood, Northland Securities. Please proceed with your question.

**Tyler Wood:**

Hi, thanks for taking our questions. First on the lengthening sales cycles, you've talked a bit about how the international sales cycles are turning out longer than you expected. But what are you seeing domestically, and if you are seeing sales cycles get longer domestically, what's driving that? Is there any impact you're seeing from competition getting more active on those? Thank you.

**Ralph Clark:**

Yes. So this is Ralph, and Alan jump in, of course, but we're not seeing any real impact from competition. Just to remind folks, the vast majority of our sales are sole source deals we're basically going direct to the customer and they're not even issuing RFP. In other cases where RFP is issued, oftentimes we're the sole bidder on an RFP; the first RFP for Puerto Rico. In a couple of cases, there might be another respondent as again as in the case of Puerto Rico, but oftentimes it's not I guess technically as strong as our solution and the pricing isn't there. So I think from a competitive point of view, we're feeling really quite good. I think from a domestic sales cycle point of view, I think we're still feeling like this is a long sales cycle 12 months to 18 months. We're seeing transactions bounce all around that kind of time frame.

With respect to our 2019 performance, I think some of that can really be—not some of it, but I would say a material part of that really is the delay of some existing relationships. So Puerto Rico being a very big example of that along with delaying of going live with Las Vegas is already sold, already deployed to some degree, but our ability to kind of go-live in a timely fashion cost us some GAAP revenues.

So I don't think we're quite prepared to draw any conclusions about lengthening sales cycles at this point in time domestically. Outside, international, I think there we would have to acknowledge that it's taking longer than we originally anticipated. That those are big numbers too. So it has, it has quite an impact potentially to—certainly had an impact to our revenue performance in 2019 and (inaudible) for 2020 as a part of our guidance.

**Tyler Wood:**

Thanks, that's helpful, and then on that 2020 guidance, have you updated your goals for new go-live miles? Can you just kind of give us, ball park, what the—what you would need in that new go-live in 2020 to get what you're targeting on revenue? Thanks, that's all for me.

**Alan Stewart:**

Yes, this is Alan. I think the amount of information, I think we want to really break it out into is what we gave earlier in the Q&A in terms of adding between \$4 million and \$5 million of GAAP revenue, of which we already did say that about a \$1 million plus of that's going to come from Puerto Rico. Other than that, we haven't really given any more guidance in terms of actual go-live miles.

**Tyler Wood:**

All right, thank you.

**Ralph Clark:**

Yes, and maybe if I can add, Alan, if it's okay, because it's really a matter of just not the number of go-live miles, but when the miles go-live. So timing is very, very important. So 25 miles going live in Q1 is worth more than 50 miles going live in kind of Q4, for next year's revenue, yes, for GAAP revenue.

**Tyler Wood:**

All right, that's helpful. Thank you.

**Operator:**

As a reminder if you would like to ask a question please press star, one on your telephone keypad. Our next question is from Matt Galinko, National Securities. Please proceed with your question.

**Matt Galinko:**

Hey, thanks for taking my questions. A couple for you. Firstly, I mean just on capital allocation, you did buyback some stock in the quarter which was I think a first for you. On the other hand, it sounds like you have some capital needs with respect to the 3G sensor replacement cycle. So I'm just curious how you're thinking about capital allocation looking out into 2020? Thanks.

**Alan Stewart:**

Sure, this is Alan. As you mentioned, yes, we did start repurchasing some of our shares this last quarter. I would anticipate that we might be in the market again, if we continue to see our price below where we think the intrinsic value is. The \$4 million to \$6 million that I mentioned in terms of capital work for 3G replacement although it might start, it's going to start slowly and extend over a couple of years. So that's not necessarily going to be materially affecting our cash spend. So I think from that perspective, we feel pretty good about where we sit. This last quarter we generated cash, only went down about net \$1.3 million, after spending \$3.5 million in repurchases as well. So we feel good about that and we continue to grow and put more money toward the bottom line, which is also going to improve our cash position.

**Matt Galinko:**

Got it, thanks, and I guess just a follow-up question about guidance, with respect to the price increases we talked about earlier in the Q&A, I wasn't sure if you had factored that into the 2020 guidance. Thanks.

**Alan Stewart:**

Yes, this is Alan. We have, in terms of that new domestic GAAP revenue, although it's important to understand that the miles that are being sold right now or booking through the end of the year are being sold at a \$65,000 price tag—price point. So as those get deployed throughout the first—let's call it first half of the year, those are still going to be at the lower price point until the ones were sold at \$70,000 start getting deployed more toward the second half of next year.

**Matt Galinko:**

Got it. Thank you.

**Operator:**

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

**Ralph Clark:**

Great. Thank you very much and thank you all for joining this conference call. We're looking forward to getting reengaged in Puerto Rico, hopefully here very soon, and continuing to do the work of helping agencies and communities prevent and reduce gun violence. See you in about 90 days or I guess we'll see you before then at our Investor Conference. So thank you very much.

**Operator:**

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