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**ShotSpotter, Inc.**

**First Quarter 2020 Earnings Conference Call**

**May 7, 2020**

## CORPORATE PARTICIPANTS

**Ralph Clark,** *Chief Executive Officer*

**Alan Stewart,** *Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Hilary,** *JMP Securities*

**Jeremy Hamblin,** *Craig-Hallum*

**Matt,** *William Blair*

**Tyler Wood,** *Northland Securities*

## PRESENTATION

**Operator**

Good afternoon, and welcome to ShotSpotter's First Quarter 2020 Earnings Conference Call. My name is Latania, 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 subject to risks, uncertainties, and assumptions that are difficult to predict and may cause actual results to differ materially from those stated or implied by those statements. Certain 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 the live broadcast May 7, 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 CEO, Ralph Clark. Please proceed, sir.

**Ralph Clark**

Good afternoon, everyone. I want to start by expressing my hope that all of you and your families are staying safe and keeping well.

Given the unprecedented circumstances we are facing, I will start this call to briefly update you on our response to COVID-19 and its impact on our business. I will then provide an overview on the quarterly results and our outlook before turning it over to Alan, who will delve into the numbers in more detail before we take your questions.

I am extremely proud of how we have made decisions as a Company that are consistent with our values and purpose during this challenging period. Early on, we made the call to prioritize the health and safety of our employees and to contribute our small part to help flatten the curve by implementing a shelter in place and travel ban in the first half of March. We are still maintaining that posture while being guided by the state of California and local Bay Area shelter-in-place guidelines, which are scheduled to remain in effect through the end of May.

Fortunately, we were prepared to operate remotely in the event of a disruptive catastrophe like the one we have experienced in this pandemic. Our investments in people, process, and infrastructure have afforded us a great deal of resiliency and allowed us to continue to monitor our deployments as well as review and classify gunshots without any diminution of quality or performance of our service. This is critical, as our customers depend on us more than ever and need to trust the fact that we continue to do our job in supporting them in the face of this pandemic.

Needless to say, our reported results for this quarter and expectations for this year are significantly impacted by the coronavirus outbreak and spread. Most of you know that we already took our full year revenue guidance down a bit in early March. At the time, it appeared, that we would be confronting a 30 day to 60 day work stoppage issue that would temporarily delay our go-live cadence and sales engagements. The COVID-19 pandemic has swiftly evolved into a much larger problem that is directly challenging the attention and financial resources of municipalities and their respective police departments. This is obviously an unprecedented situation with much broader implications for the entire global economy.

As such, we believe it is prudent to further take down as well as widen our annual revenue guidance from $46 million to $48 million, to $43 million to $46 million. This new guidance reflects a broader degree of uncertainty and risks associated with the global coronavirus pandemic. We are now, like most companies, in a wait-and-see posture for when we can ramp our sales and deployment activities back up and in our specific case, gain more clarity on police budgets given the puts and takes of reduced municipal tax revenues and offsetting federal stimulus actions.

That said, ShotSpotter did start 2020 with a strong annual recurring revenue base and a solid backlog of pending go-live projects along with a growing new deal pipeline. We had an active January and February, where we were pushing forward on several contracted deployments and sales engagements before suspending almost all deployments in March. While that work did not get many of the active projects to the completion point within the quarter, we still managed to go live on nine gross miles in Q1, which included the last five contracted miles in Puerto Rico, as well as expansions in Wilmington, Delaware, and New Haven, Connecticut, as well as a SecureCampus deployment at UC Irvine, our third SecureCampus deployment within the University of California System.

Unfortunately, we were not successful in getting a GE Smart Cities deployment in Atlanta to be transferred and directly taken on by the city from the local utility company that had originally sourced, contracted, and paid for the deployment. This resulted in a loss of four miles, for a total of five net miles in Q1. However, the lost revenue impact is small at approximately $100,000.

We had over 20 Flex miles that did not make the cut off for Q1 that included two new cities and two expansions. We believe that the deployment of these miles is a matter of when, not if. To that end, I am pleased to announce that we successfully went live in April with five miles in Albuquerque, a new city capture for us. Their go-live an on-boarding was managed by our team remotely without traditional in-person onsite meetings. This was a first for us, and we believe it can be potentially replicated in certain other cases in the future.

Despite these near-term hindrances, we remain confident about ShotSpotter's medium to long term future. We believe we have a game change opportunity to adapt to these new circumstances and become even stronger and more resilient while forging deeper, more trusted relationships with our stakeholders as we come through this crisis together.

We do start with some inherent strengths, such as our strong customer loyalty and the approximately $43 million in annual recurring revenue that we started with in 2020, and our very first priority is always to protect as much of that as possible by being very focused and intentional in minimizing attrition. Case in point, we recently created a cross-functional team and task force with key representation across the Company to review our renewal contract waterfall and index the overall customer health characteristics of every single renewal. Our objective is to get in front of any potential renewal challenges with targeted interventions, ensuring the customer is deriving maximum value from our solutions and thereby protecting our recurring revenue base.

Our second priority is to take advantage of the booked Flex, Security and Missions go-live momentum we had prior to the arrival of the pandemic. Those near-term projects are deals that have been sold and booked in Q1 and earlier but that have not been taken live yet.

In addition to Flex go-live miles that I mentioned earlier, we have several Security deals and projects also in process. We are hopeful that our Security customers are less impacted with COVID response and can rebound faster in order to move forward relatively quickly on the permissions and provisioning front.

Missions represents the opportunity to diversify our revenue stream and gives us a natural path to strengthen relationships with police departments that form the foundation of our customer base. We booked a few Missions contracts last year and have the platform operational in two cities Q1 to date. There are another four Missions deployments that have been already booked, waiting to be taken live. Due to the operational nature of Missions, it requires in-person on-boarding and much more customer coordination and collaboration for data integration. It is unclear when these departments will have their pandemic response sufficiently behind them to be able to focus on Missions, but we intend to do as much as we can to move these projects along as far as we can.

Our third priority is to continue to build pipeline and win new business. We remain positive on making new deal progress although the extent and timing of new deal penetration is somewhat cloudy and mixed. Our police department customers and prospects are appropriately prioritizing their focus on responding to a pandemic while managing the personal and collective safety of their departments. When combined with the oncoming budget pressures due to a potential recession along with work force depletions, it is fair to say that police departments have a lot on their plate.

In the meantime, our marketing and sales teams have developed a new playbook for sales and customer engagement tailored for this new environment with a honed value proposition and message, advanced digital lead generation capabilities, and high production-quality Zoom sales presentations. The playbook has seen some early success, and we are encouraged to note that several of our sales engagement conversations do continue albeit at a slower and more measured pace.

In addition, we are excited about our response later this month to a Tier 1 agency RFP for acoustic gunshot detection. We believe we have the flexibility to adapt to this new normal and distinguish ourselves as market leaders and innovators.

We have been consistent in emphasizing the importance of our customer success initiatives in driving NPS, high revenue retention, and low customer acquisition costs. This continues to be an area of focus, and we plan to increase our investment in headcount, training, and tools for our customer success program. We recently added three new employees to the organization and are also in process of deploying a CRM system tailored for customer success initiatives. With this system, we will have a digital dashboard that tracks and measures customer health along with the ability to view the customer journey and hopefully, their full utilization of ShotSpotter solutions.

We know that disruption generally opens up new ways of approaching persistent problems. We believe we are well positioned to be a part of the discussion when a police department makes self-assessments and asks, how do I do more with less? How do I protect my officers, and at the same time serve communities with significant equity imbalances? How do I get on smart (phon) on crime etc.? Our success in high profile agencies like Chicago, New York, and Las Vegas and the trust that we have built with over 100 customers including small to medium sized agencies is paying dividends and provides a seat at the table for us to help an agency answer those questions. As I've often noted, Chiefs of Police are a close-knit group. They share information, experiences, and ideas. They tell each other what works. ShotSpotter works, and positive word of mouth is spurring interest in our solution.

Our goal is to maintain annual profitability as we guide the Company over the next 20+ months. We are very fortunate to have both strong unit economics and operational efficiency at a recurring and visible $43 million run rate. Although we plan to make measurable investments in our customer success organization and to a lesser degree in our other functional organizations, those investments will be made through a prudent lens of profitability. We intend to keep a strong balance sheet with strong internal liquidity in order to be both opportunistic and disciplined from a capital allocation perspective if the need should arise.

Before I turn it over to Alan, I want to briefly share some thoughts on why we remain confident about the Company's prospects in light of the pandemic.

There are several macro-trends that continue drive gun violence and the need for our solution. For example, while some crimes, such as home burglary and auto theft, have declined during quarantine, our data has shown that most gun-related crime has remained about the same levels. In addition, there's been an uptick in gun sales lately, and historically, we've seen these guns often find their way through the grey market into gangs and criminal possession.

And while we know that quarantine will push gang members indoors and drug dealers off the streets for a limited period, we also know that they will return even more aggressively as controls ease. There is an abundance of street corners and neighborhoods that will be up for grabs in many U.S. cities and abroad. Gangs and criminals establish control of that urban territory with gun violence. These unfortunate circumstances only increase the need for ShotSpotter, especially given the current situation of under-resourced police departments and a dearth of new officers available from academies around the country.

Lastly, we've already seen and expect there will be additional government spending thanks to the various federal stimulus packages targeted to offset in part the municipal budget challenges I mentioned before. A perfect example is the recent $800 million plus up (phon) to the Department of Justice Byrne JAG program, which our customers often use to fund technology projects like ShotSpotter. This confirms the importance of us expanding our presence in Washington, D.C. with our new corporate office and satellite Incident Review Center, which we expect to open by mid-June.

While no business is recession-proof, we do feel that our solution is somewhat recession-resistant. We believe that there continues to be a growing need to mitigate gun violence, and there will be financial resources available to cities to help them address this issue. ShotSpotter Flex is the industry leader with clear technological superiority and a proven track record.

Okay, that will do it for me. I want to briefly thank our Board of Directors who have been extremely generous in working with the me and the Senior Leadership Team during this unprecedented time. Their guidance has been invaluable. I am grateful that they are equally vested in our purpose and are focused like we are on long-term success of our stakeholders. Thank you.

I look forward to your questions after Alan reviews our results.

**Alan Stewart**

Thank you, Ralph, and good afternoon, everyone.

First, let me echo Ralph's thoughts that we hope you and your families are staying healthy and safe. It's been a very difficult period for everyone, but we are encouraged that the ShotSpotter team has adjusted so well to working remotely. Of course, the travel ban caused us to suspend substantially all project management and installations, which impacted our first quarter results, will impact our second quarter results, and is the reason for the change in our fiscal year outlook.

However, we did make progress in the quarter, completing the full deployment in Puerto Rico, and ended with a total of five net new miles in the quarter after removing four miles for the smart city deployment in Atlanta which was not renewed. In addition, we deployed two new Missions customers of the five announced last quarter. The good news is that we do expect to continue to grow this year, and our goal is to remain profitable. Of course, we expect our growth rate to be lower than past periods as the world, the United States, and in particular, our target customer base, police agencies and municipalities, deal with the COVID-19 pandemic.

For example, we had expected to deploy two new cities along with a couple of expansions of existing customers in the first quarter, but they have been delayed into Q2. Albuquerque, which was one of the top (phon) two new cities, went live last week, and one of the two expansions is expected to go live next week. We are also pleased to report that the U.S. Virgin Islands has returned as a customer, after an over two-year hiatus following hurricanes in late 2017. U.S. Virgin Islands will go live later this year.

We believe our lowered fiscal year guidance takes into account an expected increase in attrition as well as a slower ramp up of new miles deployed, as sales engagements with customers and new prospects are expected to be delayed. Fortunately, the recurring nature of our business allowed us to remain marginally profitable in Q1, and we intend to manage the business in a prudent way so that we maintain a strong balance sheet, with a goal of remaining profitable for 2020 as a whole. We believe that this strategy, with our strong balance sheet and zero debt, will allow us to weather this storm for as long as it is expected to last.

Let me provide more details on the quarter, and then I will share some thoughts around the balance of the year. First quarter revenue was $10.5 million, an increase of 9% over $9.6 million in the first quarter of 2019. This increase was due to growth in the number of customers and miles under coverage. The results were impacted both by the delay in deployed contracted miles as well as some delayed renewals with current customers. We generally do see a delay in contract renewals in the first quarter. However, with an approximately $300,000 impact in Q1 of this year, it was slightly larger this quarter due to disruptions related to the pandemic. We expect that we will see most of these delayed renewals close in Q2.

Gross profit for the first quarter of 2020 was $6.1 million or 58.5% of revenues versus $5.6 million or 58.3% of revenues the prior year period. Recall that on our 2019 year-end earnings call we indicated that beginning in Q1 we would see an impact to our gross margins as we formalize our customer success operations under a new vice president. As expected, this change reduced gross margins from the run-rate that we achieved in the latter part of 2019.

Adjusted EBITDA for the first quarter, which is calculated by taking our GAAP net income and adding back interest, taxes, depreciation, amortization, and stock-based compensation, was $2.2 million, up from $1.6 million in the first quarter of 2019.

Now, turning to our expenses. Our operating expenses for the first quarter were $6.1 million or 59% of revenues versus $5.9 million or 62% of revenues in the first quarter of 2019. With our operations slowed, we did benefit somewhat from lower travel costs. However, as Ralph noted, we also took the opportunity to make investments in software technology to assist our finance and customer success teams. We believe that these investments will help improve efficiency going forward and are pleased that we could find a productive use of this downtime.

Lastly, in an effort to assist our customer law enforcement agencies with challenges finding and procuring personal protective equipment, we were able to source and purchase approximately 20,000 N95 masks, which we donated to our customer agencies nationwide. We believe that this expense and the corresponding donations of the PPE was well worth doing, and many agencies have expressed their gratitude.

Breaking down our expenses, sales and marketing expenses for the first quarter were $2.5 million, or 24% of total revenues versus $2.6 million, or 27% of total revenues, for the prior-year period. Our sales and marketing teams continue to focus on building our sales pipeline and expanding our marketing programs. Note that approximately $200,000 of costs are now included in cost of revenues as we formalize our Customer Success organization, which included an internal reallocation of resources.

Our R&D expenses for the first quarter were $1.4 million, or 13% of total revenues, compared to $1.3 million, or 13% of total revenues for the prior-year period. We continue to invest in increasing the functionality of our Missions platform, along with expanding our analytics capabilities as we evaluate applications for our data in forensic support and litigation.

G&A expenses for the quarter were $2.3 million, or 22% of total revenues, compared to $2 million, or 21% of total revenues, for the prior-year period due to increased personnel and insurance costs.

Our GAAP net income for the first quarter was $13,000 or $0.00 per share, based on 11.3 million basic and 11.7 million diluted weighted average shares outstanding. This compares to a GAAP net loss of $362,000 or a loss of $0.03 per share based on 11.0 million basic and diluted weighted average shares outstanding for the prior-year period.

We added 5 net new miles in Q1, which included 4 miles of attrition in Atlanta, versus 12 miles added in the first quarter of 2019. Note that the deployment of 20+ miles, which included those recently live in Albuquerque, was delayed due to the COVID-19 travel ban this quarter. Our team is ready to deploy those remaining miles as soon as practicable within the current quarter. At the end of the first quarter, 735 miles were live, with approximately 760 miles under contract.

Deferred revenue at the end of the quarter was $24.6 million versus $27 million at the end of Q4 2019.
We ended the quarter with $28.7 million in cash and short-term investments versus $24.6 million at the end of Q4, an increase of over $4 million dollars. As a reminder, we have no short or long-term debt. That

said, we are still taking the opportunity to increase our debt capacity and are in the process of raising the borrowing limit on our revolving line of credit from $10 million to approximately $20 million dollars.

We are reducing our full year revenue outlook to $43 million to $46 million, from $46 million to $48 million. This assumes that expected attrition doubles to approximately 5% rather than our earlier estimate of approximately 2.5%. The timing of adding new miles throughout the remainder of the year will determine where we end in this range. At the mid-point of our new guidance, our revenue growth would be over 9% for 2020 as compared to 2019. We still expect to remain profitable for 2020 as a whole.

Even with the delayed deployments in Q1 that continued into Q2, we do expect nominal increases in revenue from Q1 through Q3 with a larger increase in Q4 to achieve our revised guidance.

We would also note that while we have seen similar delays in our international sales, discussions with potential customers in Brazil and Mexico are progressing.

Despite this difficult period, we are encouraged by the resiliency of our business model. With the visibility in our revenues, and the operating leverage in our model even on reduced sales, we believe we are particularly well positioned to emerge from this pandemic in a strong position, ready to pivot the business to adapt to the new normal, whatever that may be.

Now, back over to you, Ralph.

**Ralph Clark**

Thanks, Alan.

Before we take your questions, I want to close by giving a special shout out, not only to our first responders, but all of the healthcare professionals on the front line and the many unsung heroes that are stepping up by driving buses, working grocery check-out stands, delivering online goods, and doing the sanitation pick up. We see you, and we are so very grateful to you.

Okay, I think we're now ready to take your questions.

**Operator**

Thank you. At this time, we will conduct 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 key. Once again, that's star, one to ask a question at this time. One moment while we poll for our first question.

Our first question comes from Joseph Osha (phon) with JMP Securities. Please proceed with your question.

**Hilary**

Hi, hope you guys are all doing well. This is Hilary (phon) on for Joe. I wanted to first kind of touch on your comments around the international markets, and if you could just expand a little bit on your conversations with Brazil and Mexico, and when we might see those actually go live.

**Alan Stewart**

Sure. This is Alan. We have discussions that are ongoing with potential customers. I think they are progressing as we would expect, given the challenges with the pandemic. That said, we feel sufficiently positive about it that we have formed subsidiaries in both Mexico and Brazil as the next step in that process. Time will, of course, tell how quickly we can get those contracts closed.

**Hilary**

Okay, great. And then, from motions (phon) I understand that you can't really go live with any of those new deployments until the travel restrictions and whatnot are lifted, but I was wondering if you could just give a little context for the overall demand you are seeing there, and if we might actually see an increase in demand as some of the departments are looking to maximize efficiency.

**Alan Stewart**

Yes, this is Alan again. So, Missions in general requires a lot of hand holding up front and personal interaction with the police departments (inaudible) the data sources. That's the one thing that is causing us delays right now with both the travel ban and the focus of police agencies on their own response to COVID-19 pandemic.

I would say, though, that we continue to see interest from new agencies, and we do believe that the positive impacts of the Missions product with allowing them to manage their resources in a more effective way, will hopefully continue to cause positive interest from additional agencies.

**Hilary**

Okay, great. That's it for me. Thanks for taking my questions, and stay safe.

**Alan Stewart**

Thank you.

**Ralph Clark**

Thank you.

**Operator**

Our next question comes from Jeremy Hamblin with Craig-Hallum. Please proceed with your question.

**Jeremy Hamblin**

Thanks for taking the question, guys.

I just wanted to build back a little bit on the change in revenue guidance. I think at the midpoint now, since December, you've had about a $4.5 million change in the expectations. I think you ended last year with about $43 million in annual run rate. I think, one, in terms of thinking about how things have changed since your initial assumptions that you had at your Investor Day in December, I think you expected $1.5 million to $1 million (phon) of international value added. What changed in terms of that composition between your domestic miles and your international miles, as well as any potential change you might be seeing on the business (phon) side of things?

**Alan Stewart**

Yes, so, this is Alan. The bottom line is things are sufficiently unclear right now that it's a little hard to say exactly how those buckets are going to be adjusted. What we did when we built this new revenue guidance is say, okay, look, we ended last year approximately $43 million. At this point, the low end of our revised revenue guidance would assume that the revenue that we get from contracts going live and projects being deployed would be offset by the exact amount of attrition. We feel pretty good that that would be the bottom of our (inaudible) revenue range.

To the extent that we can add new miles quicker, both domestically and internationally, then that will increase this, move us up in the revenue range. The same factor, if the attrition is lower than that, then that will also move us up in the revenue range. It's a little hard to say exactly how the buckets have changed. We've seemed to (inaudible) across the board, as you might expect.

**Ralph Clark**

Yes. This is Ralph. Maybe I can just add a little bit. I think one specific bucket that we can add some color around is the attrition budget. I think originally when we spoke about our business model plan for this year, we assumed about $850,000 of attrition, and now we are assuming closer to 5% given the COVID-19 crisis, which kind of puts us up closer to $2 million of attrition.

**Jeremy Hamblin**

Great. That's helpful. Then just clarifying on the Missions portion of it, in terms of that business, I think you expected maybe an incremental $1 million this year. I'm assuming that that's also partly being impacted in terms of the total change in guidance?

**Ralph Clark**

Yes, they've gone down, obviously, both international domestic miles, as well as Missions and Security have all taken a haircut, but we're just not being—we're not trying to be overly precise about what the total percentages are across all of those buckets, with the exception of the attrition bucket.

**Jeremy Hamblin**

Okay, understood. I wanted to also ask you, I think there was a recent deal that you've won some approval on, and I think in getting that deal across the finish line, you changed the original kind of three year contract proposal to reduce, I think, the total value by about 23% with almost all of that, or I believe all of it, coming in the first year, really to help with budgetary constraints given the lack of visibility that states and municipalities are having on their budgets. Is that something where, are you more willing to do that now to get deals across the finish line, and should we expect, you know, because it's probably not going to resolve in the next six months. It's probably going to take longer to get budgets straightened out. Should we expect more deals to come like that? Is that going to be a way that you're thinking about getting these deals because just getting mileage in the door is more important long term?

**Ralph Clark**

Yes, so I would say the deal that you're talking about is a very unique situation in terms of our agreeing to be a little bit more flexible. That was the deal that we actually closed in December, and actually had committed deployment resources and infrastructure to get that system up and live this quarter. We made that investment, and in the course of them already seeking in getting city council approval, the deal was locked and loaded and done December, they had some funding pulled out from under them, and came back to us to see if we would be willing to assist them in being more flexible, I guess, around our pricing. So, we had a choice to make, and given the fact that we had already invested all the infrastructure and the like, we could either decide to be a little bit more flexible or potentially walk away from the deal, even though contractually that deal was already buttoned up and signed. So, we would have been really put in the position of having our attorneys argue with their attorneys. We decided, in the spirit of partnership, that we could be more flexible.

I think the discount that you referred to, I think not only do you look under the covers, and there's a lot of puts and takes here, I think that's definitely on the high side. We didn't discount like that, and I won't go into any specifics really, but that's a little bit of an overstated discount, I would say. But we proved that we could be flexible, and we're going to be a good partner. The good news is that today, actually, as we kind of started this call, we received the acceptance letter from that customer, and they're actually live as effective today. So, we'll be counting those miles as a part of our revenue in Q2 because it was already deployed and ready to light up, we just needed to get their formal acceptance to be able to start the subscription period.

**Jeremy Hamblin**

That would seem to be a wise way to go in this environment. I'm sure they appreciate the flexibility. Just one other question, more clarifying. On the gross margin impact customer success, the $200,000, is that kind of per quarter in terms of the rate, or is that more of something that was kind of upfront loaded here in Q1? Or is that more of a, that's kind of a step up that we have, and your expected cost, and that it's going to have a similar impact on an absolute basis for the remainder of 2020?

**Alan Stewart**

This is Alan. That is per quarter. It will be approximately the same amount per quarter. Fourth quarter we indicated it will be about a 200 basis point adjustment, and that's exactly what we're seen here.

**Jeremy Hamblin**

Great. Thanks, guys. Best of luck.

**Ralph Clark**

Thanks, Jeremy.

**Operator**

Once again, to ask a question, that's star, one on your telephone keypad at this time.

Our next question comes from Matt (inaudible) with William Blair. Please proceed with your question.

**Matt**

Hey, guys. Thanks for taking my question. I wanted to ask on the churn and the increased expectation there. Do you know, is this driven off of discussions that you've already had with customers, and if so, is it budgetary constraints, or what are the other reasons around that increased churn? Or is it just you sort of looking out there and seeing the macro environment anticipating that you're going to see a big up in churn?

**Ralph Clark**

Yes, this is Ralph. Great question. It's much more of the latter. In fact, we're still closing renewals as a fairly healthy rate, but we're obviously pretty engaged in this municipal police department marker, and we're hearing what they're hearing in terms of a loss of tax-based revenue that's going to mean reductions in budget.

We're just anticipating there might be some pressure for a squeeze on police departments having a look across their budgets and make reductions, so we thought it would be very prudent to respect the fact that we're in a very unique situation, one we haven't seen, frankly, probably since 2008 where it would be prudent to take our attrition (inaudible) a bit to reflect that budget pressure that we know is coming. And I would say partially offset, potentially, by federal stimulus dollars too, so it's a fairly cloudy situation, but we thought the appropriate thing to do was to reflect that budget pressure that we know cities are going to be under.

**Matt**

Got it. Then you wanted to dig in on the Virgin Islands coming (phon) back. Maybe, to the extent you can, give us a little bit of the history there, or why they originally left, and then any detail around the decision to return to ShotSpotter.

**Ralph Clark**

Yes, this is Ralph again. The reason they left is they had a hurricane that took away their ShotSpotter deployment, and they're been in the process of rebuilding the USBI (phon) back up. We are now in a position to bring ShotSpotter back as a part of that build up.

**Matt**

Got it. Okay, that's all I have, guys. Thanks a lot.

**Alan Stewart**

Thank you.

**Ralph Clark**

Thanks.

**Operator**

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

**Ralph Clark**

Tyler, you may be on mute.

**Tyler Wood**

Can you hear me?

**Ralph Clark**

Yes, we can hear you.

**Tyler Wood**

All right, cool. You guys have talked in the past about kind of building up a new kind of go-to-market motion targeting those Tier 4 type cities. Could you update us on where that's trending, and where you see that opportunity going?

**Ralph Clark**

Yes, Alan, you want me to take this? Yes, so it's actually going very well. We've hired an individual to focus specifically on that market. I've actually been on a couple of discovery calls with that business development resource, and the reaction that we've gotten is very positive. I would say even in light of the pandemic situation, it's been pretty impressive to me how we've been able to capture some bandwidth of people's attention to take a look at what we're talking about here. My expectation is we're going to see some fairly nice momentum in that particular segment, although probably late in the year. I would think more in terms of late Q3, early Q4, but my expectation is we're going to see some nice forward traction.

**Tyler Wood**

All right, thank you. And then on the Houston trial you guys announced last quarter, any update on that? Is that deployed yet, or what's the timeline on that given the changes we've seen this quarter? Thanks.

**Ralph Clark**

Yes, unfortunately, that has not gone forward because of the pandemic situation. We haven't been able to put any boots on the ground and make any real material progress on the permissions front. The raised (phon) design, we know where we need to go get permissions. We just haven't had the ability to put boots on the ground to go make the permissions happen, so as soon as things open back up, we'll be ready to send folks back in there and get going on that project, but it's clearly not going to happen in Q2. Probably won't happen in Q3.

**Tyler Wood**

All right. That's all for me. Thanks, guys.

**Alan Stewart**

Thank you.

**Ralph Clark**

Thank you.

**Operator**

Thank you. At this time, I would like to turn the call back over to Ralph Clark for closing comments.

**Ralph Clark**

Great. Thank you very much. We really appreciate you all dialing in and getting the update on where we sit as it relates to Q1, and looking forward to continue to do our work, and really getting back to work here really quickly. We'll see you in about 90 days.

**Operator**

Thank you for joining us today. You may now disconnect, and thank you for your participation.

**Ralph Clark**

Thank you.

**Alan Stewart**

Thank you.