KORE Group Holdings, Inc.
Third Quarter 2024 Earnings Call
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Presenters
Vik Vijayvergiya – Vice-President, IR and Corporate Development
Ron Totton - President and Chief Executive Officer
Paul Holtz - Chief Financial Officer

Q&A Participants
Lance Vitanza - TD Cowen
Mary Lenox - Morgan Stanley

Operator
Greetings and welcome to the KORE Group Holdings, Inc. Third Quarter 2024 Earnings Conference Call and Webcast. At this time, all participants are in listen-only mode. If anyone should require operator assistance, please press star, zero on your telephone keypad. A question-and-answer session will follow the formal presentation. You may be placed in the question queue at any time by pressing star, one on your telephone keypad. As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to your host, Vik Vijayvergiya, Vice President of Investor Relations and Corporate Development. Vik, please go ahead.

Vik Vijayvergiya
Thank you, operator. On today's call, we will refer to the third quarter 2024 earnings presentation, which will be helpful to follow along with as well as the press release filed this afternoon that details the company's third quarter 2024 results. Both of these can be found on our Investor Relations page at ir.korewireless.com.

Finally, a recording of the call will be available in the investor section of the company's website later today. The company encourages you to review the Safe Harbor Statements, risk factors, and other disclaimers contained on this slide and today's press release as well as the company's filings with the Securities and Exchange Commission, which identify specific risk factors that may cause actual results or events to differ materially from those described in our forward-looking statements. The company does not undertake to publicly update or revise any forward-looking statements after this webcast.

The company also notes that it will be discussing non-GAAP financial information on this call. The company is providing that information as a supplement to information prepared in accordance with accounting principles generally accepted in the United States or US GAAP. You can find a reconciliation of these metrics to the company's reported GAAP results in the reconciliation tables provided in today's earnings, release, and presentation.

I'll now turn the call over to Ron Totton, the company's President and Chief Executive Officer.

Ron Totton
Thank you, Vik, and good afternoon, everyone. Thank you for joining us for our third quarter 2024 earnings call. With me today is Paul Holtz, KORE's Chief Financial Officer. The overall takeaway is, in this year of transition, we have stabilized our financial performance, completed our restructuring, and are showing growth in recurring IoT connectivity revenue. Based on our third quarter results and fourth quarter outlook, we are reaffirming and tightening our previous issued guidance.

Looking at our third quarter results, our revenue was $68.9 million, which was slightly higher than the same period last year, showing growth in IoT Connectivity while there were planned reductions in our less profitable IoT Solutions business. Adjusted EBITDA was $13 million, which was down from $14.2 million in the same quarter last year, largely the result of a $1.5 million reversal of performance-based compensation in the third quarter of 2023.

I will go into more detail on our IoT Connectivity performance later in the business update, but we are focused on generating cash flow in our business, and while free cash flow was flat in Q3 year-over-year, year-to-date free cash flow improved $6 million from the same period last year. This included one-time severance payments of $1.5 million in Q3 of this year as part of our restructuring plan, which has since been completed. This improvement is a result of our fiscal discipline and improvement in cash management. Cash flow generation remains a key priority for me and the rest of the leadership team.

On Slide 4, as we look at the big picture, I can confidently say that we are on the right track with our strategic focus on IoT Connectivity. Our focus is yielding positive results as demonstrated by growth in revenue, margin, and Total Contract Value, otherwise known as TCV, in Q3. We are pleased to report strong TCV growth in Q3, driven primarily by wins in our IoT Connectivity offerings, led by both wins in new logos and upsell with existing customers. Converting TCV to revenue is a top priority for us, which is best demonstrated by an increase in connected devices, or otherwise known as IoT connections.

We experienced growth in connections on a sequential quarter-over-quarter basis of over 300,000 as well as strong orders for new connections, which bodes well for continued growth in IoT connectivity looking ahead.

Last quarter, I talked about operational excellence and our renewed focus on giving our customers an intimate and improved user experience. Our focus in that area is already paying dividends as we are seeing improvements in key metrics. We continue to invest heavily in this area.

As mentioned earlier, we completed our restructuring plan, and this was crucial for us to streamline operations, enhance our efficiency, and improve our financial performance. We had no operational impact with our customers, and our operational metrics in fact improved during this period. These are never easy situations, but our people performed exceptionally well. Overall, our business is on a solid path and we are confident in our ability to continue delivering value to our customers and shareholders.

As we move to Slide 5, let's dive into our IoT Connectivity highlights for the third quarter of 2024. Our IoT connections number has now moved well past 19 million and at an ARPU of $1 a month represents a solid foundation of recurring earnings power.

We delivered 3% organic growth in Q3 2024 as compared to the same period in the prior year, while the 16% growth for the year-to-date revenue over the same period in the previous year reflects effects of the Twilio IoT acquisition. IoT Connectivity margin contribution increased 2% for the quarter as compared to the same period last year and 10% in the year-to-date period compared to the prior year, indicating the positive impact of our increasing economies of scale. This is a key metric for us as we focus on profitable growth.

On slide 6, let's move on to our sales momentum in the third quarter of 2024, which is largely occurring in IoT Connectivity. We are pleased to report that we closed $32 million in TCV in Q3 2024 with 91% related to IoT Connectivity. This quarter's performance builds on the prior quarters showing year-to-date closed TCV of $128 million, up from $87 million in the same period in the prior year and $91 million of that coming from IoT Connectivity. As I meet with customers, they are either focusing on growing their market share or improving profitability by investing in connected devices, both of which are fueling our growth in IoT Connectivity.

These results highlight our strong market position and the effectiveness of our sales strategies. Our focus on IoT Connectivity is paying-off, and we are confident that this momentum will continue to drive our revenue growth in the coming quarters.

We have also enhanced our discipline in our IoT Solutions business with a focus on improving our margins and the strategic linkage to connectivity. By its very nature, this business is choppy in terms of growth but represents a key part of our global IoT offerings. The best way to think of it is IoT Solutions fuels connectivity growth and competitive differentiation for some customer cohorts, as seen in Connected Health, for example, where they see KORE as a one-stop shop for all their connectivity needs.

As we have done in our previous earnings calls, Slide 7 highlights some of the key customer wins from this quarter, which underscores the breadth and impact of KORE solutions across multiple industries. First, in the **Global High Value Asset Monitoring** space, KORE secured another agreement to provide global IoT connectivity and device management solutions to a large European company in support of its industrial equipment into over 70 countries, including markets like the US, China, and Brazil. This will enhance customer service and enable predictive maintenance and unlock new revenue streams. TCV for this contract is $3.7 million. I'm especially proud of our team in this highly competitive win in which KORE was selected after a thorough global RFP process.

Next, we had a **Large Healthcare Win** where we've been selected to support a major healthcare provider with IoT connectivity, for failover systems in urgent care facilities and hospitals. This also includes remote patient kiosk systems. KORE was able to secure this business against several competitors in the market with a TCV of $3.3 million.

In **Smart Agriculture**, we secured a significant agreement, helping our customer reduce infrastructure and manpower required to manage livestock, while improving overall yields and cutting costs. KORE is providing global IoT Connectivity with a single pane of glass to improve the customer experience, including self-service capabilities. The TCV for this contract is $6 million.

Lastly, we had a win in **Remote Patient Monitoring**, partnering with a leading company in this space to provide IoT Connectivity across the US. The customer specifically chose KORE for our ability to provide full network redundancy, security, and ensuring a reliable patient experience. The TCV for this win is $1 million.

These wins demonstrate our ability to execute globally across a variety of industries, and they reflect the growing demand for KORE's IoT Connectivity.

On Slide 8, I would like to share with you more details on the results from our restructuring and cost rationalization programs, which are now completed and contributed to our $20 million target gross run rate cash savings. We initiated a restructuring and cost rationalization program to sharpen our focus on the customer, reduce operating expenses, and streamline our processes across the organization. This program, which began in Q3 of 2024, has been concluded and involved one-time costs of approximately $4 million, which will all be expensed in 2024. A major aspect of this initiative is a workforce realignment where we made the difficult decision to reduce our headcount by 25% across the company. This reorganization flattened our structure, improved efficiency, and introduced better alignment around our customer and connectivity offerings.

We're also undergoing product rationalization, evaluating our portfolio to gain synergies, eliminate redundancies and stop projects that do not align to our profitable growth focus and realign our resources to areas where we are strongest, particularly in next-gen eSIM and IoT Connectivity.

Throughout this process, customer intimacy remains a top priority. Our goal is to further strengthen customer relationships by improving key areas such as response time, resolution time, and automating processes. The completion of the plan marks a significant milestone for KORE. It not only enhances our operational efficiency but also positions us better to capitalize on market opportunities and invest in high growth areas and accelerate our product development roadmap. The net results of these actions will lead to $20 million in gross annual run rate cash savings, with approximately $5 million in cash savings for 2024.

And now let me hand it over to Paul to go through our financial performance in more detail.

Paul Holtz
Thanks, Ron, and thanks to those joining us this evening for our third quarter results. Unfortunately, we found a calculation error in our goodwill impairment calculation from the prior quarter, so we decided to restate our second quarter results. It is important to emphasize revenue, adjusted EBITDA, and cash flows for all periods were unaffected by this restatement.

Now let's have a look at our third quarter financial results on Slide 9. Total revenue for the third quarter increased 0.4% year-over-year to $68.9 million. Breaking that down by business lines, IoT Connectivity revenue of $56.7 million increased 3% year-over-year and represented 82% of third quarter revenue, up from 80% in the prior year. IoT Solutions revenue declined 9% year-over-year to $12.2 million or 18% of third quarter revenue. The decline year-over-year was due to the previously disclosed decision to turn away low-profit hardware deals to improve both margins and working capital. Hardware revenue was down over $1 million in the third quarter year-over-year.

Overall, Non-GAAP margin percentage in Q3 2024 was 56.7%, an increase of 190 basis points compared to the third quarter in the prior year. By business line, Non-GAAP IoT Connectivity margin percentage was down 80 basis points year-over-year to 60.9%. Non-GAAP IoT Solutions margin percentage was up 940 basis points year-over-year to 37%. The increase is primarily attributed to the increase in more profitable IoT Solutions revenue.

Total Connections at the end of the third quarter were 18.8 million, an increase of 100,000 year-over-year, but more importantly, increased 300,000 from last quarter. Average revenue per user per month, or ARPU, for the current quarter was $1.01 compared to $0.98 in Q3 2023. The increase in ARPU year-over-year is driven by higher data consumption from high bandwidth use cases and the deactivations of our low ARPU CEaaS subscribers as previously planned. The growth of Total Connections has continued its strong momentum into the current quarter as we are already well over 19 million connections.

DBNER for the 12 months ended September 30, 2024 was 95% compared to 96% in the prior year. As a reminder, DBNER is similar to same-store sales as it measures the growth of existing customers in the trailing 12 months compared to the same cohort in the year-ago period. Our current DBNER calculation continues to be impacted by the declines in revenue from some of our IoT Solutions customers over the past 12 months.

Turning to Slide 10, operating expenses including depreciation and amortization in the third quarter were $43.8 million, a decrease of $81.7 million or 65% compared to Q3 2023. The decline was primarily due to the non-cash goodwill impairment charge of $78.3 million in the prior year quarter.

Third quarter interest expenses, including amortization of deferred financing fees, increased year-over-year to $13.3 million versus $10.5 million in the third quarter of 2023. This increase is due to the higher borrowing costs on our refinanced debt and preferred stock placement completed in Q4 2023. Note that the recently announced rate cuts, we expect cash interest expense to decline in 2025.

Net loss in the third quarter was $19.4 million compared to $95.4 million in the prior year. The decrease in our net loss of $76 million year-over-year is attributable to the non-cash goodwill impairment charge of $78.3 million in the prior year quarter.

Adjusted EBITDA in the third quarter was $13 million, a decrease of $1.2 million or approximately 8% compared to the prior year. The Adjusted EBITDA decline is from the increase in timing of headcount-related expenses incurred or accrued in the current quarter compared to the same period in the prior year. These would include benefits, performance-based variable compensation, and contractor expenses. Offsetting these increases were savings from the restructuring program initiated in late Q3 2024. These will have more of an impact on our Adjusted EBITDA results in Q4 2024 and beyond.

Finally, moving to cash flow. Cash provided by operations for the nine months ended September 30, 2024 was approximately $7.1 million, up from $4.5 million provided by operations in the prior year period. Free Cash Flow, measured by cash provided by operations, less cash used in investing activities, was negative $5.1 million for the nine months ended September 30, 2024, but this improved $6.0 million compared to the prior period even after paying approximately $1.5 million in onetime severance-related costs in Q3 2024.As of September 30, 2024, cash and cash equivalents were $18.6 million compared to $19.8 million as of September 30, 2023, and $27.1 million as of December 31, 2023. As Ron said, cash flow management is a key priority for all of us even as we invest in profitable growth.

Stepping back, I feel really good about the progress we have made both in our operational and financial metrics. More importantly, we are laying the groundwork for improved recurring margin and cash flow performance going forward.

And with that, I'll pass it back to Ron.

Ron Totton
Thank you, Paul. On Slide 11, as we wrap up, I want to share our near-term priorities and the outlook for 2024. Our strategy remains centered around three key long-term value creation pillars - Customer Intimacy, Profitable Growth, and Operational Excellence.

First, Customer Intimacy - we are committed to deepening our relationship with our customers by understanding their needs and delivering tailored solutions that drive value. This intimate approach will help us retain existing customers and attract new ones. I'm very pleased with the tangible improvements we are already experiencing.

Next, Profitable Growth - we aim to achieve sustainable and profitable growth by focusing on high-margin opportunities and optimizing our cost structure. This includes not only pricing discipline and leveraging our strengths in IoT Connectivity but expanding our global market presence across a range of use cases.

Lastly, Operational Excellence - we are dedicated to enhancing our operational efficiency and effectiveness. This involves streamlining processes, investing in technology, and fostering a culture of continuous improvement.

By prioritizing these areas, we are confident in our ability to deliver strong performance and create long-term value for all our stakeholders in 2024 and beyond. As we look at our performance and the market conditions, we remain on track with our prior commitments. I am pleased to share that we tightened our revenue and profitability guidance for the full year.

We continue to see strong demand across our IoT Connectivity offerings, and our strategic initiatives are delivering as expected. We are narrowing the range on our revenue outlook to $280 million to $285 million, and we are narrowing our range for adjusted EBITDA outlook to $54 million to $55 million. So far, I feel good about how Q4 is playing out.

In summary, Q3 came in as expected and shows that we are doing what we said we would do. And the future looks bright as we continue to see solid growth in the IoT Connectivity business and an IoT market that remains very large with plenty of room for growth over both the near and longer- erm. We have great customers, are attracting new ones, and have a differentiated product offering that operates at scale, so I like where we are.

Before we open the call to Q&A, I also want to thank the KORE team around the globe for the hard work and commitment they have shown through this year of transition. We have been working hard, and it is good to see the engagement and traction we are gaining together. Thank you, and I look forward to your questions.

Operator
Thank you. We’ll now be conducting a question-and-answer session. If you'd like to be placed in the question queue, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. Once again, that's star, one to be placed in the question queue.

Our first question today is coming from Lance Vitanza from TD Cowen. Your line is now live.

Lance Vitanza
Thank you, gentlemen. Ron, my impression is that, relative to let's say a year ago, the Solutions business has been significantly deemphasized relative to Connectivity. Could you talk about how the strategy has changed, and this pivot away from Solutions, why that's important, and what that suggests for the growth outlook going forward? And then I have a follow-up, please.

Ron Totton
Sure. Thanks, Lance. I guess the way to look at it is, I think the -- I wouldn't say Solutions is deemphasized. I think prior commitments around low-margin hardware was certainly -- we've certainly moved away from. And I also think pricing and margin is a priority for us. So I would say that, outside of moving away from some lower margin hardware or where there was minimal Connectivity contribution, we're still very focused on solutions. As I commented earlier, to me, Solutions can drive Connectivity revenue for those that that's a part of the solution. So I wouldn't say that we're deemphasizing on it but maybe deemphasizing from low-margin hardware that didn't really contribute much to Connectivity.

Lance Vitanza
Fair enough. And then maybe for Paul on the balance sheet, I'm not seeing the Q out yet or any balance sheet info in the release, but I'm guessing you have about $18 million of cash on hand. Could you talk a little bit about liquidity, the $25 million revolver? Do you have full access to that? Are there any borrowing base or covenant restrictions that could come into play?

And just more generally, do you -- how do you feel about the liquidity picture over the next 12 months? And then on the debt load itself, you have about -- my model is $470 million, including the preferreds, which have a PIK at around 13%. And it just feels out of proportion for a company with $55 million of EBITDA. So I'm wondering if there are any conversations with stakeholders around a restructuring of the debt or the preferreds, or is it just sort of like, hey, no, we think that we can reposition the company for accelerating growth and we're going to grow into this balance sheet. And just any sort of thoughts that you have on those topics, please.

Paul Holtz
Hey, thanks, Lance. So first, in particular, as we had talked about or mentioned on here that cash flow is going to improve significantly. So going into next year, we will see a nice improvement in the free cash flow, which will help lead into the balance sheet, as you had indicated. I'm not going to lie to say that we don't have a lot of debt on the balance sheet. As you know, we are, and we're continuing to look at options, if there is refinancing available, especially now with rates starting to come down and those sort of things.

The Q should be out, so hopefully, you'll get a chance to see it. But we have $18.6 million on the balance sheet right now, and we are expecting positive free cash flow for next year, which will give us the option whether or not we use that to pay down the PIK as part of the preferred shares or use it for acquisitions or so forth. But the comfort level is much higher now with where we see things going in 2025.

Lance Vitanza
Great. Thanks for taking the questions.

Paul Holtz
Thanks, Lance.

Operator
Thank you. As a reminder, that's star, one to be placed in the question queue.

Our next question is coming from Meta Marshall from Morgan Stanley. Your line is now live.

Mary Lenox
Hi, this is Mary on for Meta. I just had a question on the macro trends that you're seeing. What have you seen in terms of like purchasing trends from customers? And what did trends like -- look like throughout the quarter? And is there any difference between verticals or types of customers that you're seeing?

Ron Totton
Yeah, thanks Mary. In terms of macro trends, I mean, I think for us, what we're finding is we're having -- we're seeing customers on a large-scale probably more RFP type situations for newer opportunities. I think that's probably one I would say. I think, two, is people are also looking to optimize wherever they can, so with what they're spending, getting good value.

And in terms of your question around verticals, I'm happy to tell you that the verticals that we're focusing on, we're seeing strong demand, which is obviously referenced in the TCV numbers. I think the growth in connections, I'd point you towards that that's definitely showing that where there's more connected devices on our network, the growth of those are increasing. So I know the macro landscape is a little cautious. For us, we're seeing healthy growth with new business and I would say strong growth with existing customers buying more. That's probably what I would say. But Paul, maybe if you have anything to add?

Paul Holtz
No, I think that the environment is -- it seems like it is improving to us. We are seeing customers come to think about transferring some of their business to us, consolidation and that sort of stuff. So the opportunities are there. It is just, again, the lead time to close them and so forth. But we're definitely seeing a robust opportunity pipeline.

Mary Lenox
Awesome. Thank you.

Operator

Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments.

Ron Totton
Thank you, everyone, for joining today's earnings call. We look forward to updating you on our progress with our year-end results in early 2025, and appreciate your time. And thank you, and have a good day.

Operator
Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.