

KORE Group Holdings, Inc.
Second Quarter 2024 Earnings
August 15, 2024

Presenters

Vik Vijayvergiya, Vice President, Investor Relations
Ron Totton, President and Chief Executive Officer
Paul Holtz, Chief Financial Officer

Q&A Participants

Lance Vitanza - Cowen
Scott Searle - ROTH Capital Partners
Mary - Morgan Stanley
Michael Allen - Deutsche Bank
Mike Latimore - Northland Capital

Operator

Greetings, and welcome to the KORE Group Holdings, Inc. Second Quarter 2024 Earnings Conference Call and Webcast. At this time, all participants are in a listen-only mode. If anyone should require operator assistance, please press “*” “0” on your telephone keypad. There will be a question and answer session following the formal presentation. You may press “*” “1” at any time to be placed in the question queue and we ask that you ask one question and one follow up, then return to the queue. 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, Investor Relations. Please go ahead, Vik.

Vik Vijayvergiya

Thank you, Kevin. On today's call, we will refer to the second quarter 2024 earnings presentation, which will be helpful to follow along with, as well as the press release filed this morning that details the company's second 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 on the Investors 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 U.S. GAAP. You can find a reconciliation of these metrics to the company's reported GAAP results and 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.

Ronald Totton

Thank you, Vik. Good morning, everyone. Thank you for joining us for our second quarter 2024 earnings call. With me today is Paul Holtz, KORE's Chief Financial Officer. On slide three, we have laid out our objectives for the call. In addition to reviewing our Q2 results today, which Paul will address further in a moment, I want to first spend a bit of time talking about what I observed in the first 90-plus days in my role, the newly announced restructuring plan we are putting in place, and the update to our financial outlook for 2024. We'll then host a Q&A session.

On slide four, I'll share my initial priorities as CEO, the insights gained and our strategic response. In my first 90 days, I concentrated on these 3 areas. My first priority was to spend time with multiple stakeholder groups, including key customers and partners, the senior leadership team, employees, and the Board to understand how we can better serve our customers. Second, I focused on identifying immediate ways to improve operational efficiency, elevate customer experience, and optimize our costs. And third was to unlock the full potential of our people by fostering a culture of accountability and empowerment.

Following this period of evaluation, I continue to believe that KORE is, one, a leading provider of IoT connectivity and solutions serving a wide range of use cases across multiple industry verticals, capitalizing on the vast addressable market, greater than \$12 billion, which lies at the intersection of real time, data, cloud, and AI.

Two, uniquely positioned with a best-in-class portfolio of mission-critical IoT offerings powered by advanced SIM technology that deliver tangible operational efficiencies, cost reductions and revenue growth for customers across diverse industries. And three, backed by a deep bench of IoT industry experience--industry experts, excuse me, committed to driving innovation and delivering exceptional value for our customers.

Following my review, it also became apparent to me that, first, we need to realign our cost structure. Over the last three years, the rate of growth in cost has more than doubled the growth in rate and revenue. While some cost rationalization has occurred in the past 12 months, more is needed. Second, as an organization, we need to prioritize our high-growth connectivity business and further our investments into this area. And third, our strong, experienced teams needed a more simplified org structure, putting the customer first, and a culture that reinforces strong discipline, and an unwavering commitment to customer success and satisfaction.

Based on these guiding principles, we developed the restructuring plan shown on slide five. Together with the senior leadership team and with the full support of the Board, we have announced a restructuring plan focused on improving operational efficiency, enhancing our

customer relationships, and strengthening the foundation from which to drive long-term profitable growth.

The plan features multiple elements, including, one, cost reduction initiatives where we implement measures to reduce operating expenses and streamline processes to optimize operations and customer support. Two, workforce realignment that will see us reduce full-time headcount by approximately 25%, including both employees and contractors, with most of these actions taken before the end of the third quarter. This will better align our resources with current business needs and prospects.

Three, a focus on innovation and investment targeting those areas of the business that are experiencing strong demand. This includes investing in related go-to-market strategies in order to increase our stickiness with both new and existing customers as well as conducting R&D focused on the next generation of market-leading offerings.

And four, an enhanced customer focus, allowing us to strengthen relationships through an improved service and support commitment capable of delivering even higher levels of satisfaction and loyalty. This plan, which we expect to execute before the end of the third quarter, is expected to save the company \$5 million to \$6 million in 2024 from its current cash burn rate and \$20 million to \$22 million thereafter before any investment, which I'll discuss in a moment.

While some of these decisions were difficult, especially those around workforce reductions, it was clear that prompt and decisive action was required to set the company on a stronger and more focused footing, one that would allow us to prosper over the longer term. A portion of these savings will be used to selectively invest in key areas of the connectivity business where we see the best opportunities for profitable growth.

To support these initiatives, I am pleased to welcome Bruce Gordon to KORE as Executive Vice President and Chief Operating Officer, who I have had the privilege to work with previously. Over three decades in the technology sector, Bruce has held senior roles with GeoDigital, ABB Ventyx, Infor, and Descartes and is a highly experienced business operator. Bruce will play a critical role in transforming customer support, implementing the restructuring plan, helping to enhance operational efficiencies, foster innovation and drive sustainable growth, all working to solidify KORE's reputation as an IoT leader.

In another significant organizational change, the company has appointed Jared Deith Executive Vice President, Connected Health. Jared was the co-founder of BMP and Simon IoT, which were acquired in February 2022, and recently led the indirect channel for KORE with great success. His appointment further strengthens the executive leadership team with deep IoT and telco experience and a strong track record for driving sustainable growth in a global connected health sector.

On slide six, looking at our Q2 numbers at a high level, revenue was \$67.9 million, adjusted EBITDA was \$11.4 million, and cash from operations was \$4 million, resulting in essentially breakeven free cash flow. I'll let Paul speak to the Q2 results in more detail. But before turning over the call to him, I wanted to point out that despite our flattish top line results, the connectivity business delivered growth of 16% in the quarter, along with continued TCV growth. The connectivity business is our primary focus with its more stable and profitable revenue. This is where we are seeing real strength in the business and where we intend to focus our investment.

Slide seven presents a snapshot of our global sales pipeline as of June 30, 2024. As we previously mentioned, we have decided to reduce our focus on low-profit hardware revenue. While this decision reduces the total size of the funnel, as has the relatively large number of deals that were closed in the first half, it's important to note that the quality of our pipelines continued to improve.

Our sales pipeline includes more than 1,100 opportunities with an estimated potential TCV of approximately \$437 million. In the second quarter, we generated an incremental \$44 million of TCV won, up \$12 million from \$32 million in the same period last year. For the first 6 months of 2024, we have added a total of \$96 million in TCV versus \$60 million in the same period a year ago.

As a reminder, the majority of sold TCV is recognized as revenue over four years, and it is important to note that the closed TCV figure is aggregated across all our services, which recognize revenue on different schedules. As mentioned, we believe that the continued growth in TCV is compelling and indicative of the longer-term potential of the connectivity business in particular.

As we did on our last earnings call, slide eight highlights some key customer wins from the second quarter. First, I'd like to start with a win that opens a new market for an AI-driven use case. This customer provides an AI-driven analytics software platform focused on asset management across the construction, energy, marine, and logistics industries. This client leverages KORE's best-in-class Super SIM to help their customers manage costs, improve utilization, and deliver better safety and sustainability by enabling them to track emissions, monitor fuel usage, and benchmark equipment. This deal represents \$3.6 million in estimated TCV.

Secondly, we are highlighting an enterprise win with one of the world's largest food and beverage companies. KORE will be providing global IoT connectivity to support their next-generation solutions that provide tailored digital content to their consumers. KORE has already begun the rollout for multiple products as the customer seeks to consolidate their global IoT business. The estimated TCV of this win is approximately \$1.1 million.

Third is an exciting win for a cloud-based worker safety platform. This client chose our Super SIM to support rollouts of their personal emergency response system across Latin America and Europe. The platform will be supporting their customers in a wide range of industries, including

hotels, golf courses, and other large venues. This is another example of how our solutions are used to improve safety for our clients and their customers and will deliver an estimated TCV of \$4 million.

And finally, I want to mention a win that highlights our full life cycle management capabilities with a leading North American manufacturer of outdoor lifestyle products such as RVs. KORE solution includes connectivity, hardware, managed services, and advanced hardware support that will enable in-vehicle diagnostics and proactive maintenance that will drive revenue growth for this manufacturer. We expect this win to deliver \$3.4 million in TCV.

KORE continues to demonstrate its market leadership in IoT connectivity solutions as evidenced by these recent wins. Our ability to deliver tailored end-to-end IoT solutions across diverse industries is driving growth in our connectivity business and solidifying our position as a trusted partner.

I would now like to address our guidance for 2024 on slide nine. The positive momentum from our sales wins bodes well for the medium and longer-term future of the business. However, largely based on the timing of the key customer implementations slipping into early 2025, increasingly cost-conscious customer behavior and slower purchasing cycles, we are electing to revise our 2024 financial guidance downwards.

Regarding the customer implementation, I'd like to reiterate that this is largely a timing issue and doesn't reflect an anticipated loss of business. On this basis, we are lowering our full year revenue guidance to \$275 million to \$285 million from \$300 million to \$305 million previously and now expect adjusted EBITDA to come in at between \$54 million and \$56 million versus \$64 million to \$66 million for 2024.

Going forward, we fully expect that the changes we are making under our restructuring plan, including both the associated savings and the reinvestment in the business, will contribute meaningfully to improve financial performance in 2025 and beyond and provide a solid foundation from which to drive profitable growth over the longer term. With that, I'm now going to turn over the call to Paul to review our Q2 and year-to-date performance in greater detail. Paul?

Paul Holtz

Thanks, Ron, and good morning, everyone. Now let's look at our second quarter financial results on Slide 10. KORE's second quarter revenue of \$67.9 million decreased 2% year-over-year. Breaking that down by business lines, IoT Connectivity revenue of \$55.8 million, primarily driven by the Twilio IoT acquisition, increased 16% year-over-year and represented 82% of second quarter revenue, up from 69% in the prior year. Organically, IoT Connectivity grew approximately 2% year-over-year, largely as a result of net new activations from existing customers.

IoT Solutions declined 43% year-over-year to \$12.1 million or 18% of second quarter revenue. The decline year-over-year was due to various Connected Health customers and the timing of their new clinical trials as well as we previously disclosed the decision to turn away low-profit hardware deals to help improve working capital.

Total revenue minus total cost of revenue as a percentage, excluding depreciation and amortization, in Q2 2024 was 56.9%, an increase of 250 basis points compared to the second quarter of 2023. By business line, total IoT Connectivity revenue minus total cost of IoT Connectivity as a percentage, excluding depreciation and amortization, was down 430 basis points year-over-year to 60.9%, reflecting a full quarter inclusion of a lower profitable Twilio IoT Connectivity revenue. However, total connectivity revenue minus total cost of IoT Connectivity as a percentage, excluding depreciation and amortization, is flat sequentially from 60.9% in the first quarter of 2024 and is forecast to remain stable in the 60% to 61% range for the rest of fiscal year 2024.

Total IoT Solutions revenue minus total cost of IoT Solutions as a percentage, excluding depreciation and amortization, was up 860 basis points year-over-year to 38.5%. The increase in this percentage is mainly due to less hardware revenue at a low profit. Total IoT Solutions revenue minus total cost of IoT Solutions as a percentage is more difficult to predict on a quarterly basis due to the uneven nature and fluctuations in the revenue, the mix of hardware, but are continued to be forecasted in the mid- to high 30% range for the rest of 2024.

Total connections at the end of the second quarter were 18.6 million, an increase of 100,000 year-over-year. The limited growth in total connections year-over-year was due to the previously communicated deactivations of a low ARPU connections from a single CS customer in Europe. The decline in total connections from this one customer alone was approximately 1 million connections compared to the prior year.

Average revenue per user, or ARPU, for the second quarter was \$1 per month compared to \$0.98 in Q2 2023. The increase in ARPU year-over-year was driven by higher data consumption from higher bandwidth use cases and the expected loss of the CS customer in Europe just described.

Dollar-based net expansion rate, or DBNER, for the 12 months ended June 30, 2024, was 92% compared with 99% 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 customer cohort in the year-ago period. This means that IoT Connectivity customers gained from the Twilio IoT acquisition in June 2023 are excluded from the calculation. Next quarter, this cohort of customers will be included.

Our current DBNER calculation continues to be impacted by declines in the revenue from some of our IoT Solutions customers. For example, DBNER for the IoT Connectivity revenue customers only was approximately 107% this quarter compared to approximately 106% in the same period last year.

Turning to slide 11. Operating expenses including depreciation and amortization and a \$45.4 million noncash goodwill impairment charge were \$95.8 million in the second quarter, an increase of \$48.4 million or 102% compared to Q2 2023. In addition to the noncash goodwill impairment charge, the increase is mainly attributable to higher headcount-related costs from the Twilio IoT acquisition in June 2023.

Second quarter interest expenses, including amortization of deferred financing fees, increased year-over-year to \$13 million versus \$10.3 million in the second quarter of 2023. This increase is due to the higher borrowing costs on our refinanced debt and preferred stock placement completed in Q4 2023.

Net loss in the second quarter was \$64.3 million compared to \$19.5 million in the prior year. The increase in our net loss of \$44.8 million year-over-year is attributable to the noncash goodwill impairment charge of \$45.4 million.

Adjusted EBITDA in the second quarter was \$11.4 million, a decrease of \$2.8 million or approximately 20% compared to the prior year. Our adjusted EBITDA margin in the current quarter was 16.8%, down 370 basis points compared to the same period in the prior year.

The adjusted EBITDA margin decline is from the increase in headcount-related expenses year-over-year, including annual merit increases at the beginning of Q2. This, combined with the decline in overall revenue year-over-year, led to the decline in adjusted EBITDA margin and the need for the restructuring plan announced earlier this morning and in our quarterly filing. This very difficult decision was a necessary one and will help bring our cost structure where it needs to be and get adjusted EBITDA margin back above 20% for the rest of fiscal year 2024.

Finally, moving to cash flow. Cash provided by operations for the three months ended June 30, 2024, was approximately \$4 million, up from \$0.6 million used by operations in the prior year period. Free cash flow, measured as cash provided by operations less cash used in investing activities, also improved year-over-year from negative \$6 million in Q2 2023 to essentially breakeven in Q2 2024. This significant improvement was driven by less interest expense paid due to the PIK feature on the preferred shares and continued focus on cash management.

Management will continue to be laser-focused on cash in the next couple of quarters, especially with the expected onetime cash payments for severance-related costs. These costs will put pressure on cash in the current quarter but are expected to be recovered through the estimated cash savings throughout the remainder of 2024. As of June 30, 2024, cash and cash equivalents were \$22.3 million compared to \$23.5 million as of June 30, 2023, and \$27.1 million as of December 31, 2023. And with that, I'll pass it back to you, Ron.

Ronald Totton

Thank you, Paul. Before opening the call to questions, I just want to summarize our key talking points for today. Although Q2 didn't fully meet our expectations, we continue to see strength in our operations, including solid TCV and revenue growth in the connectivity business and an IoT market that remains very large with plenty of room for growth over both the near and longer term.

After a thorough period of review, we are acting quickly and decisively to streamline our cost base, and we are focusing on existing resources and reinvestment on targeted areas of the business that have the greatest potential for long-term profitable growth. While we expect to see a meaningful impact from the restructuring in 2024, we expect a more fulsome contribution in 2025.

We are happy to revisit any of these key points during our Q&A. But before turning over the call to the operator, I'd like to say I'm deeply grateful to the Board for entrusting me with the role of President and CEO and Board member. I'm passionate about KORE's potential and believe we are well positioned to capitalize on opportunities ahead. Our team's hard work and commitment are the foundation of our success. The steps we've outlined today will accelerate our journey. 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 "*" "1" on your telephone keypad. As a reminder, we ask that you please ask one question, one follow up, then return to the queue. One moment, please, while we poll for questions. Our first question is coming from Lance Vitanza from Cowen. Your line is now live.

Lance Vitanza

Thanks. Thanks, guys, for taking the questions. Ron, you're laying off 25% of the workforce, and I'm sorry that it's come to this. These types of restructurings are never easy nor fun. And I guess the temptation is sometimes to simply layer in the \$20 million to \$22 million of incremental savings on to the prior revenue forecast and just sort of increase projected EBITDA accordingly, but of course, it's never that simple. Can you hit those prior revenue projections with such a smaller staff? Or do you necessarily need to now create a new lower revenue forecast as a result of the layoffs?

Ronald Totton

Yeah. Thanks for the question. I mean, again, the actions we're taking aren't easy, and I appreciate you acknowledging that. From our perspective, we see great opportunities ahead, particularly in the connectivity business. The solutions business, as Paul highlighted, has been cyclical. But we see great opportunities in terms of the connectivity business, the TCV growth.

And we believe this restructuring will actually help us focus, and I'm quite confident in terms of our revenue growth and, obviously, the focus around profitable revenue growth. In terms of

forward-making statements around prior revenue estimates, I think I'll leave that up to Paul. But I'd close in saying that we actually believe this restructuring will actually facilitate us to drive more improved growth going ahead.

Paul Holtz

Yeah, Lance. I'll just add, we're not obviously giving any guidance on 2025 or anything yet. But to your first point on taking the whole cash savings of \$20 million to \$22 million to the bottom line, obviously, that's not the case. From adjusted EBITDA percentage amount, it will be a little bit less as we have less capitalization and so forth. But as we mentioned, we're also going to use some of that savings to reinvest in the more profitable types of business that will help with leading to that revenue growth.

Lance Vitanza

And then if I could for--just on the follow-up, and I recognize that it's too early for guidance, but when we think about 2025, should we be thinking about this more as a year of stabilization and with perhaps the first half of 2025 kind of down on a year-over-year or maybe even sequential basis versus improvement in the second half of 2025? Or what would you--how would you characterize your thinking around 2025 at this stage?

Paul Holtz

Yeah. So I would say from the connectivity business, first, that's pretty stable and growing at the single-digit marks, and we don't see that changing. The lumpiness that will happen is in IoT Solutions, and we mentioned this delay of this one project that's going to likely start in Q1, Q2 of 2025. So I don't want to say that that's going to be lower than the second half because of the timing of this one project that's been delayed. So that will determine, again, the lumpiness of our revenue in 2025.

Lance Vitanza

Okay, thanks. I'll get back in the queue. I've got some more questions, but I'll pass the--pass the baton. Thanks.

Operator

Thank you. Your next question is coming from Scott Searle from ROTH Capital Partners. Your line is now live.

Scott Searle

Hey. Good morning. Thanks for taking the questions. And Ron, congratulations on the formal appointments. Maybe just a couple of quick clarifications. Paul, you gave the organic--or the services growth figure, I think, year-over-year was about 16%, but that included Twilio. I'm wondering if you could calibrate us in terms of what the organic growth look like in the second quarter. And then in the immediate outlook into the third and fourth quarter, it seems like the connectivity side continues to build. I'm wondering if we're expecting some modest sequential increases.

And kind of rolling that into '25 then, Ron, I know this is, I guess, a little bit of a follow-up on Lance's question, but if you're adding TCV at a good clip, which you are year-to-date, it would seem to indicate that, on the connectivity side, we continue to see decent growth into 2025. I wonder if you could give some early thoughts on how that's going to translate into connectivity sales in '25.

Ronald Totton

Yeah, sure. I'll try to take that first and then pass it over to Paul. Yeah, I think your question is a good one. I mean, I wouldn't describe 2025 as a stabilization year. I see it as a growth year. I look at the TCV, the types of wins, a few changes we can make in terms of converting the revenue faster, where it's obviously in our control or structuring the agreement slightly differently, I see growth potential in the connectivity business in 2025. I wouldn't characterize it as a stabilization year.

So when you look at the TCV growth first half of the year at \$96 million versus the \$60 million prior year, we have a healthy business in connectivity. And with this restructuring, we're going to focus even more on it. And so I'm quite optimistic, of course. Given I'm only, again, still three months in the role and we have this restructuring, I believe this is going to really free us up to focus on this connectivity business, and I would see acceleration, if anything else. But Paul?

Paul Holtz

Scott, we did mention in the script in--firstly, it was 2% organic for Q2 year-over-year. From a sequential, we didn't mention, but the connectivity revenue was down a little bit because of some onetime stuff in Q1 on overages and so forth. But going forward for Q3, Q4, we do expect growth on the connectivity side, and then solutions to be pretty flattish but, again, could be lumpy based on timing of shipments.

Scott Searle

Great. Very helpful. And if I could, from a--I guess, another higher-level question, Ron, I'm sure you've been racking up the miles in terms of customer world tour. Synthesizing some of that feedback, where is the company's real strength? Why are you winning in terms of features and otherwise versus the competitive landscape? Who are you losing to? I'm kind of curious in terms of the early run here.

And then you've referenced analytics and AI. Those are expensive areas of investment. It sounds like you're going to continue to invest in those areas. But how does that play in and how do you manage the cost into those types of investments? Thanks.

Ronald Totton

Sure. A lot in there. I'll try to answer that and give you a follow-up if you need be. In terms of--the feedback I would have, as I've spent the time out on the road with customers, has been our customers are--on balance, are very happy. They continue to talk about the quality of service.

They like the expertise that we have with our teams that help them make decisions around hardware or as they move into new countries and, even in some cases, navigating that growth in the new country. So the feedback on balance is very strong from our existing customers.

Of course, I think what you see in our announcements and some of my comments, I believe we have room for improvement in customer support. And so I think from my perspective, I think we can do better for the customers than we're doing today. But on balance, they're very--I would say, very happy. It was a real bright spot over the first 90 days of the time that I've spent out.

In terms of where we're winning, to me, the use cases seem to be multi-country. Certainly, this multi, multi, multi proposition definitely resonates in the field, right? So in terms of customers that are multi-country, certainly, there's a lot of customers that have been looking at backup, liking our ability to provide multiple carrier solutions as a differentiation point.

I think the full managed services, I would say, at least in a few of the deals that I commented on earlier, the connected RV company particularly, where we're winning that deal due to our full-service capability. So we're not just providing them the SIM technology, but we're actually providing them device management. We're providing them, obviously, the logistics support but also some analytics as well. So I would say that those would probably be my initial comments as it relates to the first two parts of your question.

In terms of investing, I guess what I would say is that use case was really the company being an AI company. And in terms of the investments, to me, I think the investments that we want to make really are around the connectivity business, strengthening our footprint, increasing our capabilities and features, if you will, around the console and the like as being the areas of our focus and our investment.

Scott Searle

Okay. Very helpful. Ron, if I could maybe just add on. In terms of your customer conversations, I think product or hardware always seems like it's historically been a necessary evil. Certainly, this quarter, it was nice to see the improvement in the gross margins. But if we're having this conversation two to three years from now, are you guys necessarily in the hardware and product business? Thanks.

Ronald Totton

Yeah. It's a good question. Looking two years out, sitting where I sit today, I feel a bit hesitant to answer the question. What I would say is we want to deliver what the customers need. And there are several customers that highlight to me the full-service nature of our offering is really important to them.

That being said, we are looking at ways to address some of the challenges that this part of the business provides for us. So for example, in Europe, we're very close to signing a deal where we'll have a partner, an actual logistics partner in that particular case. And we're also looking at others

in the Connected Health in terms of relationships where we can leverage others' expertise in this area.

But to me, one of the real growth areas is also device management and the strength that we have with our people on helping them navigate changes and just navigating upgrades and the like with the devices in the field. So the partnerships, I would say, are more towards the physical logistics more so than device management or those types of capabilities.

Scott Searle

Very helpful. Thanks so much. I'll get back in the queue.

Ronald Totton

Thank you.

Operator

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

Mary

This is Mary (sp) on for Meta Marshall. I had a question on like the cost-conscious behavior that you're seeing from customers. Are you seeing healthy RFP activity and just more cautiousness around ramping up deals? Or is the cautiousness extending to RFP activity as well?

Paul Holtz

I would say it's twofold. When we say in our business cost-conscious customers, they're looking at their base and making sure devices that aren't passing traffic are being shut off or put into suspension mode and so forth. So they're looking a lot closer to their base and optimizing their costs. So when they optimize, then obviously, that takes a hit on our top line. And then when it comes to deployments and so forth, we are seeing still some customers have some supply chain issues and so forth, but there is a slower ramp-up in certain customers. So it's both.

Mary

Thanks.

Operator

Thank you. Your next question is coming from Matt Niknam from Deutsche Bank. Your line is now live.

Michael Allen

Hey. This is Michael Allen (sp) on for Matt. I just kind of wanted to dig in a little more on ARPU. So you talked about it grew year-over-year, but it was still a pretty meaningful decline sequentially. I was just wondering if you could just give a little more on to what drove that.

Paul Holtz

Yeah. So in Q1, as I said, there was a couple onetime big overage that we had for a particular customer. So when you do a calculation within a particular quarter, you'll get that bump. So we were at the \$1.05, \$1.06 number. That normalized back into Q2, and we don't forecast for these big blips or anything like that going forward. But we do expect it to remain stable here at the dollar or even higher range as we--a lot of our new business continues to be higher bandwidth programs.

Michael Allen

Got it. Thank you.

Operator

Thank you. The next question is coming from Mike Latimore from Northland Capital. Your line is now live.

Unknown Speaker

This is Aditya on behalf of Mike Latimore. Could you please tell me what is your main debt covenants for this year?

Paul Holtz

We have--the two main debt covenants are first lien covenant and a total debt covenant. Those are the two main ones we have, and no issues on those for this year.

Unknown Speaker

All right. And also, could you give some color on the free cash flow? Do you still target being free cash flow positive exiting this year?

Paul Holtz

Yeah. So now with the restructuring plan, depending on the timing of severance costs and so forth, exiting 2024, we do expect to be positive.

Unknown Speaker

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 to management for any further or closing comments.

Ronald Totton

Thank you, everyone, for joining today's earnings call. We look forward to updating you on our progress against our restructuring plan with our third quarter results in November. 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.