KORE Group Holdings
Fourth Quarter 2024 Earnings Call
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<u>Presenters</u>
Vik Vijayvergiya, VP of Investor Relations, Corporate Strategy
Ron Totton, President, CEO & Director
Paul Holtz, Executive VP, CFO, Treasurer

<u>Q&A Participants</u>
Lance Vitanza – TD Cowen
Scott Searle – ROTH Capital Partners

Operator
Greetings, and welcome to the KORE Group Holdings Fourth Quarter 2024 Earnings Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If you require operator assistance during the conference, please press "*", "0" on your telephone keypad.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce you to your host, Vik Vijayvergiya, Vice President of Investor Relations. Thank you, Vik. You may begin.

Vik Vijayvergiya
Thank you, Operator. On today's call, we will refer to the fourth quarter and full year 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 fourth quarter and full year 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 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 the slides and today's press release, as well as in 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 in 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 fourth quarter and full year 2024 earnings call. With me today is Paul Holtz, KORE's Chief Financial Officer.

On today's call, I will provide an update on the company's business highlights for the fourth quarter and the full year, and then we'll turn over the call to Paul to go through the financial results, after which I will share our financial guidance for 2025 before turning the call over to the operator for Q&A.

As we look back on 2024, we have greatly improved the fundamentals of the business, which have had a positive impact on our financial performance. We have transformed the company and returned to growth in connections, revenue, EBITDA and free cash flow, while putting customer intimacy in the center of our operating model. Everyone at KORE should feel proud of what we have done together.

Our Q4 results show that we continue to execute on what we said we would do. We generated $1.6 million in free cash flow and also closed the year on a strong note. Total Connections at the end of the fourth quarter were $19.7 million, an increase of $1.2 million, year-over-year. This connection growth was driven by wins with new and existing customers, demonstrating our focus on customer intimacy and expanding our connectivity portfolio is paying off.

A key driver of our success has been our strategic focus on profitable growth and recurring connectivity revenue, which ended the year up $24.5 million, or 12%.

We also drove a significant improvement in the non-GAAP margin of IoT Solutions by increasing it by 900 basis points to 40%. These efforts are strengthening our financial position and setting us up for long-term sustainable growth.

As previously communicated, one of our key priorities is operational excellence. And in the second half of 2024, we have been swift to launch several projects using AI tools across the organization to drive efficiency and support profitable growth.

We have implemented Now Assist, an AI offering from ServiceNow as part of our focus on customer intimacy. Product engineers are using Code Assist, a leading AI tool by GitHub, which improves the speed and quality of software engineering output and launched Microsoft CoPilot for sales to drive performance improvement within the CRO organization.

In 2025, we will invest more energy in this area based on the results we are realizing.

On Slide 7, as we look at the headlines, our 2024 revenue was $286 million, and our adjusted EBITDA was $53.1 million. We invested heavily in the business, prioritizing our Connectivity offering, which realized 12% revenue growth in 2024. We did this while driving a $23.1 million improvement in free cash flow from 2023.

Our fourth quarter revenue increased by approximately $1 million to $73.3 million, and adjusted EBITDA improved $0.2 million to $14 million, representing 19% of revenue, flat from the same period last year.

As highlighted earlier, we generated $1.6 million of free cash flow in the fourth quarter of 2024, a significant improvement from the negative $15.5 million, last year. Cash flow generation remains a key priority for me and the rest of the leadership team.

Moving to Slide 8, let's dive into our IoT Connectivity highlights for the fourth quarter of 2024.

Our IoT Connections number is approaching 20 million. At an ARPU of approximately $1, this represents a solid foundation of recurring earnings power. IoT revenue grew 12% for the full year, which now includes a full year revenue from the Twilio IoT acquisition.

For the fourth quarter, Connections were $19.7 million, up $1.2 million from $18.5 million for the same period in the prior year.

On Slide 9, let's move on to our sales momentum in the fourth quarter, which is largely occurring in IoT Connectivity. We closed $29 million in TCV in Q4 2024, with 68% related to IoT Connectivity. This quarter's performance builds on the prior quarters showing year-to-date closed TCV of $158 million, up from $115 million in the same period in the prior year with $111 million of that coming from IoT Connectivity.

Starting next quarter, we are revising our sales metrics to better align our recurring revenue business model. We will be shifting from total contract value, or TCV, to estimated annual recurring revenue or, eARR. eARR better illustrates our recurring revenue business model because it shows steady recurring revenue, unlike TCV that can overemphasize onetime income streams such as hardware sales.

This change is part of our ongoing effort to simplify and improve our reporting metrics. We are confident eARR will be more effective for predicting future earnings and demonstrating steady free cash flow. IoT Solutions revenue will continue to be reported as it is today.

Going to Slide 10, as we've done in previous calls, I want to highlight key wins that continue to demonstrate the strength of our solutions and the value we bring to customers. First, in the healthcare space, we secured a significant win powering decentralized clinical trials with seamless global connectivity. By ensuring secure and reliable cellular access remote patient monitoring and real-time data collection, we're helping improve trial efficiency, compliance and ultimately, patient outcomes.

In the electronics manufacturing sector, we helped to optimize data usage for a major customer by enabling multi-carrier pooled connectivity plans. Through intelligent rules and proactive triggers and Connectivity Pro, we're reducing costs, eliminating overages and providing better operational control.

Physical security is another area where KORE is making an impact. This client became the first provider to introduce OmniSIM in their properties across Puerto Rico, setting a new standard for smart security. With always-on connectivity, they're empowering businesses and property owners with reliable alarm systems and uninterrupted protection.

Lastly, we expanded our footprint in GPS tracking. A leading GPS tracker brand chose KORE to support its market expansion with a cost-effective tracking solution. With seamless device activation, real-time tracking and global coverage, we're enhancing the user experience in helping accelerate time to market.

These wins reflect the trust our customers place in KORE and the strength of our transformation. As we move into 2025, we remain committed to delivering innovative, high-value solutions that drive growth and success for our customers.

We are excited by the growth in the IoT Connectivity pipeline, as we are seeing significant activity in our KORE use cases such as Connected Health, Fleet and Logistics and High-Value Asset Monitoring, in addition to security and various other use cases involving point-of-sale type solutions.

Not only are customers recognizing the value of KORE Connectivity solutions, but also our offerings are being recognized for innovation and excellence by industry leaders. This slide highlights a few of our recent accolades and recognitions during 2024, which underscore our leadership in the IoT space.

These awards not only validate our innovative solutions, but also enhance our brand reputation, positioning us favorably in a competitive market.

As we look at the broader industry landscape, it's clear that the demand for Connectivity is accelerating at an unprecedented pace. Let's take a closer look at some of the key market trends shaping the future of IoT and the opportunities they present.

The IoT market continues to expand, rapidly, with the number of connected devices expected to surpass 96 billion by 2030, growing at a CAGR of over 20%. Cellular IoT is a key driver of this growth, projected to increase from 3.8 billion connections today to 6.6 billion by 2030, fueled by advancements in cellular technology.

eSIM adoption is also accelerating with the market set to grow from 368 million units in 2024 to 1.6 billion, by 2030. In IoT specifically, eSIM's market share is expected to more than double, reaching 24%, by the end of the decade.

Building on this momentum, the GSMA's new SGP.32 eSIM standard, introduces the eSIM IoT Remote Manager, or EIM, a powerful cloud-based solution enabling enterprises to remotely activate change or optimize operator profiles across their entire device fleet, without the need for physical interaction. This advances the evolution and maturation of cellular connectivity standards by drastically reducing the cost of manual change previously constraining customer flexibility.

SGP.32 empowers enterprises to, dramatically, adapt their connectivity strategies based on fault tolerance requirements, cost efficiency, coverage quality and regulatory compliance.

KORE is actively working with our carrier partners and major eSIM service providers to deliver a fully integrated SGP.32 solution operated by KORE that can be seamlessly integrated into customer and third-party environments. This also fully enables our customers to access the full KORE catalog of local and global compliance SIM profiles.

Our SGP.32 support is expanding upon the foundation of our connectivity management platform expertise and current eUICC portfolio, and we're positioned to lead customer deployments.

These advancements reinforce the growing demand for scalable, flexible and intelligent connectivity solutions, an opportunity we are strongly positioned to capitalize on, as we continue executing our growth strategy.

And now let me turn the call over to Paul to go through our financial performance in more detail.

Paul Holtz
Thanks, Ron, and thanks for those joining us this evening for our fourth quarter and full year results.

Looking at these results on Slide 14, total revenue for the fourth quarter increased $0.8 million, or 1% year-over-year to $73.3 million. Breaking that down by business lines, IoT Connectivity revenue of $56.5 million increased 2%, year-over-year, and represented 77% of fourth quarter revenue, up from 76% in the prior year. IoT Solutions revenue declined 2%, year-over-year, to $16.8 million or 23% of fourth quarter revenue.

Overall, non-GAAP margin in Q4 2024 was 56.8%, an increase of 580 basis points, compared to the fourth quarter in the prior year.

By business line, non-GAAP IoT Connectivity margin was up 300 basis points, year-over-year, to 59.3%. Non-GAAP IoT Solutions margin was up 1,500 basis points, year-over-year, to 48.1%. This increase was primarily attributable to the increase of more profitable IoT Solutions revenue.

Turning to our full year results on Slide 14, total revenue for the year increased $9.5 million, or 3% to $286.1 million. Breaking this down by business lines, IoT Connectivity revenue of $226.9 million, which included a full year of the Twilio IoT acquisition, increased 12%, year-over-year, and represented 79% of total revenue, up from 70% in the prior year.

IoT Solutions revenue declined 20%, year-over-year, to $59.2 million, or 21% of total revenue. The IoT Solutions revenue decline was primarily attributable to management's decision to forego lower-margin hardware sales and to focus on more profitable IoT Solutions revenue.

Overall, non-GAAP margin for 2024 was 56.3%, an increase of 275 basis points, compared to 2023. By business line, non-GAAP IoT Connectivity margin for 2024 declined 130 basis points, compared to the prior year. This decline was anticipated as the IoT Connectivity revenue from the Twilio IoT acquisition came with slightly lower margins that improved during 2024 but had a full year impact, when compared to the prior year.

Non-GAAP IoT Solutions margins, on the other hand, was up 920 basis points for the year to 40.2%. As mentioned, the increase was due to management's focus on more profitable sales.

Total Connections at the end of the fourth quarter were 19.7 million, an increase of 1.2 million, year-over-year, but more importantly, increased 800,000 from the last quarter.

Average revenue per user per month, or ARPU for the current quarter, was $0.97, compared to $0.99 in Q4 2023. The decrease in ARPU, year-over-year, was driven by the higher percentage of the recent growth in connections coming from lower ARPU use cases.

DBNER for the 12 months ended December 31, 2024, was 95%, compared with 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 customer cohort in the year ago period. Our current DBNER calculation continues to be impacted by declines in revenue from some of our IoT solutions customers, over the past 12 months.

Turning to Slide 15, operating expenses in the fourth quarter were $54.4 million, an increase of $4.8 million, or 9.7% compared to Q4 2023. The primary reason for the increase in operating expenses, year-over-year, was due to unrealized foreign exchange losses of approximately $5 million, due to the weakening of the U.S. dollar in Q4, 2024. This compared to the U.S. dollar strengthening in Q4 2023. This noncash increase in operating expense in Q4, 2024, was offset by declines in professional service fees and less salaries and benefit costs from the restructuring activities taken by the company in Q3, 2024.

Fourth quarter interest expense, including amortization of deferred financing fees, increased year-over-year to $13.3 million versus $12.1 million in the fourth quarter of 2023. This increase is due to higher borrowing costs on our refinanced debt and preferred stock placement completed in Q4, 2023.

Net loss in the fourth quarter was $25.4 million, compared to $33.6 million in the prior year. The decrease in our net loss of $8.1 million, year-over-year, is primarily attributable to benefits from the following expenses: change in the fair value of warrant liabilities to affiliates, income tax benefit, no loss on the extinguishment of debt in the current comparative quarter and less depreciation and amortization.

Adjusted EBITDA in the fourth quarter was $14 million, an increase of $0.2 million, or approximately 1.1% compared to the prior year. Adjusted EBITDA was basically flat year-over-year as OpEx savings from the previous quarter's restructuring activities were offset by less capitalization of internal development costs.

For the full year, operating expenses were $262.7 million, a decline of $4.1 million, compared to the prior year. Decreases in noncash items like goodwill impairment and depreciation and amortization, were offset by increases in variable compensation, severance costs, channel partner commissions due to increased revenue from this channel and less capitalization of internal development costs.

Interest expense, including amortization of deferred financing fees increased $9.3 million, year-over-year, to $52.5 million. The reason for this increase, same as it was for Q4, was due to the higher borrowing costs on our refinanced debt and preferred stock placement completed in Q4, 2023.

Net loss for the full year was $146.1 million, a $20.9 million improvement, compared to the net loss in 2023. Noncash items, including goodwill impairment, fair value of warrant liability adjustments, amortization and depreciation, unrealized foreign exchange expense and stock compensation expense reduced net loss, year-over-year, by approximately $25 million.

Less professional service fees also resulted in savings of approximately $6.5 million. Offsetting these savings was the increase in interest expense of approximately $9 million.

Adjusted EBITDA for the full year was $53.1 million, a decrease of $2.5 million, when compared to the prior year. The decrease primarily comes from the reduction in the amount of capitalization of internal development costs. It should be noted that this is a trend that we expect to see continue, going into 2025.

The company will have less capitalization of internal development costs under U.S. GAAP, but we'll see adjusted EBITDA grow but more importantly, adjusted EBITDA will have more free cash flow attributable to it.

Speaking of cash flows, cash provided by operations in the fourth quarter was approximately $2.8 million. This compared to cash used by operations of $10.9 million in Q4, 2023. Cash provided by operations for the 12 months ended December 31, 2024, was approximately $9.9 million. This was a $16.3 million improvement, compared to the $6.4 million used by operations in the prior year period.

Free cash flow, measured by cash provided by operations, less cash used in investing activities, was positive $1.6 million in Q4 2024, compared to negative $15.5 million in the prior year quarter. This was the first positive free cash flow quarter the company has had since fiscal year 2022.

Free cash flow was negative $3.5 million for the 12 months ended December 31, 2024, improving approximately $23 million, compared to the prior year period. As of December 31, 2024, cash was $19.4 million, compared to $27.1 million as of December 31, 2023. As Ron mentioned, cash flow management is a key priority for all of us, even as we invest in profitable growth.

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

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

Ron Totton
Thank you, Paul. On Slide 17, as we wrap up, I want to share our outlook for 2025. Looking ahead, we are entering the year with a strong foundation for long-term profitable growth. Our transformation efforts have positioned us to drive meaningful improvements across our business, and we remain committed to disciplined execution and a relentless focus on our customers.

We have exciting developments in several profitable revenue growth initiatives, and we are optimistic about the year ahead.

For 2025, we expect revenue growth driven by growth in IoT Connections and accelerating in both our adjusted EBITDA and free cash flow.

While our primary focus is on profitable revenue growth, we will continue prioritizing gross margin expansion and driving efficiency and automation, across the business. We are mindful that evolving tariff policies could create uncertainty for our customers, potentially impacting order volumes and investment timing. However, our connectivity business, which is largely based on recurring revenue, provides a meaningful level of insulation against these external pressures. This foundation, combined with our continued focus on operational excellence and margin expansion, positions us well to navigate potential challenges and deliver strong profitability, maximizing the value we create for our shareholders.

With this disciplined approach, we are providing the following guidance for 2025. Revenue in the range from $288 million to $298 million, reflecting 2% year-over-year growth, which factors in the exit of unprofitable contracts and product lines and, positively, contribute to overall profitability. Adjusted EBITDA in the range of $62 million to $67 million, representing a 20% increase, year-over-year, and free cash flow in the range from $10 million to $14 million, a significant 443% year-over-year improvement.

These targets reflect our expectation of profitable growth, operational efficiency and disciplined financial management. As we move forward, we remain focused on delivering value for our customers and our shareholders.

Before we open the call to Q&A, I also want to thank the KORE team around the globe for their hard work and commitment that they have shown through this year of transition. We have been working hard and it's great to see the engagement and traction we are gaining together.

Thank you, and I look forward to your questions.

Operator
Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press "*", "1" on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "*", "2" if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys. One moment please while we poll for questions.

Thank you. Our first question comes from the line of Lance Vitanza with TD Cowen. Please proceed.

Lance Vitanza
Thanks guys for taking the questions. So let's see, so you beat on connections, at least relative to my expectations, and yet ARPU was quite a bit lower than we had anticipated, and it was down 5% quarter-on-quarter, or 2.5% year-on-year. So, I was wondering if you could spend a few minutes on what were the drivers of each of those, the connections and the ARPU? And what should we model for the first quarter which, of course, is now a month behind us? And then, how should we think about the rest of the year? And then I've got some other questions as well, but just to start there.

Paul Holtz

Hey, Lance, thanks. It's Paul. So yes, we had a big jump in connections that came, as we mentioned here from low ARPU cases at the end of the year, and they weren't here for the full quarter. So when you look at the number for Q4, obviously, we're reporting a number at the very end, but those happened more so in the last two months of the quarter, if not a lot in the last month.

So, you have the big increase in connections but hardly any revenue coming from them. So that's what drove down the ARPU. But in saying that, as I mentioned, a lot of these came from lower use cases. So the ARPU on these were under $0.50, so well under our dollar average that we've had before.

Lance Vitanza
Thank you, I understand. And so, is that sort of indicative of how you see the market developing and where the incremental demand is? Or was this just sort of a one-off?

Ron Totton
Yeah, thanks, Lance. It's Ron here. It'd be hard to say it's a one-off. I wouldn't say it's really where the only growth is coming from. Those are typically kind of like fleet and logistics use cases. We are seeing growth coming from other areas, as I kind of highlighted in terms of some of our priority verticals, connected health, anything that's sort of retail looking like point-of-sale systems like EV chargers and vending machines and other types of use cases. So I wouldn't say that it is--it's what we're expecting into the future.

That being said, I'd draw your attention to our margin. So just because it's maybe a lower ARPU use case doesn't mean that it doesn't contribute, positively, to growth.

Lance Vitanza
Sure. And then I guess maybe the one way to think about it for me is, I think you mentioned, Ron, that the demand for connectivity is very brisk. And yet the guidance for KORE for revenues is not terribly exciting at 2% year-on-year. So is that because there are just still a lot of impediments that are keeping enterprise customers, in general, from being able to implement these systems despite the demand that you're sort of sensing?

Or is it the case that this is indicative perhaps of sort of a lower kind of pricing dynamic going forward where you have, perhaps, a huge increase in volume, but maybe it's coming in at a very low price? I'm just trying to--I guess I'm just trying to reconcile the full year revenue guide with the sort of the brisk amount of demand that we're perceiving.

Ron Totton
Yeah, sure. Let me try to get--there's a lot in there, but let me try to get there. One is, I think I've made the statement that I mean I, again, consistent from prior calls, with this focus on profitable growth. And we also talked about rationalization. So part of what's factored into that revenue number is that we have and we'll continue to look at unprofitable or low profit

customers or product lines, if you will. And so again, I draw your attention, your question was on revenue, but I'd encourage you to look at our guidance on adjusted EBITDA and free cash flow as well.

So one, that drives the revenue, right, where--so if you're walking away from a customer that's lower margin or a product line that's just not delivering relative to what others are where you could invest and get a better return, you're going to see that impact in revenue.

Secondly, I would say is the low ARPU use cases, I mean, we're talking about a kind of cohort of sort of 10 to 20 in terms of customers, so--and we service thousands of customers. So, I wouldn't want to say that you should model in based on sort of the assumptions that you were referring to. So I'll pause there. I don't know. Did I get all the--Paul, do you have anything to add?

Paul Holtz
Just--so those 10 to 12 low-ARPU customers, they do have a lot of volume. And when they add they add them in chunks. So again, you have--that's what we saw here in 2024, but we're by no means seeing that everything is going to the bottom of the barrel here from a price perspective. We still have our existing customer base that is growing and they're using more data. So like you said, they will be, depending on what happens in any particular one order from a large deployment of any of these low ARPU SIMs.

Ron Totton
Yes. Just lastly on that one, Lance, and again, I appreciate the question is, again, outside of that low ARPU cohort we were talking about actually, ARPUs in the top 150 customers, if anything, are trending slightly up and well north of the dollar. So again, it's hard for us to predict exactly which customers and use cases are going to grow.

I think then the other thing I would add around the revenue guidance is we don't see direct impact of tariffs but of course, in talking to customers demand, maybe delays, etc. So we've been, I would say, somewhat conservative kind of as we look ahead. And we also want to make sure that we're able to put guidance out there that we can stand behind and feel very strong about.

Lance Vitanza
That's great. No, I appreciate that. Maybe just sort of on the--more on the technical side, the delay in the 10-K filing and so forth. What--could you discuss what the genesis or the cause of that was and whether or not that's been remedied? Should we expect the company to get back on to more of a timely disclosures going forward from here on out, or is there more work that needs to be done? Can you talk about that at all?

Paul Holtz

Yeah. No. So, we're planning on for Q1 coming up to be on time. This was more just a specific year-end. A couple of audit items that came up that needed further documentations for our auditors to get through, and they have to have everything signed off and they're filed before we can press the button and file the K. And we, obviously, were waiting for that to happen and when we got there. So going forward, we're not anticipating any further delays.

Lance Vitanza
Okay. And then my last question is just on the balance sheet. I do take the point that the company is generating free cash flow. It has some runway and so from that standpoint, there isn't necessarily any pressing need to do anything today, especially if we think that the business is going to look a lot better one, two, three years from now.

That being said, just the sheer magnitude of the debt plus the preferred relative to the equity market cap, it does sort of suggest that a balance sheet sort of restructuring could occur. Are you open to conversations with various stakeholders that could, potentially, engender such a transaction, or are you firm and steadfast in the idea that no, we're going to just sort of let this continue to--let the business continue to grow, and then we'll see what we look like two, three years from now?

Ron Totton
Yeah, thanks, Lance. I mean, here's what I'd say, right, is--I mean, no one has a crystal ball, but like we're really focused on making the business better, every day. Like that's our primary focus. And it's hard not to see the improvement in the results that we've shared in the comparison from the prior year. But to sort of use an analogy as a coach may be on a sports team, you always look at ways to make your team better.

So, we wouldn't be doing our job if we weren't open to ideas that would make sense for all shareholders. That being said, we're just really focused on and continuing to--we've built some nice momentum here. And my job also is to keep the team focused. So never say never but at the same time, we also want to make sure we're focused. So, short answer is we're open, but we've put in a lot of hard work here in the last eight months. And we've got something going, and we really want to make sure we don't take our eye off the ball there.

Lance Vitanza
Great, thanks for taking my questions, appreciate it.

Ron Totton
Great, thank you.

Operator
Thank you. Our next question comes from the line of Scott Searle with ROTH Capital. Please proceed with your question.

Scott Searle
Hey, good afternoon. Hi, Ron, hi, Paul. Thanks for taking the questions. So Ron, maybe just to dive in on guidance. I wonder if you could clarify for us on 2025, how much you're attributing to hardware within that guidance number? I'm also wondering, IoT Solutions, it looks like they had a nice non-GAAP gross margin number. Is that the normal to be modeling, going forward?

And Paul, from an OpEx standpoint, I know there are a lot of moving parts, and you guys have been taking costs out. But could you help us understand, on a quarterly basis, what the normalized OpEx is going to look like? And then I have a couple of follow-ups.

Paul Holtz
Okay. From an IoT solutions perspective in our number, we're not expecting any significant growth or decline in there. So it's pretty flat year-over-year, within the number. Again, we could have some lumpiness within the quarters and so far as we always see, but we're not anticipating a major growth or spurt there or anything there.

More so just to your point on the hardware side of things, we are looking away in any of those lower-margin deals, which is improving that gross margin. We do see that continuing above the 40% mark that we ended the year into 2025, throughout all quarters of 2025.

From an OpEx perspective, yes, to your point, we did do the restructuring activity at the end of Q3, so we did see some benefit from that in Q4. But we are also looking to reinvest in the business in the more profitable areas. So from an OpEx perspective, next year, from a net perspective, you're going to see around $27 million to $30 million.

Again, it will go up and down, depending on how variable commissions all that sort of stuff, but that would be the range I would be looking at, Scott.

Scott Searle
Okay. Very helpful, thanks. And Ron, it sounds like you guys are moving away from TCV to ARR or EARR. I'm wondering if you could calibrate us in terms of what ARR actually looked like in '24 and '23. And then kind of projecting that going forward, the market is starting to grow at a pretty good clip in terms of IoT connection, starting to reaccelerate on that front.

What type of connectivity device unit growth should we expect for you guys in 2025? It looks like at a first cut, it's probably north of 10%, so you're starting to get back up in that market growth kind of range. But I'm wondering if you could kind of calibrate us in terms of how you're thinking about the market in terms of connections in 2025?

Paul Holtz
So, from a connectivity perspective, again, we look at the customers and, obviously, the connections part of it will depend on which of those customers are growing. So again, those low ARPU may cause the connection number to jump up, but the revenue associated with those are

not very large. But from a connectivity perspective, there are going to be some give and takes in there. So we're talking mid-to-low single digits, within our guidance. And hopefully, we'll be in the other--the back end of that. But that's what we're seeing and we're in, like you said, slowly getting up to the market trend of 10%.

But there's just so much uncertainty out there right now from our customers that we're hearing that it's hard to put a pin on how much will grow because I think there will be some delays in deployments just from the tariff issues and they may have started to buy and build some inventory up now, and so forth. But if the tariffs come into play, I think we have built in some conservative in there that demand will be impacted.

Scott Searle
Paul, maybe just to quickly follow up on that deployment commentary. So are you actually seeing customers slow down at the current time? And just in terms of your modeling, right, in the guidance, how did you approach that in terms of your assumptions around deployment time lines, macroeconomic headwinds?

Ron Totton
Yeah, so I'll take that. Maybe we'll tag team that one. So we're not--I would say as of yet, we're not seeing any change in customer demand. And keep in mind that the tariff situation is pretty fluid. And I think on our side, we're just looking ahead and being a little bit cautious.

Certainly, there are customers, like if you think in the connected health area, it's hard to see when you think of the use cases, the tariffs slowing down that demand because the overall solution they're offering, I think, the hardware and the connectivity is meaningful, but it's not a significant portion of the overall cost. So we haven't seen slowdown, if you will.

We do, though, speak to all of our existing customers and some new ones that we're acquiring and in discussions with. And yeah, what we hear is just uncertainty. And so, I guess that's what I would say. I wouldn't say that we've seen any customers slow down. We haven't seen customers come back and say we overbought and any kind of conversations like that. Demand still feels, I mean, relatively strong, I mean, as per my comments in the pipeline and the growth of the pipeline. Maybe, Paul, you want to take this.

Paul Holtz
It was more--remember, Scott, most of our customers don't buy hardware from us and so forth. So like we don't know exactly what they bought and what's out there, but--it's--to Ron's point, we're just being cautious that, again, in the second half of the year, who knows what's going to happen with the tariffs and so forth. So we've built in a more cautious outlook in our numbers.

Scott Searle
Yeah, fair enough. And two more, if I could, and then I'll get back in the queue. In terms of the product evolution, it seems like eSIM is becoming very prominent, right now. But I'm wondering

where AI feature sets kind of fit in for the customer base. I know, historically, that's sort of been on the longer-term horizon for the company's road map. I'm just kind of wondering where that factors into the product evolution and platform evolution and what customers are expecting from you? And lastly, going back to the balance sheet again, I'm wondering if you could just help us out in terms of debt coverage targets, where you guys would like to be and kind of like over what time line. Thanks.

Ron Totton
Yeah, sure. I'll take the product one and then maybe Paul can take the balance sheet one. I'm happy to, as well. Yeah, I think the eSIM growth is--the research is telling us and when we're talking to customers is telling us that between now and 2030, there'll definitely be--there'll be growth. I think also we're seeing is growth with either multi-carrier or certainly back up driving some connectivity. I think the use cases are--first, many of our customers are what I call mission-critical or fundamental to their business.

But then there's those that may be where that wasn't the case that's now, increasingly, becoming the case. And so, I think that multi-carrier or backup or different types of solutions, I think, all of those drive demand for us, which are good problems to have or opportunities to have.

In terms of AI feature sets, I mean, yeah, we're having active conversations with customers around using AI, specifically with the data that's being collected. We also have some really interesting customers that are looking at, I would say, quite drastically expanding their use case and leveraging AI, so taking that information and putting that into an AI engine and drawing out more intelligence, driving decision-making.

In some cases, even new revenue streams or more dynamic pricing in a few particular use cases that I'm thinking of. And yeah, so that's factoring into our product direction and as we kind of look ahead, also just draw your attention to us using AI tools ourselves and building up that expertise and building up that kind of culture inside the organization.

So, I see the AI, and I've been pretty cautious with using the AI in prior calls. For us, we're really kind of just focused with the customers, as I said, using the data and taking AI engines and helping them make better decisions or driving their business further. And then I'll pass the balance sheet question over to Paul.

Paul Holtz
Yeah, Scott, from a debt coverage perspective, we don't have a specific target, I think for 2025. Again, we're focused on the current business. And with the improved cash flows, we're going to see, we start to have that choice or decision. Are we going to do any type of acquisitions, or are we just going to pay down the debt? We have no plan or expectation to take on anymore. So again, it's more now that we're seeing the significant cash flow improvements, year-over-year,

it's just using depending on what's happening in the time period. But the plan would be to obviously start to pay down the debt, as quick as possible.

Ron Totton
Yeah, if I could, Scott, maybe just to add on to that one, like this maybe some prior questions around strategic options. I mean, our credit profile has changed much more for the better. And so, Paul and I will explore conversations and we also have within our agreements, based on performance, bringing down our costs. So as our profile improves, as we continue to deliver the kind of results we're talking about, naturally in those debt agreements, if we meet certain thresholds we're able to drive that price down and/or explore other options.

But yeah, I mean, the big focus for us would be paying down that debt to whatever extent we could with, of course, the free cash flow we're generating. And if more favorable credit scoring and different options become available, we'll explore those. But again, we haven't modeled those in as--maybe just to reiterate whether it's revenue or adjusted EBITDA and cash flow.
We've been somewhat conservative based on what we see today in the business and more of a run rate. There isn't a massive growth factored into that guidance we've given you.

Scott Searle
Okay, great. Thanks so much, guys.

Operator
Thank you. There are no further questions at this time. I'd like to pass the call back over to Ron for closing remarks.

Ron Totton
Thanks again for the questions, and thank you, everyone, for joining us on today's earnings call. We look forward to updating you very soon on our progress for the first quarter, 2025, and have a great evening. Thank you.

Operator
Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.