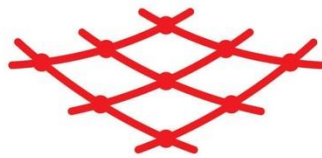


# Annual Report 2023



**SafePointe™**

*Stealth Weapons  
Detection*



**SafetySmart™**  
PLATFORM



**ResourceRouter™**

*Data-Driven  
Patrol Management*



**ShotSpotter®**

*Proven Gunshot Detection  
and Location*



**CrimeTracer™**

*#1 Search Engine  
for Investigations*



**CaseBuilder™**

*Smarter Investigative  
Case Management*

**SafetySmart™**  
PLATFORM

The SafetySmart Platform brings together specialized public safety solutions to help law enforcement, civic leadership, and security professionals better protect the communities and organizations they serve.



April 29, 2024

Dear Fellow Shareholders,

As I reflect on 2023, I am pleased to report on the many achievements and operational progress we made as a company in 2023 to drive durable and diversified growth.

We delivered on the six key priorities we established for the company at the beginning of the year:

1. Accelerate our acquisition of new public safety customers;
2. Expand ShotSpotter revenue;
3. Grow our international footprint;
4. Drive diversified revenue with the development or acquisition of new products and services;
5. Maintain a passionate focus on customer success; and
6. Expand our total addressable market ("TAM").

Our mission is to deliver quantifiable value to our customers while improving public safety and quality of life in the communities and businesses we serve.

In 2023, we successfully rebranded as SoundThinking, Inc. and introduced our SafetySmart platform, which includes a suite of complementary solutions that align with our strategic growth levers. We believe our solutions are seeing increased interest and demand from law enforcement agencies of all sizes as they respond to increased calls for service and greater transparency, even as they cope with measurable reductions-in-force due to early retirements and recruitment challenges.

Our relentless focus on product innovation and quality, combined with our passion for the customer in developing deep trusted partnerships, provide an important opportunity to make an impact on making the world a better place, and doing work that matters.



## **SoundThinking Rebrand and the SafetySmart Platform**

We believe that our SafetySmart platform is a valuable set of tools for implementing 21st century policing practices. The SafetySmart platform was launched with four category-leading solutions that are focused on elevating the law enforcement ecosystem by digitally transforming their operations in order to drive more efficient, effective and equitable public safety outcomes.

We were thrilled to also add a fifth solution to our SafetySmart platform through our acquisition of SafePointe LLC. SafePointe participates in the sizable weapons detection space using proprietary AI-based technology packaged with passive sensors that are deployed unobtrusively compared to other overt and friction-laden metal detector solutions. This category represents a new and significantly large, underpenetrated, and adjacent TAM of over \$20B globally. Our initial focus will be on four key industry verticals: gaming, healthcare, hospitality and corporate. Our strategy is to leverage several key operational synergies, including go-to-market motions, application engineering, AI/ML capabilities and field deployment and support of networked and tethered sensors at scale.

Much of our work last year around the rebranding, introduction, and subsequent expansion of the SafetySmart platform was about preparing and positioning the company to execute on an expanded growth opportunity beyond acoustic gunshot detection technology, focused primarily on the domestic local law enforcement vertical. This strategic decision was critical to access a larger public safety TAM and importantly, diversify our customer and revenue base.

Acoustic Gunshot Detection (AGD) for local law enforcement is a category/vertical that we created. We continue to be the leader and grow in this largely under-penetrated space. While our changes outside of AGD have been transformative, our commitment to positively enhancing public safety and commercial security outcomes remains steadfast.



Designed with a holistic focus on public safety in mind, our SafetySmart platform helps ensure the right resources are allocated when and where they're needed most, and that actionable intelligence can be leveraged to reduce threats.

The SafetySmart Platform includes:

- x [ShotSpotter](#), the leading acoustic gunshot detection system that alerts police to virtually all gunfire within a city's ShotSpotter coverage area within 60 seconds, with the aim of helping reduce police response times to gun incidents and save lives. ShotSpotter is now deployed in more than 170 cities representing over 1100 miles of coverage.
- x [CrimeTracer](#), the leading law enforcement search engine that enables investigators to search through more than 1 billion criminal justice records across jurisdictions to generate tactical leads and quickly make intelligent connections. CrimeTracer has over 2000 domestic agencies contributing data and over 9000 active users.
- x [CaseBuilder](#), a cloud native comprehensive case management solution for tracking, reporting, collaborating on, and clearing cases. This powerful all-in-one secure solution enables the collection and processing of investigative documents and automates workflows for police departments, district attorneys, corrections centers, and other organizations. CaseBuilder's inspiration comes from NYPD's celebrated on-premise CrimeCenter ERP solution that has over 30,000 users and has been serving NYPD since 2006.
- x [ResourceRouter](#), software that uses data-driven AI to dynamically direct the deployment of patrol or community group personnel, in order to maximize their impact. ResourceRouter is increasingly seen by customers as a key technology and foundation for the center of their patrol operations -enabling smart policing that expands the capabilities of limited personnel while improving community safety.



x SafePointe, an intelligent weapons detection solution that leverages proprietary passive sensors and AI/ML with the aim to detect weapon breaches reliably and unobtrusively. SafePointe is a disruptive technology sold on a managed service/subscription model that we believe offers a compelling ROI when compared to traditional non-intelligent metal detector solutions that often come with heavy staffing requirements.

In addition to our out-of-the-box SafetySmart platform solutions, we also maintain a separate and strategic relationship with the NYPD to provide custom software development, system maintenance, help desk support, and other professional services for their on-premise CrimeCenter ERP system. CrimeCenter has grown to include more than 20 distinct applications with over 30,000 active users and now represents an approximately \$15M per year business for the Technologic division of the company.

## 2023 Highlights and KPIs

Some selected key highlights from 2023 include:

- **Going live with over 150 miles of ShotSpotter.** This represented a 50% increase of the ~100 miles taken live in previous years 2021 and 2022. The 155 miles represented by 25 new cities as well as 16 expansion cities, two universities and one corporate customer. The expansions include Suffolk County (a recapture) and Detroit, which is now our third largest customer with 30 square miles deployed.
- **International expansion.** Importantly, we also brought on a new international customer - Montevideo, Uruguay - which we consider a gateway customer not only to new cities in Uruguay, but also to the sizable Latin American opportunity more broadly, including Brazil, Mexico and others.
- **New York City Department of Corrections (DOC) partnership.** We were thrilled to close a greater than \$13M CaseBuilder deal with NYC DOC in November, that we expect to be worth approximately \$18 million over the six years of the



contract. Our solution is foundational in helping the Department of Corrections become more efficient, transparent, and most importantly, compliant in their operations. NYC DOC represented the largest CaseBuilder deal since its introduction. This win provides critical external validation, and we believe this opens the Department of Corrections vertical nationwide (cities, counties, states) that face similar compliance challenges resulting from increased regulatory and oversight requirements. We subsequently added another three deals in the month of December for a total of 11 CaseBuilder customers on 12/31/23, representing close to 100% increase over 2022. We are very pleased with the traction in the marketplace exemplified by our growing pipeline of deals for 2024.

Our customer retention KPIs remain strong and are based on long-term, trusted relationships we have built over the years with our core buying center of public safety agency command staff. This year's Net Promoter Score (NPS) of +64 makes seven consecutive years above 50. Both the high score and the consistency over time is quite impressive and speaks to SoundThinking's company-wide commitment to delivering solutions that customers value, together with an exceptional service experience. The "return on our investment" in relationship capital has resulted in a revenue retention rate<sup>1</sup> of over 99% four years in a row and Revenue Retention Rate of 107% in 2023.

We believe we can also leverage our trusted partner status to sell beyond our leading position in the acoustic gunshot detection space to our other integrated solutions on the SafetySmart platform. Further, we believe there are solution adjacencies that we can add to the platform in the future to provide additional, ongoing value for our customers.

## **No Growth Without Struggle**

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<sup>1</sup> Please see [Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Key Business Metrics](#) in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 as filed with the SEC on April 1, 2024 for a definition of Revenue Retention Rate.



Much of the SoundThinking 2023 news cycle was populated by stories relating to the election of Brandon Johnson as Mayor of Chicago. As a candidate, he made a promise to "cancel" the ShotSpotter contract if elected. The immediate financial market impact to our stock price was overdone, in our estimation. In fact, funds were appropriated to the previously contracted extension through February 2024 and included continued funding for acoustic gunshot detection in the administration's first formal 2024 budget. Mayor Johnson then agreed to extend the contract through September with a post "two-month transition period" to keep ShotSpotter operational in Chicago through November 2024. We believe this represents tacit acknowledgement of the importance that ShotSpotter has in safeguarding the city's communities, particularly during the historically turbulent summer months and to support the Democratic National Convention that will be hosted in Chicago in August 2024. In parallel, a few but vocal anti-ShotSpotter supporters promulgated misinformed views on the efficacy of gunshot detection. These actions are in direct contrast to majority voice of Chicago residents, the newly confirmed Superintendent of Chicago Police, and we believe a majority of the city council that is organized to take unprecedented steps to keep ShotSpotter's valuable service in place for 2025 and beyond.

The upshot of this back and forth (cancel/renew/cancel) has been an unfortunate distraction to our financial and product market. We have taken the following steps in response to this situation:

1. We continue to lean in and provide the very best service and support to Chicago in fulfillment of our contractual and trusted advisor obligations.
2. We are also re-doubling our work with CPD to help them aggregate and present data that demonstrates the value of ShotSpotter alerts in terms of gunfire incident awareness, response times, and providing aid to victims.
3. The broader call to action has been to proactively engage and educate the larger set of stakeholders – elected officials, community-based leaders and influencers, along with our entire installed customer base - with specific facts and data about and the important role that our technology has in achieving their public safety objectives.





4. In order to reduce the financial market's perception of headline noise, our proforma 2025 ARR estimates assume no Chicago renewal beyond its term of November 2024. Our expectation is that we will still be able to demonstrate growth in both revenue and profitability for 2025.

## Financial Achievements

Revenue for 2023 was \$92.7 million with a gross margin of 57%. Our net loss was \$2.7 million or a loss of \$0.22 per share on a fully diluted basis, and adjusted EBITDA<sup>2</sup> came in at \$14.3 million representing a 15.4% adjusted EBITDA margin.

As of year-end 2023, our balance sheet remained strong with \$42.1 million of deferred revenue, \$5.7 million of cash and cash equivalents, and \$30.7 million of accounts receivable. This included investments of approximately \$11.4 million of cash on our SafePointe acquisition; approximately \$5.6 million of cash in share repurchases and approximately \$4.0 million in capex associated with going live on 155 miles of ShotSpotter. We had \$7.0 million of debt outstanding and approximately \$18.0 million available on a line of credit with Umpqua Bank. The board approved a \$25.0 million stock repurchase program, of which \$5.6 million was utilized as of December 31, 2023 and we expect to be in the market opportunistically repurchasing our shares at valuation levels we find attractive. Lastly, we entered 2024 with \$95.4 million of annual recurring revenue (ARR)<sup>3</sup>, up \$15.7 million from the year earlier, providing solid financial visibility into this year's 2024 revenue guidance.

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<sup>2</sup> Please see the Company's Earnings Release included as Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on February 27, 2024 for a definition of Adjusted EBITDA and a reconciliation to GAAP net income (loss).

<sup>3</sup> Please see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Key Business Metrics" in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 as filed with the SEC on April 1, 2024 for a definition of Annual Recurring Revenue.





## Go Forward Growth Strategy

Our organic growth strategy can be best summarized as the “land, expand, cross-sell and retain” model. We believe these four strategic growth levers can help drive a sustainable CAGR of revenue over the next 5+ years.

The "land" component is critical as it marks our initial engagement with new customers of our solutions. Our consultative sales approach starts with the proper diagnosis of the specific set of challenges that a municipality or corporate public security buyer is confronting. We then offer our solutions to meet those specific needs and remain intentional around integrating seamlessly into their technical and operational infrastructure. By demonstrating the measurable impact of our solutions capabilities, we establish a solid foundation for a long-term partnership, ensuring that SoundThinking becomes an indispensable component of their public safety or security initiatives and infrastructure. Jurisdictions such as Hammond, IN, Suffolk County, NY, Philadelphia Housing Authority (PHA), Pueblo, CO and others have trusted SoundThinking to be a partner in their gun violence management initiatives.

Once a new customer is successfully onboarded with our Best Practices and establishes relevant KPIs to fully utilize and show value in our solution, the "expand" strategy can present itself. This involves broadening our reach within a customer with clear justification to add new miles (ShotSpotter), new lanes (SafePointe), and new subscribers and/or use cases (CaseBuilder/CrimeTracer/ResourceRouter). Historically, over 40% of ShotSpotter customers have expanded. Expansion is an important contributor to profitable growth as the sales cycles are shorter and the investment in the customer capture (“land”) has already been made. The success with ShotSpotter existing service spurred the justification for expansions that occurred in 2023.

The "cross-sell" component of our strategy is designed to leverage our established relationships and understanding of the customer environs by introducing other capabilities on the SafetySmart platform that can solve other customer challenges. We are in the early stages of the upsell/cross-sell strategy, but it is promising - particularly



around bundled sales such as ShotSpotter + ResourceRouter and CaseBuilder + CrimeTracer. Newport News, VA, Rocky Mount, NC, Reno, NV and others have embraced this strategy and recognized the value of utilizing multiple SafetySmart products to manage the entire life cycle of gun crime. For example:

- Newport News is currently utilizing ShotSpotter, CrimeTracer, CaseBuilder and ResourceRouter;
- Rocky Mount has added CaseBuilder and ResourceRouter to their ShotSpotter service

We will seek to drive more of this sales activity as it not only enhances our system's effectiveness but also deepens our penetration within existing customer relationships and is a proof point that our solutions are essential for creating comprehensive public safety outcomes. Importantly, this strategy also increases the average revenue per customer and makes our customer relationships even stickier.

Finally, the "retain" phase focuses on maintaining high customer satisfaction and loyalty. This is achieved through exceptional ongoing support and a comprehensive set of "wrap around" services – including best practice training, community relations and forensic services. Our trusted advisor role facilitates continuous improvement based on customer feedback and evolving market needs. We invest in training law enforcement agencies and commercial security personnel to maximize the benefits of our system and ensure they are equipped to handle new challenges as they arise. We have consistently achieved high Net Promoter Score results, which have not only resulted in GAAP revenue retention rates of 99%+ but have also importantly converted customers into promoters. Those promoters are critical in contributing to new customer "land" execution while keeping our overall Customer Acquisition Cost at approximately \$0.50.

These organic sales growth levers— land, expand, cross-sell, and retain —are supported by a robust demand generation engine designed to create and nurture pipeline in the large and untapped TAM opportunities we are penetrating. For the last three years we have grown ARR approximately \$17M each year. Looking forward, we believe that as our ShotSpotter-adjacent solutions continue to tighten their product-market fit, along with successfully executing on the sizable weapons detection opportunity, we expect we can increase overall ARR add beyond \$17M in future years.



This in turn helps us achieve our long-term revenue growth expectations. Coupled with our operational leverage, we believe we can ultimately get to a long-term financial model of 70% gross margin and 40%+ adjusted EBITDA.

## **Culture and Values**

One of our most important accomplishments of 2023 was the successful succession planning and build out of the executive leadership team. This required an organizational redesign with the objective of becoming more agile while maintaining cross-functional collaboration as we scale the SafetySmart platform beyond \$100 million in revenue with existing and new buying centers. We brought on six key new members to the executive leadership team (ELT), including Erin Edwards, who leads our Sales organization; Mark Page, who leads our Project Management/Field Services and Customer Support; Larry Jackson, who leads our Customer Success and Analytics Team; Gregg Makuch, who runs our PR and demand generation organization, and Anne Mueller, who is responsible for our most critical asset, Human Capital. Lastly, Gregory Holifield was brought on through our acquisition of SafePointe and Nasim Golzadeh was promoted to the Executive Vice President level as the business unit executive leader of Technologic as well as the executive sponsor of our NYC DOC CaseBuilder project. We believe this leadership team is one of the highest caliber leadership teams in the public safety market and positions the company for long term profitable growth. Our work colleagues have had a positive response to the new organization and leadership team and are taking on several key initiatives including the Change Management Team and the Same Side Selling initiative that is being adopted companywide.

We continue to build upon a strong positive culture with an engaged, inclusive, and collaborative work force. We have been re-certified as a Great Place to Work for the 6th time since 2018. We are proud to report that 87% of our employees believe that SoundThinking is a great place to work, where people feel that they can come and be as they are to do work that matters in a mission-driven, high-purpose work environment. This is particularly impressive given the fact that we have more than 300 employees working in four separate locations with 43% having joined the company in the last year.



SoundThinkers came together in January 2024 to determine and finalize our four values – Trust, Innovation, Performance and Collaboration.

- **Trust** - employees embody trust as they act with integrity with their words and actions towards customers and colleagues and through honest and transparent communication;
- **Innovation** - demonstrated through diversity of thought, continuous learning and working outside their comfort zone;
- **Performance** - occurs when our employees work hard and work smart, as well as when they hold themselves to a higher standard; and
- **Collaboration** - which happens through teamwork reflecting diversity of thought, background and personalities as well as maintaining a customer-focus by listening and keeping an open mind.

We believe these four values accurately represent how we work together, inform our decision-making and guide us as we continue to build and grow SoundThinking.

Our core values are also embraced by our diverse and engaged board of directors who continue to provide rigorous governance practices and oversight. We are incredibly inspired by and are grateful for their support and guidance as we navigate our new growth journey.

Thank you again for all your support of our mission of making communities and public spaces safer.

Sincerely,

Ralph Clark  
President and CEO

