



ShotSpotter, Inc.

First Quarter 2021 Earnings Conference Call

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C O R P O R A T E P A R T I C I P A N T S

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Alan Stewart, *Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Richard Baldry, *ROTH Capital Partners*

William Power, *Robert W. Baird & Co.*

Michael Latimore, *Northland Capital Markets*

Matthew Pfau, *William Blair & Company*

Ryan Kimbrel, *Craig-Hallum*

Brian Ruttenbur, *Imperial Capital*

Jeffrey Kessler, *Imperial Capital*

P R E S E N T A T I O N

Operator

Good afternoon, and welcome to ShotSpotter's First Quarter 2021 Earnings Conference Call.

Joining us are ShotSpotter's CEO, Ralph Clark, and CFO, Alan Stewart.

Please note that certain information discussed on the call today will include forward-looking statements about future events and ShotSpotter's business strategy and future financial and operating performance. These forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict, and may cause the actual results to differ materially from those stated or implied by those statements.

Certain of these risks and assumptions are discussed in ShotSpotter's SEC filings, including its registration statement on Form S-1. These forward-looking statements reflect Management's beliefs, estimates and predictions as of the date of this live broadcast, May 11, 2021. ShotSpotter undertakes no obligation to revise or update any forward-looking statements to reflect events or circumstances after the date of this call.

Finally, I would like to remind everyone that this call will be recorded, and made available for replay via a link available in the Investor Relations section of the Company's website at ir.shotspotter.com.

Now I would like to turn the conference over to ShotSpotter's CEO, Ralph Clark.

Please go ahead, sir.

Ralph Clark

Thank you, and good afternoon, everyone, and thanks for joining us today.

I hope everyone out there is doing well. It certainly has been a challenging 14 months for all of us. While significant progress is being made in the fight against COVID, and it feels like things might be getting back to some form of normalcy, we recognize that is not the case everywhere. I would like to extend my well wishes to all of our families, friends, colleagues and customers that have been impacted by COVID.

As usual, I'll start with a quick overview of the quarter and our operational outlook before Alan details the quarterly results. We will then take your questions.

After a strong finish to year-end 2020, we have continued to build on our momentum with a fast start to 2021. We're very pleased with our first quarter results, which exceeded our expectations, both at the top and bottom line. We reported record revenues of \$15 million, up 44% from Q1 of 2020, and had quarterly Adjusted EBITDA of \$3.3 million, up 53% year-over-year, once again demonstrating the unique operating leverage of our business.

During the quarter, we went live in six new cities with ShotSpotter Respond, including Detroit; Memphis; Harris County, Texas; Pompano Beach, Florida; McKeesport, Pennsylvania; and Mansfield, Ohio. We also expanded our deployments in five cities, including New York City, St. Louis, Worcester, Savannah, and Wilmington, North Carolina. Mansfield and McKeesport are examples of our Tier 4 and Tier 5 go-to-market initiatives. We're very pleased with the progress in this market vertical, where our pipeline not only continues to grow but is also exhibiting shorter accelerated sales cycles.

Even with the robust go-live activity in Q1, we still entered Q2 with a solid number of new city and expansion projects in the ShotSpotter Respond deployment pipeline, that we expect to go live in the next 60 to 90 days. As travel restrictions have eased, these impending projects are keeping our project and customer success teams happily busy introducing new customers to the ShotSpotter value proposition in helping grow the positive community impact of ShotSpotter Respond deployments with existing clients that are expanding their footprint.

It is exciting to vicariously experience the difference our technology is making in helping improve public safety outcomes and improved community engagement.

Recently, Chief James Craig of Detroit PD held an impromptu press event 24 hours after going live with ShotSpotter Respond. He detailed a ShotSpotter alert with no corresponding 9-1-1 call where his officers were dispatched. After immediate response and then follow-on investigation, including a court issued search warrant based in part on the ShotSpotter alert, Detroit PD was successful in uncovering an illegal gun manufacturing site where several weapons and equipment used to make weapons were seized.

When surveying the location post incident, Detroit PD also discovered over 75 shell casings in the backyard of the subject house, indicating this home had been a neighborhood nuisance for months; again, without a single 9-1-1 call for service. It is only because of the ShotSpotter alert, which was probably the result of a test firing of a crime gun being sold, that Detroit PD was made aware of this public safety hazard.

Detroit PD's successful intervention and shutting down of the criminal operation effectively eliminated a dangerous supply source of untraceable ghost crime guns. It is quite possible those guns could be responsible for terrorizing any number of neighborhoods in, around and even beyond Detroit.

Even more affirming to our mission is when we hear about the selfless heroics involved in officers getting to a ShotSpotter alert where they find a gunshot wound victim and are able to apply life-saving trauma interventions directly or through scoop and go.

Recently in Chicago, officers Ward and Givens were responding to a ShotSpotter alert and found a 13-year-old gunshot wound victim as a result of a drive-by shooting. With no time to waste, they scooped up the critically wounded child and transported him to the University of Chicago Medical Center within minutes. Their quick thinking and fast action likely saved the victim's life and certainly earned the gratitude of the child's mother, who stated, "I'm highly grateful for you guys. Thank you. That was a wonderful job."

We are grateful as well. To be able to design and deploy technology that is making a difference and to be able to do work that matters is rewarding. God bless officers, Ward and Givens, who only recently joined the police department. Officer Ward stated she was motivated to become a police officer because she had a personal calling to help people and a desire to preserve life.

These growing positive narratives against the backdrop of increased violent crime and calls for law enforcement to address crime but to do so in a more efficient, effective and equitable fashion is inspiring law enforcement agencies, small, medium, and large, across the nation to engage with us as a proven solutions provider. With a rapidly improving municipal funding environment fueled by federal stimulus and soon to be earmarked provisions, we believe this provides us ample budgetary resources for agencies to procure and use our services and is providing a strong tailwind to our business.

The stimulus dollars going into cities from the Federal Government are having a measurable and beneficial impact on our business. In terms of new customers, we are seeing prospects that had been on the bubble evaluating shots fired decide to move forward quickly and through the sales funnel process. In another case, an existing customer who had publicly stated their intention not to renew due to financial constraints did a 180-degree pivot and not only decided to renew but also expand their ShotSpotter Respond coverage.

We are quite encouraged with our renewal retentions efforts overall, including our ability to implement cost of living adjustments, or COLA, increases on a selected number of renewals this year. We believe we will come in well below our previous estimate of 3% to 4% GAAP revenue attrition, which ultimately increases our top line revenue growth.

International, however, is still presenting some short-term challenges to us, as our key focus areas in South Africa and Latin America have not been able to turn the corner completely on mitigating the impact of the virus pandemic. We continue to appropriately invest some of our time, talent and treasure in those markets to protect the key relationships and pipeline we built to date. Our goal is to be ready to engage commercially with those opportunities when it becomes practicable.

ShotSpotter Connect, on the other hand, appears to be hitting its stride and is showing a very encouraging ramp to date within our existing ShotSpotter Respond installed base. The ShotSpotter Connect traction enables us not only to grow share of wallet within existing customer accounts but also to add value and make impact beyond acoustic gunshot detection with a robust patrol management solution. We've initiated a focused marketing campaign to build ShotSpotter Connect pipeline outside of our installed base. I expect to see some measurable booking success on that front later this year and early into next year.

I'm happy to report that the integration of our Leeds acquisition is going very well. Their senior leadership team is now able to offload much of the administrative minutia involved in being a stand-alone business by leveraging our back office infrastructure. This has freed them up to invest even more time and energy on their customer-facing professional services activities and their work with us on ShotSpotter Investigate development. We've been able to quickly form a productive collaborative working relationship rooted in our shared values that has enabled us to launch ShotSpotter Investigate ahead of schedule.

This morning, we officially announced the availability of the investigative case management solution for demonstration and sale, including new functionality and integration with ShotSpotter Respond. ShotSpotter Investigate completes the third pillar of our precision policing platform and is exactly what police departments need at this critical juncture. It extends our total addressable market and leverages our strength and entry point from our gunshot detection heritage.

As a result of our performance this quarter and forward momentum, we are raising our previous full year 2021 revenue guidance of \$58 million to \$60 million to \$60 million to \$61 million, representing 32% revenue growth from 2020 to 2021. Our guidance raise is driven by the improving demand environment for our core ShotSpotter Respond solution, including its stronger retention, increased upsell of our ShotSpotter Connect offering, and better visibility into the Q2 and early Q3 go-live cadence of both ShotSpotter Respond and ShotSpotter Connect.

Alan will review more of the puts and takes that goes into our guidance along with a deeper dive on the results, and I look forward to taking your questions once he is finished.

Alan, over to you.

Alan Stewart

Thank you, Ralph.

We're very pleased with our performance in the first quarter. As Ralph mentioned, we added six new Respond cities this quarter while only seeing attrition from one small site secure deployment. We also had five Respond city expansions, achieved record revenue and record gross profit. It is noteworthy that there has been some abatement of the budget challenges for our current customers and potential new ones as federal stimulus has brought customers back to the table in early 2021.

We are pleased with a minor Q1 attrition, which continues the trend of lower than expected seen in 2020. While encouraging ShotSpotter sales organization remains focused on generating new and expanding current programs to achieve growth targets while offsetting attrition. As Ralph mentioned, we are expecting our actual attrition will come in well below our previous estimate of 3% to 4%.

Let me provide more details on the quarter, and then I will share some thoughts around the balance of the year.

First quarter revenues were ahead of expectations at \$15 million, an impressive 44% increase over the \$10.5 million in the first quarter of 2020. Revenue increased as our deployed miles are up year-over-year, and we also recorded our first full year quarter revenue from the Leeds acquisition.

Gross profit for the first quarter of 2021 was \$8.7 million or 58% of revenue versus \$6.1 million or 58% of revenue for the prior year period. Gross margin will continue to be minorly impacted as we start replacing 3G sensors at the beginning of the second quarter. That said, we still expect gross margins to continue to improve as we proceed through 2021.

We also saw impressive growth in Adjusted EBITDA for the first quarter, which was \$3.3 million, a 53% increase from the \$2.2 million in the first quarter of 2020. As a reminder, Adjusted EBITDA is calculated

by taking our GAAP net income and adding back interest, taxes, depreciation and amortization impairment, stock-based compensation, and acquisition-related expenses.

Turning to our expenses. Our operating expenses for the first quarter were \$8.5 million, or 57% of revenue, versus \$6.1 million, or 59% of revenue, in the first quarter of 2020. Operating expense increases were primarily related to higher legal and employee-related costs as well as incremental costs related to our Leeds acquisition.

Breaking down our expenses.

Sales and marketing expense for the first quarter was \$3.9 million, or 26% of total revenues, versus \$2.5 million, or 24% of total revenue, for the prior year period. Our sales and marketing teams continue to build our sales pipeline and expand our marketing efforts. We continue to focus on maintaining high levels of customer satisfaction, which helps keep our attrition rates low. We also expect to add sales capacity for our Investigate product in Q2 to position this revenue segment for growth in 2022.

Our R&D expenses for the second quarter were \$1.7 million, or 11% of total revenue, compared to \$1.4 million, or 13% of total revenues, for the prior year period. We continue to invest in increasing the functionality of our products with a focus on cost efficiency.

G&A expenses for the quarter were \$2.9 million, or 19% of total revenue, compared to \$2.3 million, or 22% of total revenue, for the prior year period. The increase in G&A expenses in absolute dollars were primarily related to our Leeds acquisition and an increase in legal costs and cost related personnel.

Our adjusted net income for the first quarter was \$244,000, or \$0.02 per share based on 11.6 million basic and \$0.02 per share based on 11.9 million diluted weighted average shares outstanding. This compares to \$13,000, or \$0.00 per share based on 11.3 million basic and 11.7 million diluted weighted average shares outstanding for the prior year period.

Adjusted net income, a non-GAAP financial measure, is calculated by taking our GAAP net income and adding back acquisition-related expenses. When accounting for acquisition-related expenses, our GAAP net income was \$79,000, \$0.01 per share basic and diluted for the quarter.

Deferred revenue at the end of the quarter was \$25 million, versus \$24.6 million at the end of Q4 2020. We ended the quarter with \$10.9 million in cash and cash equivalents, versus \$16 million at the end of the fourth quarter. Cash is slightly lower, as we are waiting for some payments of large receivables expected to be received soon.

During Q1, we also repurchased approximately 56,000 of our shares at an average price of \$39.02, or \$2.2 million.

We have no short or long-term debt outstanding and, as previously discussed, we possess a \$20 million line of credit to improve financial flexibility.

Turning to our full year 2021 outlook. We are raising our full year guidance from \$58 million to \$60 million to \$60 million to \$61 million. Our mileage cadence is proceeding ahead of plan, and our attrition appears to be tracking well below our 3% to 4% earlier estimate. We also expect that we will remain profitable during 2021.

Now back to Ralph for some final thoughts, and then we'll be happy to take your questions.

Ralph Clark

Thank you, Alan.

Before we take your questions, I would like to express my gratitude to my ShotSpotter colleagues, our customers, and the communities they serve. You're all doing amazing work that is making our communities safer. Thank you.

We're now ready to take your questions.

Operator

Our first question is from Richard Baldry with ROTH Capital Partners.

Richard Baldry

Congrats on a great quarter.

I'm sort of curious how the sales and marketing—or what were the drivers of the sales and marketing step up? It's up about ballpark 30% sequentially, which is a lot for you guys. Was it about commissions on large deals, head counts coming in, sort of we can think about where that step-up came from?

Alan Stewart

Sure. This is Alan.

It was increase in the actual personnel versus first quarter of 2020. We have additional people in the sales and marketing, both sales and marketing side. There's also an expansion in the customer success, which a portion of that cost actually does hit sales and marketing as well.

Richard Baldry

Okay. Can you talk to me broadly about the pipeline of large deals, sort of the megacity deals? And whether this move back to an earmark world, highlighted in the release, how you think that will play into some of those, whether you think there's a potential that could be a sort of a game-changer on the funding side?

Ralph Clark

Yes. This is Ralph. I'll start. And Alan, jump in.

We're seeing a nice complement or mix of both small, medium and large cities. I always say, we shouldn't discount the medium cities because they can grow into being fairly substantial deployments of over 15 square miles. We have a number of examples of non-Tier 1 or Tier 0 cities stepping up to that level: Las Vegas, Birmingham, Washington, D.C., etc.

As I mentioned in my prepared remarks, we're seeing some very encouraging movement on Tier 4 and Tier 5. The deals are smaller, but they seem to be happening quicker, and we're building the pipeline there. We're also seeing some really interesting, I would call it, kind of geographic tipping points. I think you've heard us talk about geographic tipping points that we've seen in Ohio. We're really constructive around what we're seeing in Florida. We think there's a lot of activity in Florida that we can build on previously successful deployments there. Of course, we have our pilot program that's going very well in Houston. We think Houston could be the gateway into Texas, which would represent a very large opportunity for us.

With respect to earmarks. Earmarks are making their way back. Previously, when I joined the Company back in mid-2010 when earmarks were available, we got more than our fair share along with our

customers of kind of earmarked activity. We're really quite encouraged by earmarks coming back, because it is an additional funding streams that our customers could use to be able to deploy or expand ShotSpotter. We've got a number of plays in process now with existing customers and prospects on the earmark front. We're really encouraged by that.

Richard Baldry

Okay. Last for me. Could you talk a little bit about the sales cycle around the Connect offering now that it's been in place a little bit? It seems like you've had some early successes, some deployments to come up soon. How do you feel about your marketing processes behind that and the sales cycle itself, how it's changing, targeting the right sort of municipalities, etc.?

Ralph Clark

Yes. We're very much on a learning curve there. I won't say that we have it 100% figured out, but we've made a lot of progress over the past, I would say, nine to twelve months. As I mentioned in my prepared comments, we seem to be hitting our stride. We're really excited about the notion of kind of taking our kind of marketing engine and pointed it to potential prospects that aren't already existing customers. That's going to be really quite exciting. Again, we're seeing some really strong traction within our installed base of Respond deployments.

We think as those customers get some experience and kind of start the virtuous cycle of kind of reference selling, which has really been key to our success in Respond, that we should see that business accelerate. All good news in ShotSpotter Connect. But again, I won't say that we've got it completely dialed in. I think we can definitely still learn some things and do even better. But we're excited about the progress we've made to date.

Operator

Our next question is from Will Power with Baird.

William Power

Yes, I guess I'll try a couple of here. Ralph, it's nice to see what appears to be improving momentum with ShotSpotter Respond. I wonder if you could just update us, given the trends you're seeing, the funding environment, how you're thinking about the overall growth opportunity for Respond in just the U.S. over the next couple of years, say, two, three years? Any changes in outlook there?

Ralph Clark

Yes. I think we've become more positive. I think kind of going back nine months or so ago when we're kind of coming—just being presented with the pandemic, I think there's a lot of concern around the funding environment, which has changed dramatically of late, more positive than I think it's ever been since I've been actually with the Company, with all the federal stimulus dollars being pointed at local municipalities that are allocating some of those dollars to their police departments. That's probably stronger than it's ever been.

Then you throw earmarks on top of that. That's quite encouraging. That's kind of gone from, "Gee, we might be a little bit concerned, given the recession in the pandemic," to, "Wow, we're really positive." I think early on, too, if you go back kind of nine months or so ago with calls to defund the police and social unrest, there were some concerns around like how that could play out. I mean we're—kind of some of these organized powers, were they going to effectively freeze police departments from kind of moving forward using technology to provide better public safety outcomes.

In fact, the opposite of that has been true. I think a lot of these calls for defund the police ultimately evolve into reforming police and asking police to be more efficient, effective and equitable, really important on the equitable piece, in how they apply their law enforcement resources to coproduce public safety outcomes. That's very consistent with the message that we've been on for a number of years. We're just not kind of creating the message to respond to the time. We've always been on the notion that technology can be a very powerful tool to help police departments better serve at-risk underserved communities, particularly around gun violence. That thing has changed like 180 degrees from, say, nine months ago.

We're seeing good success again in Tier 4, Tier 5. I think our plans have probably gone as good or even better than we expected when we originally hatched the idea of focusing very specifically on smaller agencies that might have one or two square mile problem and package up something that could be relevant for them. Now we're beginning to see some of the tipping points play out there from a vertical point of view. Tier 4, Tier 5 police departments and their respective chiefs kind of tend to collaborate and talk to one another. We think as we get more traction in some of these smaller cities, that should accelerate.

Then my last point will be, again, not to underestimate the regional tipping points that are in play, because I think those in total really do represent multiple kind of Tier 1 cities. When you aggregate a bunch of medium-sized cities, say, in the State of Ohio, it can represent something fairly big and significant. Again, we're really, really encouraged by what we're seeing in Florida, more to come there.

Again, we're still in the very nascent stages of working in Texas through our Houston pilot. But the word back, and I think they publicly talked about some of the results that they are generating in Houston, very, very positive there. I think if we can break open the Texas market, there's a number of very, very interesting cities and police departments in Texas we can partner with on ShotSpotter. I'm just talking about ShotSpotter Respond, by the way, domestically.

William Power

Right. Okay. Yes, I know, it just—it feels like a more encouraging environment there.

I guess second question. Great to see Investigate launch. Any color just on where you are from a capability standpoint? I mean, is it kind of, call it, fully baked? Do you have the pieces you want? Or is there more to continue to build there? A.

And then, B, maybe just update us or remind us kind of go-to-market strategy for that now that it's available.

Ralph Clark

Yes. Alan, do you want to take that one, and I'll jump in.

Alan Stewart

Sure. Yes. No, this is Alan.

Basically, we are ahead of schedule on Investigate versus where we thought we would be at the end of last quarter. That's good news. We are looking at potentially selling it based on the number of agencies or the number of police in each agency, and the pricing will differ based on that. If you have some of those small number of police, they could get—an Investigate might be as low as \$50,000. Could be significantly higher than that, as we mentioned before, for larger cities with a greater number of police in their agency.

William Power

The overall go-to market strategy?

Ralph Clark

Yes. Overall it's been very much a direct—there's very much a direct selling effort. We've recently brought on some specific head count to have a vertical focus going specifically at the case management opportunity. In fact, that new hire just literally started in the past 30 days or so. We're being pretty intentional around.

I think from a feature point of view, we think this is a fully featured, very strong case management solution. This is something that we have a lot of experience with through our colleagues at Leeds that had a number of years supporting a case management solution at a very large Tier 1 or Tier 0 police department agency that had effectively been using a very intentional case management solution to drive better outcomes in terms of case closures. We think we have something really interesting, compelling and unique to offer this marketplace.

We're already seeing a little bit of inbound chatter just based on our early press release this morning. This is something that the market really wants, because there's not a police department that's out there that isn't under some amount of pressure to do better on closing cases because closing cases is what allows you to have victim resolution and really, frankly, kind of put these perpetrators that probably drive most of the violent crime problem or just crime problem in general, they drive most of the crime problems. The extent that you can be super focused and get to interventions that then lead to convictions is very important. We think we're on point with our case management solution version 1.0.

Operator

Our next question is from Mike Latimore with Northland Capital Markets.

Michael Latimore

Great quarter there. You mentioned the sales cycle improving a little bit. Was that kind of a broad comment across all categories here, or is it specifically like Tier 4 or 5 cities, that sort of thing?

Ralph Clark

Yes. My comments were very specifically focused on Tier 4, Tier 5. Smaller miles, smaller dollars because we're dealing with smaller miles. It's just the less bureaucracy when you're kind of dealing with smaller agencies from what it appears like. I mean, we're, again, really quite encouraged. I think the larger deals and the larger agencies, a lot more people have to be involved and nod their head yes to move forward. We find that to be less true in the Tier 4 to Tier 5 segment, which then reduces the sale cycles.

Michael Latimore

Got it. Then did you give miles added in the quarter? Or do you have that number?

Ralph Clark

No, we did not. I think it's really kind of—yes, go ahead, Alan. Sorry.

Alan Stewart

No, I'd say, no, we didn't. But obviously, we have mentioned that the acceleration of our core business is going well, and we added six new cities for the quarter. That's the first time we've done that in a long time. Yes, we're hoping that that sort of tells the story what we're seeing.

Michael Latimore

All right. Okay. Then on the case management offering, how complicated is the implementation? Is it sort of easy to do? And can you get it done in a month? Or is it a several quarter implementation?

Ralph Clark

Yes. We don't have any direct experience with that yet, but our expectation is this is going to be much more of an enterprise solution set. We'll probably need to integrate it with RMS systems and the like. It will probably be somewhat similar to what we've experienced in ShotSpotter Respond or ShotSpotter Connect, where there's definitely some work that needs to be done to kind of integrate our technology into existing systems and move forward. But it's not too heavy of a lift, we believe. We don't think that it would slow us down from being able to have successful deployments.

Operator

Our next question is from Matt Pfau with William Blair.

Matthew Pfau

Nice results. I wanted to ask about the lower churn expectation. Is this driven by the fact that you got over some renewals that you thought were potentially at risk to churn? I know you mentioned one customer that ended up renewing and expanding, that was a potential at-risk customer. Or is it more driven by just the conversations you're having with customers that are up for renewal this year have improved?

Alan Stewart

Sure. This is Alan.

Basically, there's a couple of things. I mean, as Ralph mentioned, the funding is a lot better than it was in the past, which is excellent. I mean, obviously, even in 2020, we had less than 1% of attrition. Still expected that the budget challenges might continue into '21. So far, what we're seeing is that things are working out pretty well with that. We did say that we expect it to be much lower than we had mentioned last quarter, which was less than 3% to 4%. It could be significantly less than 3% to 4% based on what we're seeing now. It is the budget as well as what our sales team is seeing in renewals.

Ralph Clark

Yes. I think if I could just maybe add a quick macro comment, too.

I think we're just finding that our solution is very compelling to customers that once they get it deployed and using it, it's really, really difficult for them to walk away from that. Kind of once they see the unseen, I mean, it's really hard, not to say that it's 100%, but I think it's a very sticky solution to be sure.

Matthew Pfau

Great. Then just last one for me. I wanted to ask if the supply chain issues and chip shortage are having any impact on your ability to source components or go through this 3G refresh?

Alan Stewart

Sure. This is Alan.

No, and it's mainly because we've been planning for this for a couple of years. We have actually worked with our supplier of sensors and all the parts that go into that for pretty much over a year now. We did order some things in advance, and it's turning out to be an excellent decision there.

Operator

Our next question is from Ryan Kimbrel with Craig-Hallum.

Ryan Kimbrel

Congrats on the momentum and a strong quarter. You touched on it in your prepared remarks, and there's obviously been some buzz around the American Rescue Plan and \$130 billion going to state and local municipalities, but do you guys have any visibility around how much of that might go to local police forces? If possible, could you quantify the benefit you think you might see from that?

Ralph Clark

Yes, this is Ralph.

That's a tough one to answer. I think where we have an interest, i.e., existing customers or prospects. We're feeling good about our customers and prospects being able to tap into those dollars to the extent it's needed because I think for many of our customers, they have existing resources that can be applied either as a new prospect or as an existing customer that wants to renew or expand.

I don't know that I'd be in a position to comment on the more macro perspective on how municipalities are using those dollars for police versus nonpolice. I do have an observation of general municipal budgets. Police departments tend to be a significant portion of any city's budget you can think of in terms of kind of 30% to 50% public safety in general, if you want to include fire in there. They tend to get a fair share of resources when they're applied because they represent fairly big portions of any city's budget.

Ryan Kimbrel

Okay. Fair enough. That helps. Then on the Leeds side of things, can you tell us some of the things you're working on, whether it be technological advancements, new capabilities or even from a sales perspective that you're doing to push the word out there and gain traction with new customers? And that's it for me.

Alan Stewart

Yes. This is Alan.

Ralph Clark

Do you want to take that Alan?

Alan Stewart

Yes, sure. In terms of Leeds, we feel pretty good with the large customer they have right now in terms of keeping those amount of services that they're providing there. Hopefully, that grows over time. Some of the things that Leeds does provide, though, is potentially available or might be good for other cities as well. One of the key things there is why we launched Investigate. The Investigate was a product that was

originally worked on by Leeds and using that, taking that case management, we believe that'd be the best way that we'll be able to expand to other cities with the new product.

Operator

Our next question is from Brian Ruttenbur with Imperial Capital.

Brian Ruttenbur

A couple of quick questions, one on funding and two on competition. In terms of federal funding coming down in the upcoming stimulus packages, what do you see as set asides? And do you see set asides for the company?

Ralph Clark

Yes. Just so I'm clear on your question, yes, when you say set asides, do you mean specific dollars allocated to acoustic gunshot detection? Is that what you mean?

Brian Ruttenbur

Well, it's not going to be that specific. But what you see maybe set asides as—I've been doing this a long time, I shouldn't have said set aside. Funding coming down from the Federal Government that will go to local and state law enforcement that you will be able to be a part of. How's that?

Alan Stewart

Yes. This is Alan.

Ralph Clark

Yes, go ahead, Alan.

Alan Stewart

I would echo what Ralph had said earlier. I mean, we do know that the dollars are getting through to some of the states and some of the cities. We're not 100% sure exactly how that is going to end up in the police departments, although based on the information that we are seeing in our existing customers and new cities, it does seem to be some of it flowing there. But again, as Ralph mentioned earlier, it's a little too early to know for sure, but so far things seem pretty positive.

Brian Ruttenbur

Okay. You don't have any dollar amounts as in \$100 million that you see flowing down that you could be part of that you could get funding from directly or indirectly? There's no numbers that you have floating around out there on that?

Ralph Clark

No, because it's all done at the city level. It's all done at the city level. The city decides how to allocate those dollars once they get it.

Brian Ruttenbur

Okay. Hopefully less of dumb question on the next one will be competition. If you could just talk about what you see, and I think has been brought up before, but with Alarm.com and others out there moving into the space, I know Alarm.com is doing things on indoor shot detection, but anything that you see out there in terms of gunshot location and the competition coming up. Anything new?

Alan Stewart

Yes. This is Alan.

Basically, going in terms of the gunshot detection, our normal Respond, we really don't see any other competition that's been significant, certainly in the outdoor side. We haven't been focused on the indoor gunshot detection for quite some time. We do expect that there might be some competition against us in the Connect or the Investigate once they're ramped up, certainly Connect. There might be some in Investigate, we'll find out more as we start sitting and actually selling the products.

Brian Ruttenbur

Where would that competition be coming from? Would that be the large guys like a Motorola? Or would that be coming from an Axon? I mean who do you see out there as up and comer or the big guys?

Ralph Clark

Yes. I think on ShotSpotter Investigate, the form of competition we would expect to see is folks that provide a record management systems that have built features, I'll call them light features, nonintentional features around investigative case management. For some clients out there, that very well could potentially address their needs around case management.

We think there's a very large market opportunity of customers that require, say, much more, I would say, kind of intentional, robust case management solution that is really feature-rich, that provides for a lot of digitization, automatization, collaboration between various investigative units and the like. Unless you've really kind of built it that way from the ground up, I think it's challenging for an existing RMS provider that's really focused on record management systems to go off and do that.

But we're kind of going into this market with our eyes wide open. Probably the biggest competitor is kind of do nothing, although we think we have some very compelling features to offer an agency to get them off of the do nothing to be able to do something that would allow them to drive much higher closure rates. We think that's just a direct ROI case that, frankly, we haven't even had in ShotSpotter Respond or acoustic gunshot detection.

It's very clear to us that if you can measurably improve closure rates from X percent to Y percent, you're going to get people's attention. We feel pretty good about what we've built. Again, we have a lot of experience through our Leeds collaboration in designing, developing and supporting a case management solution that, again, a large Tier 1, Tier 0 city police agency is using with a great deal of positive outcomes in effect. They've got one of the higher closure rates out there. It's probably in part due to the integrated case management solution that they are using built by the Leeds organization, that we're now using that same kind of process or capability for our ShotSpotter Investigate platform.

Operator

Our next question is from Jeff Kessler with Imperial Capital.

Jeffrey Kessler

I'm sorry, we're tag teaming on this one.

Ralph Clark

Jeff, I thought you're supposed to be fishing?

Jeffrey Kessler

Not yet, not yet. I got two more days.

On the question, a lot of the questions have been asked today about a lot of money slogging around out there that could potentially go to the cities. I'm just wondering, instead of maybe looking forward a little bit, looking backward and looking at some—a couple of them is that where you've lost some mileage over the last several years. Have you been—with the more money to be spent out there at the city level? And number two, with a fuller set of solutions for cities, have you been contacted by any former clients that they want to see you again or want to hear from you again?

Ralph Clark

This is Ralph.

I think we mentioned again during our prepared remarks, there was one customer that publicly stated that they were not planning to renew ShotSpotter. As a result of these funding streams coming in, they not only reversed their position and are now renewing their ShotSpotter deployment, but they're also planning to expand their ShotSpotter deployment. I think there's a case of another customer, again, not (multiple speakers) name—

Jeffrey Kessler

That's kind of why is the question. I want to know whether there's others that are out—that are maybe out there?

Ralph Clark

I think a lot of what we're feeling is kind of embedded hopefully in the way our confidence that you're hopefully hearing about how we executed the Q1, and how we're thinking about the rest of the year. I think we're fairly carefully, thoughtfully kind of bullish on what we see. I think we try to lay out the factors that are kind of supporting our thesis and supporting the idea that we raised guidance.

I mean, again, we're ahead of plan on ShotSpotter Respond. We see a number of projects that are in the near-term product—or excuse me, ShotSpotter Respond pipeline from a go-live point of view, where the timing is very attractive kind of happening in kind of, obviously, already in Q1 and then soon to be Q2 and then early Q3 that drives GAAP revenue growth. We're seeing lower attrition that we talked about. Originally, we estimated 3%. I think we've been pretty clear that our expectations is we're going to come in well below that.

We're also just seeing a very strong attach rate, if you will, to ShotSpotter Connect within our existing installed base that is looking very positive and good. We're hitting our stride there. We're talking about kind of opening up the kimono, so to speak, to go drive pipeline for ShotSpotter Connect outside of our traditional installed base of 120-or-so customers that are using ShotSpotter Respond.

We just talked about we're ahead of plan on announcing ShotSpotter Investigate, our case management solution. This is now a demonstrable and installable solution by customers. We can start the pipeline development process for ShotSpotter Investigate.

All those things together are making us feel pretty good combined with the overall funding environment. And police departments that are really rethinking how they go about the business of protecting and serving their communities, which is kind of causing them to mainly stop in their tracks a little bit and look to solution providers like ShotSpotter and others, frankly, that can help them be more successful.

Jeffrey Kessler

Okay. One final question. I know you alluded to this, but with regard to Connect and perhaps—and this probably touches the other parts of ShotSpotter as well. You have invested in analytics code writers. I'm wondering if you could open your kimono a little bit and just perhaps talk about some of the direction that these analytics are trying to take you? What type of value proposition and what types of solutions do you think you can add through the use of more code writing?

Alan Stewart

This is Alan.

Ralph Clark

This is Ralph.

Alan Stewart

Sorry, go ahead, Ralph.

Ralph Clark

No, go ahead. After you.

Alan Stewart

This is Alan.

I think we know in terms of Connect, really what we're doing there with the patrol management, the capability that we are providing for the customers there and the future customers is something that they're all looking for. I do think that there is probably some additional R&D that we could do and would continue to do to make sure that as the cities use them, they say, "Hey, could you do this, we'd like this as well." Those are things we can continue to add to the technology.

I think Investigate, we have a pretty good product. That's almost 100% ready there, but we'll see the same thing as we start selling that, too. We do have an R&D team both at Leeds and at ShotSpotter that has significant number of people that can help us build new things for the products as well.

Jeffrey Kessler

Because what I am trying to...

Ralph Clark

Yes. Because data science—this is Ralph, this is Ralph.

Jeffrey Kessler

It's a virtuous circle. You provide them with a solution, and your customers, if they like it enough, they may come back to you, and ask you for more things to do that you're going to have to, obviously—that you're going to have to derive from some more analytics. Then that could provide some more value to what you can charge.

Ralph Clark

Yes, no question. Not to comment on the charging piece, but I think data science is core to what we do. I am hoping we're not going to be waiting for customers to tell us what they want. I think we're going to hopefully be offering them based on what we see value-added solutions. I mean, data science really kind of started a lot with our machine learning capability around our ShotSpotter Respond solution, where we're applying machine learning, data science to be able to drive much more efficient classification of these pops, booms and bangs that we're converting to gunshots. If, in fact, they are gunshots, using data and data science and machine learning to do that.

Certainly, as Alan pointed out, that's really core to ShotSpotter Connect. In the future, it can be core to, frankly, ShotSpotter Investigate. It doesn't take a great deal of imagination to see once you start collecting a bunch of data and begin to see patterns and things, you can offer up recommendations about how to pursue a case based on watching a really productive investigator close cases and then be able to apply that to maybe less experienced or less productive investigators to kind of bring them up to par and make everybody a fantastic detective. Wouldn't that be awesome, and using data to be able to do that?

There's an amazing opportunity there to kind of move the ball forward there. That's why it's so exciting to be so focused on case management. It's like we don't have to be distracted with RMS, the way other folks out there are thinking about adding features to RMS that might be case management. We're all in 100% on case management. We think that can allow us to innovate going forward to not only drive a much more competitive position but, as you suggest, possibly being able to charge more down the line as we add more capabilities to the solution set.

Operator

At this time, this concludes our question-and-answer session. If your question was not taken, you may contact ShotSpotter's Investor Relations team by e-mailing ssi@gatewayir.com.

I'd now like to turn the conference back over to Mr. Clark for his closing remarks.

Ralph Clark

Great. Thank you very much.

I really appreciate everyone's questions and their support over the past several quarters. We're really quite anxious to kind of get back to work and close out what we think is going to be an outstanding year for the Company in working with police departments throughout the world, hopefully, to help them drive better public safety outcomes.

Thanks again.

Operator

This concludes today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.