SmartRent, Inc.

Second Quarter 2021 Earnings Call

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CORPORATE PARTICIPANTS

Evelyn Infurna, *Sr. Vice President Investor Relations*

Lucas Haldeman, *Chief Operating Officer*

Jonathan Wolter, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Tom White, *D.A. Davidson*

Jeffrey Wren, *Deutsche Bank*

Ben Sherlund, *Cantor Fitzgerald*

Ivy Zelman, *Zelman and Associates*

Ryan Tomasello, *KBW*

PRESENTATION

Operator

Good evening and welcome to the SmartRent, Inc. 2nd Quarter 2021 Earnings Call.

As a reminder, this conference call is being recorded.

I would now like to turn the call over to your host, Evelyn Infurna, Sr. Vice President of Investor Relations. Thank you. Evelyn, you may begin.

Evelyn Infurna

Good evening, everyone. Thank you for joining us to discuss SmartRent's results for the quarter ended June 30, 2021. Joining me on the conference call today are SmartRent's Chief Executive Officer, Lucas Haldeman, and Jon Wolter, SmartRent's Chief Financial Officer.

I would like to begin by reminding everyone that the discussion today may contain forward-looking statements including with regard to the Company's future performance and prospects. Forward-looking statements are inherently subject to risks and uncertainties that could cause actual outcomes and results to differ materially from those indicated by any such statements. We describe some of these risks and uncertainties in the sections entitled Risk Factors and the final Proxy Statement filed with the SEC on

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August 6 pursuant to Rule 424B3 in connection with our recent business combination. A copy of the final proxy statement is available on the SEC's website at sec.gov. SmartRent undertakes no obligation to update or publicly revise any forward-looking statements whether as a result of new information, future events, or otherwise.

In today's remarks, we will also refer to certain non-GAAP financial measures. Reconciliation of these non-GAAP financial measures to the most comparable measures calculated and presented in accordance with GAAP are available on the Earnings Release which can be found on the Investor Relations section of our website.

I will now turn the call over to Lucas to review our results. Lucas.

Lucas Haldeman

Thank you, Evelyn. Welcome, everyone, to SmartRent's First Earning Call as a public company. We are very excited to have completed out business combinations with Fifth Wall. Our merger, which closed just last week, provided us with approximately $450 million of cash to accelerate our growth strategy, including the pursuit of strategic acquisitions that will complement our organic growth engine and expand our reach as a category leader in the Enterprise Smart Home Solutions Industry.

Before we continue, I want to acknowledge and thank our partners, including Fifth Wall, our Directors, and our pre-existing and new shareholders for their support and capital. We are excited about our prospects and look forward to sharing our growth story with you.

Before discussing our results, I wanted to provide an overview of our Company strategy and business model. I will also be sharing some recent business developments as well as our progress on some key performance metrics. Jon Wolter, our Chief Financial Officer, will then discuss our financial results in more detail.

SmartRent was founded in 2017 in response to our experience as both technologists and frustrated real estate operators. As a former Chief Technology Officer of Colony Starwood Homes, now part of Invitation Homes, my team and I saw firsthand that there was a void of integrated technology-driven solutions that could address and solve operational challenges for real estate owners.

Our owner-operator background influenced our decision to develop and design a fully-integrated, hardware-agnostic smart home software platform. SmartRent's IOT Operating System enables property owners, operators, and developers to decrease the complexities of property management, lower costs, mitigate risks, and increase revenue, all while helping them achieve their sustainability goals.

We provide solutions that not only enhance economic value for our customers, but also elevate the resident or user experience.

SmartRent has over 211,000 residential units installed across the country, which we believe to be more than all of our Enterprise SmartHome competitors combined. We have pursued a land-and-expand strategy focused on penetrating the portfolios of the largest institutional residential property owners and managers to accelerate our scale and market share.

In fact, 15 of the 20 largest residential owners, as ranked by National Multi-Housing Council, are SmartRent customers. Further, many of our largest customers also became investors in our company after implementing our SmartHome platform.

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In addition to multi-family residential owners, our customers include some of the leading homebuilders, single-family rental owners, and IBUYers in the United States. We believe that we are the preferred partner to large institutional landlords because our comprehensive service offers to make the entire apartment community smart.

Our open architecture approach provides customized solutions that can be delivered via WiFi, cellular data, or Bluetooth as required by our customers. Our flexible approach maximizes our total addressable market since we can deploy our systems to both retrofit and new construction.

Today, retrofit comprises greater than 90% of our revenue and provides us with a shorter lead time for booking to revenue generation, as compared to new build. Our emphasis on the retrofit market is a key differentiator in the industry and mitigates revenue disruption related to macroeconomic risk factors that can impact the delivery of new builds such as dislocation in the financial markets, rising interest rates, labor shortages, and construction delays.

Our value proposition is attractive to all owner-operators, from crafting new construction to workforce housing, as our product offering helps increase revenue, reduce operating costs, and expand operating margins for our customers which, in turn, increases the value of their properties and their portfolios.

We also offer predictive tools to help avoid material damage and unplanned capital expense.

Our robust range of products and solutions can all be managed from one interface and includes smart device options for apartments and homes, access control for buildings, common areas, rental units, asset protection and monitoring, parking management, self-guided tours, and community and resident WiFi.

With a key focus on data security and strict user privacy, our systems generate actionable data that allows property owners and managers to make informed decisions and impact property performance and resident satisfaction.

In addition, our SmartHome Operating Platform enhances our customers' ability to measure, monitor, and reduce energy consumption, which has a direct and positive contribution to our customers' sustainability initiatives.

Our go-to-market strategy is another key point of differentiation. Customer connectivity and best-in-class service is crucial to our success. We have a Professional Services Team of approximately 200 employees deployed in 31 states across the country. We use a direct sales approach and deploy in-house teams to manage installations and training.

Upon completion, our installations are backed by an award-winning customer support team that is available 24 hours a day, 7 days a week, 365 days a year, to both our customers and their residents. The multitude of customer touchpoints throughout the planning and installation process and our culture of accountability ensure strong customer satisfaction. We are focused on constantly innovating and enhancing our service offering with a goal of remaining Enterprise SmartHome Technology Partner of Choice.

Adoption of our SmartHome Platform is an additive tackle investment for property owners and managers, with subscription agreements typically ranging from five to seven years. This makes our customer base sticky and provides visibility into our revenue stream. We have a growing base of predictable recurring revenue through our pipeline of committed units. Remarkably, we have not experienced any customer churn, meaning that no customer has removed an installed SmartHub, and we believe we have an opportunity to generate up to $1.8 billion in annual revenue over time from our existing customer base alone.

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The record revenue we generated in the second quarter is indicative of our current customer satisfaction and continued strong demand for our operating system from new clients. Our growing customer base, which collectively controls approximately 3.5 million units in our combined portfolios, has given us the confidence to invest in scaling our workforce. We're attracting highly-talented professionals from Apple, Google, Amazon, and Comcast. In many cases, experienced operating engineers, sales representatives, and field technicians are seeking out SmartRent as a potential employer.

We have the personnel required to deliver planned units throughout the remainder of the year and our ability to attract top talent remains critical as we continue to appropriately staff to meet our growing demand.

We recently launched several new complementary products. Among them is Alloy Access Solo, a single-door access-control solution that can be retrofitted on nearly any door or perimeter gate using WiFi or cellular connectivity.

We also launched Smart Intercom, our proprietary in-house intercom offering that can be installed on any building entry point such as lobby doors or perimeter gates. Smart Intercom provides SmartRent-enabled properties an additional layer of security and accessibility to the broader apartment community.

Earlier this year, we also deployed our complementary Alloy Parking Solution which helps keep properties safe by limiting unauthorized parking and allowing residents to readily access their designated parking spaces.

These launches demonstrate our commitment to providing relevant and timely solutions for our customers that can also encourage the adoption of more of our services.

Our go-to-market strategy of creating beachheads with larger owner/operators and leveraging their portfolios to grow our business is working well. SmartRent is fast becoming the industry standard solution.

Our organic growth from existing customers as they roll out SmartRent solutions across their portfolios and their influence and their impact is instrumental to accelerate our penetration of the next tier of landlords in residential and facilitating our penetration of other real estate asset classes like student housing or making progress in building up the team.

In the second quarter we entered into agreements with 21 new customers that collectively represent ownership of approximately 539,000 units. Year to date we've added 40 new customers bringing our total number of customers to 182.

For the second quarter, our committed units grew to over 606,000. As a reminder, we define committed units as the aggregate number of SmartHub units that are subject to binding purchase orders from customers together with the units that existing customers who are parties to a SmartRent Master Services Agreement have informed us, on a non-binding basis, that they intend to order in the future for deployment within the next two years.

Total booked units, which represent the aggregate number of Smart Homes associated with binding orders executed during the period, increased 302% over the prior year period to 38,000. Units deployed, which represents the aggregate number of Smart Homes installed including customer self-installations in the second quarter, rose 243% over last year to approximately 24,000.

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As previously communicated on our first quarter call, units deployed were down on a sequential quarter basis from 32,000 in the first quarter, reflecting previously-disclosed delays related to the supply chain bottlenecks.

While we believe we have addressed these supply chain issues, we continue to operate in a very fluid environment.

Units deployed year-to-date increased to approximately 56,000, up 126% over the same period last year. This level of deployments is in line with our expectations and we remain on track to achieve our 161,000 deployed-unit forecast for 2021.

Our aggregate number of units deployed as of June 30, 2021 was 211,425, up 119% from the prior year. With our business combination now complete, we are looking forward to accelerating our units deployed for the remainder of the year and are actively pursuing strategic acquisitions that will further enhance our comprehensive and differentiated product offering.

We're extremely excited about what lies ahead for SmartRent. We believe we are very well-positioned to create value for our customers and our shareholders in the months and years ahead.

With that, I will now turn the call over to Jon to review our financial results. Jon.

Jonathan Wolter

Thanks, Lucas. I am pleased to share our progress with you this evening, and I'm particularly pleased with our results for the second quarter.

SmartRent increased total revenue for the second quarter to $21.7 million and year-to-date $240.8 million, representing a growth of 274% and 83% respectively.

This revenue growth was driven by the increase in the volume of installations of our SmartHome hardware devices and the 159% improvement in annual recurring revenue fourth quarter.

Total deferred revenue, which reflects the growth in our business and provides visibility into our future revenue, was approximately $74.5 million at the end of the second quarter, growing from $64 million at the end of the first quarter, and by 133% from $31.9 million a year ago.

As of June 30, 2021, we expect to recognize 47% of total deferred revenue within the next 12 months, 28% of total deferred revenue between 13 and 36 months, and 24% between 37 and 60 months. Deferred revenue expected to be recognized beyond five years is immaterial.

Annual recurring revenue or ARR, which we define as the annualized value of our recurring cash revenue earned in the current quarter, was $7 million for the second quarter of 2021, up 31% on a sequential basis, and up 159% compared to the second quarter of last year.

It is important to note that our ARR does not contemplate revenue that could be attributed to committed units which represents additional upside.

Operating expenses in the quarter totalled $10.3 million, up 29% from $8 million in the prior year period, reflecting expenses related to the expansion of our sales, marketing, and R&D teams as we position the Company for continued growth.

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Additionally, and although not included in the operating expenses, we have expanded our field installation, quality assurance, and customer care teams to support our current and anticipated growth, and to execute on the conversion of our total units booked into deployed units that will generate additional recurring revenue.

The Company continues to invest core growth and has increased total head count by approximately 93% since the end of June, 2020, and by approximately 36% since the end of March, 2021.

Adjusted EBITDA was a $9.3 million loss in the second quarter, driven by previously communicated lowered deployment as a result of supply chain delays and increased operating expenses largely related to new hires to support our anticipated growth.

Net loss for the second quarter was $10.1 million as compared to a net loss of $10.4 million in the same period a year ago.

With respect to our outlook, we are seeing continued momentum in our business in the third quarter to date, and we believe we are on-track to achieve our total revenue forecast for 2021 of $119 million and approximately 161,000 units deployed.

We continue to believe that we will achieve EBITDA-positive operations by the end of 2022.

SmartRent is well-positioned to continue to expand its market position and now has the capital to further strengthen and enhance its breadth of product offerings to select, strategic acquisition opportunities. We believe we have the go-to solution for IOT as it relates to real estate and look forward to keeping you apprised of our progress as we move ahead.

We will now open the call for questions. Operator, please go ahead.

Operator

Our first question is from Tom White of D.A. Davidson. Please state your question.

Tom White

Great. Good evening. Thanks for taking my question, and congrats on your first earnings call as a public company. You guys have clearly built a strong business here that's penetrated many of the largest multifamily owners in the U.S. I think you also say in your slide that that top 20 multifamily owners accounts for just 3% of all the units in the country though. Clearly there's a lot of volume out there in the—more the middle market maybe.

Can you talk a little bit about your strategy for maximizing your share of that part of the market? Does your go-to-market need to change in any way or does the playbook need to change in any way to capture the most of that as you can? I've got one follow-up.

Lucas Haldeman

Hey, Tom. Thanks for the question. It's Lucas Haldeman. Yes. You're right that it is a fragmented multifamily landscape, and that's where I think what's really important to us is two things. One, capturing that middle market. It's the same go-to-market strategy. That doesn't need to change. But we need to expand sales and marketing. It's partially a driver of why we did this event and we're capitalized now to have the sales force and the marketing in place to capture that, we feel.

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The other side of why we started with the largest institutional owners is even though they only own a small percentage of the total pie, we find them to be very influential in the middle market, so it's also—there's some marketing there for us as well.

Tom White

Got it. That makes sense. Next, I was hoping maybe you could provide a bit of insight into the attach rates for the multiple modules that you guys offer, not so much necessarily the percentage of customers that purchase more than one module, but maybe how many modules does the typical customer buy and how is that trending? If you've got any early stats you can share on adoption on some of the newer offerings you guys have rolled out recently like parking, et cetera, that would be helpful.

Lucas Haldeman

Yes. The attach rate question's an interesting one because we do have a very robust platform. We have a lot of products live, and a lot of those, as you alluded to, like our parking solution, are relatively new so probably early days to share the specifics on that, although some color around that is we're seeing really great penetration coming in, and that a lot of the new contracts coming in, we're seeing three, four, five products being sold day one.

The other side of that that I would share with you is our early adoption customers, when we did only have our single SmartHome Solution product, every one of those customers is adding at least one additional product that we brought to market. We're seeing our existing customers, we're able to upsell them into additional products, and on the margin, new customers coming in are definitely attaching and adopting more of our product solution.

Tom White

Well, great. Appreciate the call. Thank you.

Operator

Our next question is from Jeffrey Wren (phon) of Deutsche Bank. Please state your question.

Jeffrey Wren

Hi. Thanks for taking my question, and congrats on recently becoming a public company. I wanted to better understand the operating leverage in your business. How do you think about the costs associated with customer acquisitions, installing a unit, and supporting a SmartRent unit in your current size verse maybe a year ago?

Lucas Haldeman

Yes, Matt, I—thanks for the question, Jeffrey. We definitely are seeing a pretty even state from a year ago. We're able to leverage economies of scale, so what I'd like to think about this is, the customer acquisition cost when you're dealing with a large institutional owner, it's all upfront, and then for the next two, three years, it's rolling out that platform. We benefit from not having any customer acquisition costs associated with those new units.

But that being said, we're out heavily trying to add to the total number of customers on our platform, and so that keeps it kind of even. Does that answer your question?

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Jeffrey Wren

Yes. No, that's great. As my follow-up, how do you think about the mix between hardware and hosted services over time? I would think that new units will see a heavier mix of hardware as they all—as they add new products, but existing units will begin to shift more towards subscription and hosted services.

Lucas Haldeman

Yes, I love that aspect of the deferred revenue and that is that deferred revenue is largely comprised of upfront software payments, and you can see we have that consistent slug of revenue on the balance sheet that comes in predictably into the P&L. Yes, we do see the mix of software/hardware growing over—software growing over time versus hardware. Sometimes it gets muted because we're growing so fast and the hardware is a large upfront expense. On the margin, we get the recurring revenue evenly over the five- or six-year period of the contract. But as we're growing so fast, that hardware number always stays large. It's not so much the mix of the people. We like to see both going up.

Jeffrey Wren

Great. Thank you.

Operator

Our next question is from Ben Sherlund of Cantor Fitzgerald. Please state your question.

Ben Sherlund

Hi, guys. Thanks for taking my question. I was wondering if you could talk a little bit about the seasonality we should expect of the deployed units quarter-over-quarter and throughout the year, and how you see that possibly changing with some of the supply chain issues in the first half.

Lucas Haldeman

What we're seeing with the seasonality is we actually work up-front before the period of time to make sure that we're focusing on sunbelt states in the second half of the year, particularly in the fall and winter. It is possible that if you're trying to do cold weather environments you can run into delays, and so we try to mitigate that by focusing on how and when we (inaudible). Part of the benefit of having all these existing units that we're out retrofitting is we can kind of map that out.

What was the second part of the question?

Ben Sherlund

Just how you see that trending, any supply chain issues potentially impacting normal seasonality?

Lucas Haldeman

Yes. I think we're cautiously optimistic. As we said, it is a very fluid environment. We have a good supply of our hardware and we have a good supply of a lot of third-party hardware. Some of this is—part of being hardware agnostic, it's—one of the benefits of being hardware agnostic is we can a little bit pick and choose. If one supplier's having trouble, we have other options. We're not dependent on only one solution. In a lot of cases, we can be flexible so we remain cautiously optimistic.

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Ben Sherlund

Okay, great. Maybe one follow-up, if I may. It looks like your committed units was flat sequentially, up a little bit sequentially versus strong year-over-year growth among all the business lines. Could you just add a little bit of color about what you're hearing from customers and what is driving that delta?

Lucas Haldeman

You're talking about Q1 versus Q2?

Ben Sherlund

Yes.

Lucas Haldeman

Got it. Yes. I think we're very careful with that metric so I will tell you we have a lot of customers who have told us they're planning on doing larger deployments and accelerating. We actually order hardware. We think of the committed units as a firm commitment. We've never had a unit in the committed bucket not convert to a revenue unit. I think it was not a huge growth Q1 versus Q2, but we're also coming into budget season in multi-family in Q3, so I think you'll see a lot of—I predict a lot of movement in that going forward.

Ben Sherlund

Okay, great. Thanks so much for the colour and congrats on the business combination.

Lucas Haldeman

Great, thank you. Thanks for the questions.

Operator

Our next question is from Ivy Zelman of Zelman and Associates. Please state your question.

Ivy Zelman

Thank you. Good afternoon and congrats on becoming a public entity on your own. Lucas, maybe you can just give a high-level perspective of the end markets that maybe in the next, call it, well, 24 of the plus—36 months that you can start addressing, because it's certainly clear that you're only 3%, I think, one analyst brought up, of the top 20 multifamily providers, so there's a lot of opportunities beyond that. Is it feasible that you can—so you'll just keep attacking that or you're going to go into other areas like maybe office or hospitality and maybe even single family residence?

Lucas Haldeman

Hi, Ivy. Thanks for the question. Yes, I think it's a little bit all of the above. We have an incredible opportunity just attacking institutionally-owned multifamily in the U.S. We have our owners that are current customers on 3.5 million units out of somewhere between 28 and 40 depending on whose metrics you like. We're very focused on continuing to harvest that growth. We have a machine that's great at selling into that and we see that continuing to grow.

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At the same time, we're already working with many of the largest homebuilders, many of the IBUYERs, and many of the single-family rental operators. We are already making inroads into that. As IBUY continues to gain traction, we'll be the natural beneficiary of that as well, and that as homebuilders continue to build new homes, we'll be the beneficiary of that as well.

Then this year, and we've put this in the analyst deck, there's a slide if you want some references, but we're also looking at working with an office product, we have pilots going in the office space, as well as other types of real estate. Student housing, we announced; we've set up a team to go into that vertical. We've also looked us to move into senior housing, institutional real estate, or industrial real estate as well.

Yes, we have—not only do we have a great growth trajectory in our core platform that we continue to offer, there's a lot of near-term other types of real estate that we can go after as well. If we aren't already, we will be.

Ivy Zelman

Just operationally, to follow up, are you staffed enough and do you have the infrastructure in place to do that type of expansion or will that require—should we expect a more load-up, front-loading expense as we look to get to that addressable market that you're just highlighting?

Lucas Haldeman

Good clarification. That will require additional capital invested. Part of why we haven't gone after those other verticals is we wanted to make sure we had the team and the resources and the developers, the software engineers, to build those products in the right way. There will be some upfront investment. That's why it's exciting. We're already with the builders, we're already with the IBUYERs. All those teams have already been done. Student housing is in pilot. Office is in pilot. But as we go and do senior and industrial, yes, those will be new teams that will be stood up to go after those. That's part of the uses of the capital that we've just raised.

Ivy Zelman

Got it. The last one for me. Some of the industries brought up in question. I brought this to Evelyn's attention, but for everyone that's listening, just explain what happens when you have the situation for your customers, given the fact that they're using WiFi and just generally everything is done electronically, and in a situation where you have a power outage, can you explain to us and clarify what the risk is to their tenants' experience?

Jonathan Wolter

It depends on the type of weather event. But as we go through hurricane season and other areas, we're very careful with the redundancy we're putting in place. A lot of our products run on cellular, so even if a community has WiFi, the owner has the option of putting in a cellular backup. That's always available. Then for things like access control and doors, we always make sure that there's multiple ways that don't require power to use those devices. We recommend a lock with a code or a Bluetooth chip that can be controlled locally and wouldn't need any power.

Ivy Zelman

Great. Thanks, and congrats again. Thanks.

Jonathan Wolter

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Thank you.

Operator

Our next question is from Ryan Tomasello of KBW. Please state your question.

Ryan Tomasello

Hi, everyone. Thanks for taking the questions, and again, congrats on the first quarter as a public company. I was hoping you could just put a finer point around what specifically the $450 million of SPAC proceeds are earmarked for, and in particular, how you're thinking about the RY and any piece of that that's invested in various customer acquisition channels and what you see as the most optimal routes for customer acquisition.

Lucas Haldeman

Yes. Hi, Ryan. Thanks for the question. I think the—we just touched on a little bit in Ivy's question. We are looking to stand up teams, internal teams to go after new verticals. We're planning on using capital to grow our annex sales force and additional marketing. We have a huge runway ahead of us just in multifamily, and we want to make sure we have the right team in place to capture that.

Another one that we haven't mentioned today is also looking to expand internationally and outside the U.S. The other one we haven't talked about, Ryan, that I would bring up is also becoming a strategic acquirer. We've shared our roadmap publicly when we told folks where we're planning on going, and I think now we feel like we can achieve some of that quicker by being a strategic acquirer, and so I'd look to that.

We're taking a very holistic approach to this, I think, from the beginning, from the first outside dollar we raised for this Company, we've been very careful stewards of the capital and we're going to make sure we're—that we're doing investments that are day one accretive and overall growing this, adding to the growth, and not adding to the drag.

Ryan Tomasello

Then using your comment around being a strategic acquirer, I might segue into my follow-up, which is, how is the acquisition pipeline shaping up overall, and what the M&A playbook you expect to unfold over the next few years? Are there specific areas of the TAM that you feel as most benefitting from inorganic investment and perhaps you can highlight some of the past acquisitions you've done that have been successful in deploying from capital?

Lucas Haldeman

Yes. I think where you'll see us focus is where we can bring in a different customer base than we currently have. That's an important way for the growth trajectory so we can see the new market in terms of commercial real estate or international. That could be an important way to do that. I think, also, we look at if it's a complementary product in terms of what we're selling into multifamily. We look at the customer overlap as we have a great ability to upsell both customer sets on these new products, and so I think that's an important growth metric to look at.

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Then, also, I would underscore that there's a huge cultural piece to that, and so making sure the team has a cultural fit will allow these to be less friction in the integration and able to start achieving the results sooner. Those are some of the criteria that we're looking at.

Ryan Tomasello

Thanks for taking the questions.

Lucas Haldeman

Thank you, Ryan.

Operator

There are no more questions at this time. We have reached the end of the question-and-answer session. I will now turn the call back over to Lucas Haldeman for closing remarks.

Lucas Haldeman

Thank you, all, for joining the call. Really appreciate the time and the questions, and we look forward to speaking with everyone soon in the coming weeks at some conferences which we'll share on our website and our next public call. Thank you, all, very much. Have a great day.

Operator
This concludes today's conference. Thank you for your participation and have a great day.

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