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Executives:
Lucas Haldeman - Chairman and Chief Executive Officer
Annalise Lasater – Vice President of Investor Relations.
Hiroshi Okamoto - Chief Financial Officer

Operator: Ladies and gentlemen, good afternoon. My name is Abby, and I will be your conference operator today. I would like to welcome everyone to the SmartRent, Inc. Third Quarter 2022 Earnings Call. Today's call is being recorded and all lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press the star key followed by the number one on your telephone keypad. If you would like to withdraw your question, press star one. Once again, thank you and I will now turn the conference over to Annalise Lasater, Vice President of Investor Relations. You may begin.

Annalise Lasater: Thank you, operator.

Hello, everyone, and thank you for joining us today. My name is Annalise Lasater, Vice President of Investor Relations for SmartRent. I'm joined today by Lucas Haldeman, Chairman and CEO; and Hiroshi Okamoto, Chief Financial Officer. They will be taking you through our results for the third quarter of 2022 as well as guidance for the remainder of the year.

After today's market close, we issued an earnings release and filed our 10-Q for September 30, 2022, both of which are available on the Investor Relations section of our website, smartrent.com.

Before I turn the call over to Lucas, I would like to remind everyone that the discussion today may contain forward-looking statements that involve risks and uncertainties. Various factors could cause our actual results to be materially different from any future results expressed or implied by such statements. These factors are discussed in our SEC filings, including our Annual Report on Form 10-K, Quarterly Report on Form 10-Q and Current Report on Form 8-K. We undertake no obligation to provide updates with regard to the forward-looking statements made during this call, and we recommend that all investors view these reports thoroughly before taking a financial position in SmartRent.

Also during today's call, we will refer to certain non-GAAP financial measures. A discussion of these non-GAAP financial measures, along with a reconciliation to the most directly comparable GAAP measure, is included in today's earnings release.

We'd also like to point out that we've added a third-quarter earnings deck supplemental that illustrates our results, which is available on the webcast portion of this call as well as the Investor tab on our website.

And with that, let me turn the call over to Lucas to review our results.

Lucas Haldeman: Thank you, Annalise.

Good afternoon, everyone, and thank you for joining our third-quarter earnings call. My remarks today will cover 3 primary areas: Our strong execution and results during the third quarter, our confidence that SmartRent has the right strategy to continue growing in the current macro environment, and an update on our ability to procure hardware.

Turning now to our financial highlights for the third quarter. We delivered $47.5 million in total revenue and deployed over 53,000 units with both results faring better than the guidance we communicated last quarter. The demand environment remains robust which, combined with our strategy and execution, led to our record revenue for the quarter. This top line strength in turn helped us improve our adjusted EBITDA by over $2 million compared to the prior quarter. Our business is evolving favorably toward higher margin sources of revenue, as demonstrated by our $8 million in SaaS revenue. All of our primary SaaS measures, ARR of $31.8 million and ARPU of $3.50 continue to grow, and SaaS revenue is close to 4x what it was last year, demonstrating our success in increasing price and cross-selling additional products.

I'll take a moment to highlight the significant milestone we reached as a company last month. We have now deployed over 500,000 units in apartment and single-family homes with SmartRent technologies. According to available data, that's more units deployed than all of our peers combined. This accomplishment speaks to our scalability, the power of our approach and having the right strategy in place. Our committed units pipeline remains robust, and we have reached an all-time high in committed units with over 800,000 units expected to come under the platform in the next 2 years. In addition to the high visibility pipeline, our current customers own or operate more than 6.5 million units.

Because of where SmartRent operates within the real estate ecosystem, we believe we are well positioned amidst the current macro backdrop based on several factors. We have strong relationships with the top multifamily owners and operators, and demand is stronger than ever. The high ROI our platform delivers to customers provides an ongoing incentive to roll out our technology, and our smart home platform and property operations software directly enable owners and operators to be able to centralize operations and overcome labor shortages.

I'm pleased to report that during the quarter, we saw a general easing in the supply chain constraints and an incremental improvement in our ability to procure hardware. We anticipate it will take more time for the system to fully normalize, but we are generally encouraged with what we are seeing. We now have fewer constrained product lines overall, and we have begun receiving some supply for nearly all SKUs.

I would now like to turn the call over to our CFO, Hiroshi Okamoto, who will take you through the details of our financial performance of this quarter and provide an update to our 2022 full year guidance. Hiroshi?

Hiroshi Okamoto: Thank you, Lucas. I will begin by recapping our financial results for the third quarter of 2022. Please note that unless otherwise specified, all of the third-quarter growth figures cited in my remarks today are quarter-over-quarter or sequential comparisons.

I'll now move on to the key financial highlights.

In the third quarter of 2022, we delivered another record quarter with total revenue of $47.5 million, up 12% from $42.4 million in the second quarter. Of the 3 revenue streams driving this double-digit growth, the 2 biggest, Hardware and Hosted Services grew at 28% and 8%,

respectively. Professional Services decreased 18% due to lower unit deployments during the quarter, caused by lingering supply chain constraints largely outside of our control.

As the opportunity to upsell and cross-sell ancillary products grows, the business is becoming less dependent on new unit growth alone. This is evidenced by 19% sequential growth in ARPU per shipped unit of hardware from $441 to $525.

Drilling further into Hosted Services, SaaS revenue in the quarter increased by 4% to approximately $8 million from $7.6 million in the second quarter of 2022. Average organic SaaS ARPU across all 500,000-plus deployed units increased 6.3% from $3.29 to $3.50. I'll note that this KPI will generally continue to trend upward as new higher-price deployments are added to the mix. We are also on track to achieve $10 million SaaS revenue contribution from SightPlan this year, as we expected.

Total gross margin improved incrementally from 2.3% to 2.5% in the previous quarter due to improved unit economics and further scaling of the business. This is the third consecutive quarter of improved gross margins, and we believe that the company, barring unforeseen events, will remain in the black in terms of positive gross margins going forward. In terms of our revenue streams, Hardware gross margins turned positive from negative 0.3% to 4.7%, while Hosted Services improved from 48.7% to 51.2%. As expected, Professional Services were muted versus last quarter, impacted by lower unit volumes in Q3.

Total operating expenses were essentially flat on a dollar basis, totaling $27.8 million compared to $28 million in Q2, but include a one-time asset impairment charge of $2.4 million we booked in the current quarter. However, even with the impairment as a percentage of revenue, operating expenses declined from 66% to 58.6%. This can be attributable to improved operating efficiency, gaining economies of scale, and practicing financial discipline.

Net loss for the quarter was $26 million compared to $25.6 million in the previous quarter. Adjusted EBITDA loss, however, improved by more than $2 million versus the prior quarter to $17.6 million. Adjusted EBITDA has now improved by more than $5 million compared to the first quarter of 2022, and we believe this general trajectory is sustainable, providing a sightline into a path to quarterly profitability in 2023.

We ended the quarter with approximately $128.2 million of deferred revenue on our balance sheet, up 2% from $125.4 million in the previous quarter, and we expect to recognize 49% of the deferred revenue within the next 12 months. As of September 30, 2022, the company had approximately $217.4 million of cash, no outstanding debt, and full access to a $75 million revolving line of credit. Our liquidity position provides us with sufficient capital to advance our organic growth plans, as well as support any non-organic growth initiatives we choose to pursue.

Turning to our outlook. We have been pleased with our solid execution carrying into the fourth quarter. We are narrowing our previous 2022 full-year guidance for revenues and unit deployments toward the high end of the range. Our updated guidance for revenue is $165 million to $180 million, up from $155 million to $180 million previously. We reaffirm adjusted EBITDA in the range of negative $75 million to negative $70 million, although we now believe it is more likely we will land towards the lower end of that range. Finally, our updated guidance for units deployed is 200,000 to 220,000 units, up from 190,000 to 220,000 units previously.

We are committed to reaching positive adjusted EBITDA on an intra-quarter basis next year. We believe that we do not need to sacrifice growth in order to do so. Our path to profitability and our long-term growth potential remains on track.

I will now pass the call back to Lucas for closing remarks before we open the call to questions. Lucas?

Lucas Haldeman: Thanks, Hiroshi. Our strong execution in the third quarter, including reaching the 500,000 deployed unit milestone, record revenue and double-digit adjusted EBITDA growth would not have been possible without the incredible hard work and dedication from our team. I'd also like to thank our customers for their partnership and trust, and our shareholders for their continued support.

Thanks again to everyone for joining our call today. We look forward to seeing some of you over the next several weeks as we attend investor conferences. Operator, please open the line for questions.

Operator: Thank you. I would like to remind everyone in order to ask a question, press star and the number one on your telephone keypad, and we will pause for just a moment to compile the q and a roster. And we will take our first question from Tom White with D.A. Davidson.

Thomas White: Thanks for taking my question. Two, if I could. Just one, curious if you could share an update on kind of the competitive front. Just curious whether you guys feel like there might be any kind of market share shifts going on relative to your competitors that may or may not be impacted by kind of macro pressures or inflation more than you?

And then 2, maybe Lucas, just talk a little bit just about the general resilience of your business you think, should we be entering into kind of a sustained recessionary environment? Just any color there.

Lucas Haldeman: Thanks, Tom. I think on the competitive front, not really -- we haven't really seen anything change. I think we still are enjoying being in the top position and seeing our demand continue to grow. All of the competitors out there, if you add up all the units they have deployed, is fewer than we've deployed ourselves. So I think we feel really good about where we are.

On the resiliency of the business, it's an interesting question. And as we look forward, I'm not going to say if we are or are not going to a recession, I might not opine on that. Today I will say why I think our business is resilient is that the foundation of what we're providing to owners and operators is lowering their costs and lowering the number of people they're needing to employ and manage their properties. So when you look at the theme that we're seeing, centralization or what, some owners are compounding what they're trying to do more with fewer resources. Our platform really delved into that and enables them just to actually do just that.

And then the other I'd point to is that the bulk of our business is retrofitting existing apartments, and we're not subject to some of those macro headwinds we see a slowdown in building or delays in construction that we were seeing earlier that kind of have a major impact on our business.

Operator: We'll take our next question from Erik Woodring with Morgan Stanley.

Erik Woodring: Hey guys, thanks for taking my question. Nice to see a good quarter here from you guys. Maybe my first question, Lucas, you made some pretty positive comments on demand. You called it robust. You said demand is stronger than ever. So I'm just curious if there's any way you can help frame for us, without some of the supply constraints that you've been facing, if there's a way to think about either for the quarter or for the year, how many units you could have deployed, i.e., what kind of -- how much supply is actually holding you guys back? And then I have a follow-up.

Lucas Haldeman: Yes, Erik. Thanks for the question. I mean, the only thing that's really been holding us back is supply where we've seen our labor rates go up, but we have the ability to source labor. So it's really -- it's a direct correlation to supply chain that's been affecting the entire world. And so I don't know, we've -- as I said in the call, we feel like we're seeing some easing there and positive step forward, so we're feeling good about that.

And the way that I look at it is the record backlog, the committed units is really the product demand that I look across and seeing 800,000 and a total now of over 1.3 million of deployed emitted, those numbers continue to grow.

And then we're just -- we're hearing from a lot of owners. Anecdotally, they want to be doing -- feeling more and moving forward.

Erik Woodring: Okay, that's really helpful. And then maybe to that point, again, supply chain has been a challenge. I'd love if you could maybe just double-click and talk about maybe in a little bit more detail of where it stands today. I know there were challenges on the access control side. Just any efforts you've taken to diversify, or anything that you could just help us give a little bit more confidence in terms of the supply chain improvements? Just a little more detail than you may be provided in the -- in your prepared remarks. And that's it for me.

Lucas Haldeman: Sure. A little bit more detail. I think what we're -- probably the best way to characterize it is as we have peeled out for thousands of orders and we're getting hundreds delivered. So it's not -- we're not out of the woods, but we're going in the right direction. And this time, last quarter, last time we were on this call, we were getting no supply. So I think we're feeling like it's starting to open up and the stuff come in. So not going into the sort of specific excuse. If it does remain, the same issues that we're having with supply chain or with the same SKUs. So we're still -- the semi-custom locks and the access control boards. That remains. And it's starting to ease and move the right way, and we're feeling good about it.

Erik Woodring: All right. I appreciate that. Thanks Lucas.

Operator: As a reminder, it is star one if you would like to ask a question. We will take our next question from Brian Ruttenbur with Imperial Capital.

Brian Ruttenbur: Yes. Thank you very much. Good quarter. First question is on cash burn. It looks like inventories were up. Can you talk about your cash burn in the quarter of roughly $46 million, as I do the back of the envelope? And then what your cash burn is projected to be in the fourth quarter?

Hiroshi Okamoto: Yes. Brian, this is Hiroshi. Let me just step in here. Cash burn for the quarter was about $46 million, and that is considerably higher than it was last quarter. But last quarter, we were very fortunate to have good collection. This quarter, we actually ended up with accounts receivable higher by about $20 million compared to the previous quarter, so the cash burn looks high. But kind of averaging out over the past 3 quarters, we're probably in the high $20 million.

Brian Ruttenbur: Okay. Can you talk about what you anticipate for the fourth quarter?

Hiroshi Okamoto: I think for the fourth quarter, we should be kind of at the lower part of the $3 million, and I think I just want to just emphasize that we feel very comfortable with our cash position.

Brian Ruttenbur: Great. And then as a follow-up, can you give us any kind of glimpse into 2023 directionally? Where you're looking at in terms of revenue or adjusted EBITDA, or even reaffirming your last guidance of breaking even. Anything that you can give us in terms of forward-looking?

Hiroshi Okamoto: Yes. Let me just take that. In terms of becoming intra-quarter positive in 2023, we still reaffirm that we believe that is the case. In terms of revenues and adjusted EBITDA, we're still kind of putting together our model right now. And we will provide guidance, I think, probably earlier 2023.

Operator: And we will take our next question from Ryan Tomasello with KBW. Your line is open.

Nikhil Vijay: Hi, This is Nikhil filling in for Ryan.

So our first question is, last quarter, you kind of noted countercyclical offsets at Title365 from default business and home equity. Can you say what the current mix of Title revenues are between these countercyclical products, refinance purchase and how those have performed in the quarter? I'm just like looking out to next year, any color you can provide on expected Title365 performance, and then, particularly margins where you think there's still excess capacity to take out the offset? The volume declined basically.

Lucas Haldeman: Nikhil, I think we have some audio issues. The question was quite choppy, and we couldn't understand.

Nikhil Vijay: Okay. Let me repeat. Is this better?

Lucas Haldeman: Yes.

Nikhil Vijay: Okay. So what I was asking was, last quarter, you kind of noted countercyclical offsets at Title365 from default business and home equity. Can you say what the current mix of Title revenues are between these countercyclical products, refinance purchases, and how those have performed in the quarter?

Lucas Haldeman: I'm not sure that question is aimed for us. We're not in the Title nor mortgage business.

Nikhil Vijay: I'm sorry. Just give me one second, there seems to be some sort of a mix-up. I can get back to you later on this.

Operator: We will take our next question from Brett Knoblauch with Cantor Fitzgerald. Your line is open.

Brett Knoblauch: Hi guys. Thanks for taking the question. On the SaaS revenue breakdown on the chart and presentation, kind of have a decline in revenue from acquisitions for this quarter relative to last quarter. Any color as to why that is?

Hiroshi Okamoto: Thanks, Brett. Let me just take this one. I think we could have probably clarified this, but it really has to do with kind of the classification that we made between acquisition and organic. By the beginning of this quarter, we fully integrated iQuue, and we consider that as part of our SmartRent organic revenue. Whereas in the previous quarter, we had -- it was particularly the acquisition.

So if you divide it up, the acquisition looks like it's reduced in total, it has increased by 4%.

Brett Knoblauch: Got it. So I guess for the planning -- the SightPlan revenues this quarter increased sequentially versus last quarter?

Hiroshi Okamoto: It's out even, it's pretty much as we expected, but pretty even quarter-to-quarter.

Brett Knoblauch: And then maybe on sight plan going into next year, how do you kind of expect it to add $10 million into this year? How should we expect that to develop in 2023? Should we still expect growth from that, kind of flat quarter-over-quarter growth that's something that we should expect going forward from that business?

Lucas Haldeman: Yes, Brett, let me give you a little color. I think maybe just an overall SightPlan, I don't know if I kind of give you a sense of what we are thinking about it.

I think we consider that fully integrated in terms of the teams are there. And we're just starting to really arm our entire sales force, the ability to sell the entire products. And so I think we feel good about it will continue to contribute revenue and continue to grow. Not making any guidance for 2023 earnings call, but overall, feeling very good about the acquisition and where we're headed.

Brett Knoblauch: Perfect. Understood. Thanks guys. Thanks

Operator: We'll take our next question from Jason Weaver with Compass Point LLC. Your line is open

Jason Weaver: Congrats on the quarter. It's great to see some of these issues that have flagged this year to be abating a bit.

I just wanted to touch on the Professional Services business. If Hardware availability weren't an issue today, where would you think -- how should I think about the sort of breakeven gross profitability point for Professional Services in terms of unit deployments, where that -- what that might look like? And what would you say your sort of maximum capacity for that unit to deploy per quarter looks like today?

Lucas Haldeman: Yes Jason, thanks for the question. I think certainly in Professional Services, as we've talked about in prior calls, we have a fixed cost. We have a large installation team as part of a benchmark of our white glove implementation, and it is subjected to some fluctuations in gross profit based on the number of installs that we complete. And so that's different why it's down, more negative than what was the previous quarter.

And so I think we haven't struck that as somewhat theoretical, but we think the max order with this current team is around 75,000. And as we continue to see the supply chain ease, we'll continue to grow that team member to increase in this capacity. Did that answer the question?

Jason Weaver: Yes, that's actually helpful.

Operator: We'll take our next question from Ryan Tomasello with KBW. Your line is open.

Nikhil Vijay: This is Nikhil. Sorry, apologies about the mix up, too many earnings today. Yes.

So coming back to our question. Do you expect the addition of a new access control panel supplier to alter hardware margins at all, or should we think of that as net neutral? And kind of more broadly based on the visibility you have today, can you say how much of an improvement you think is achievable in gross margins for Hardware and Professional Services next year?

Lucas Haldeman: All right. Yes, that one I can answer. Thank you Nikhil.

I think it would be net control in terms of additional supplies or additional panels. There's not a huge turn in cost between the components. It's really what we're fighting is the availability, and so that's part of the question.

In terms of where margins are going to be, you're going to continue to see them expand and improve in Hardware and also in Professional Services. But I think it was good to get the Hardware back into the positive gross margin territory this quarter. And I think you see Professional Services will take more to get to that point. Again, as we start to try to increase the number of units we do in a quarter, we'll actually have to increase the cost to bring on as we get some training up to speed.

So there's a couple of different headwinds on the Professional Services margin going forward, but I think you'll see both will continue to improve as well as the Hosted Services margin.

Nikhil Vijay: Got it. And just as a follow-up, can you also provide an update on SightPlan's run rate revenues and growth profile?

Lucas Haldeman: Yes, I can reiterate the question that I think Jason or Brett had. Yes, we're incredibly excited about how we've integrated SightPlan and where we're going that product set. I mentioned in the first question is all that the entire multifamily industry, there's a major trend around podding and centralization. What podding is where we could have 2 or 3 properties by one set of employees, so you wouldn't have a property manager at each property. So eventually at each property, you'll be able to have labor efficiencies by utilizing near properties. And really, without SightPlan or SmartRent, you can't do either of those things. And though the complementary nature of the products is just incredible, and we're seeing a lot of positive response with the owners that are rolling out the products.

Nikhil Vijay: Got it. Thank you.

Operator: And ladies and gentlemen, this concludes our question-and-answer session today. I will now turn the call back to Mr. Lucas Haldeman for closing remarks.

Lucas Haldeman: Thanks, everyone, for joining, and I look forward to seeing some of you in the coming weeks at various investor conferences. And thank you all for tuning in, and talk to you soon.

Operator: Ladies and gentlemen, this concludes today's conference call, and we thank you for your participation. You may now disconnect.