

03 - 05 - 2024

# SmartRent.com, Inc.

Fourth Quarter and Full-Year 2023 Financial Results

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## **CORPORATE SPEAKERS:**

**Brian Ruttenbur**

*SmartRent.com, Inc.; Senior Vice President of Investor Relations*

**Lucas Haldeman**

*SmartRent.com, Inc.; Chairman and Chief Executive Officer*

**Daryl Stemm**

*SmartRent.com, Inc.; Chief Financial Officer*

## **PARTICIPANTS:**

**Soham Bhonsle**

*BTIG; Analyst*

**Ryan Tomasello**

*KBW; Analyst*

**Thomas White**

*D.A. Davidson & Company; Analyst*

**Brett Knoblauch**

*Cantor Fitzgerald; Analyst*

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## **PRESENTATION:**

Operator^ Good morning. (Operator Instructions) At this time, I would like to welcome everyone to the SmartRent Fourth Quarter and Full Year 2023 Financial Results Conference Call.

Today's conference is being recorded. (Operator Instructions)

At this time, I would like to turn the conference over to Brian Ruttenbur, Senior Vice President of Investor Relations.

Please go ahead.

Brian Ruttenbur^ Hello. And thank you for joining us today.

My name is Brian Ruttenbur, Senior Vice President of Investor Relations for SmartRent. I'm joined today by Lucas Haldeman, Chairman and CEO; and Daryl Stemm, Chief Financial Officer. They will be taking you through our results for the fourth quarter and full year 2023 as well as discussing guidance for 2024.

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Before today's market open, we issued an earnings release and filed our 10-K for the year ended December 31, 2023, both of which are available on our Investor Relations section of our website, smartrent.com.

Before I turn the call over to Lucas, I would like to remind everyone that our discussion today may contain forward-looking statements, including statements relating to our business strategy and our performance, future financial results and guidance.

These forward-looking statements are subject to risks and uncertainties that 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.

These statements are based on our current assumptions and beliefs.

And we assume no obligation to update them except as required by law.

We recommend that all investors review these reports thoroughly before taking a financial position in SmartRent.

Also during today's call, we refer to certain non-GAAP financial measures and other financial and operating metrics. Reconciliations of non-GAAP measures to the most directly comparable GAAP measure and further information related to guidance, definitions and metrics are included in today's earnings release. We'd also like to highlight that a fourth quarter and full year earnings presentation is available on our Investor Relations section of our website.

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

Lucas Haldeman^ Good morning. And thank you for joining our call.

This past year has been a pivotal one for SmartRent as we continue our positive momentum as the leading provider of smart communities and smart operation solutions to the rental housing industry. We grew total revenue by 41% in 2023 compared to 2022 and SaaS revenue has a compounded growth rate of 75% since 2020. SmartRent's purpose-built technologies are used by 15 of the top 20 largest rental housing operators.

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And at year-end, we had nearly 600 customers collectively managing over 7 million rental units. With more than 44 million managed rental units in the U.S., we believe the greenfield opportunity continues to be immense. Our team has spent years developing the most comprehensive platform, and the result is that SmartRent now offers the largest breadth of integrated hardware and SaaS solutions in the marketplace.

Two years ago, we announced our intent to become adjusted EBITDA profitable by the end of 2023. Since then, we have steadily improved quarterly operating results, consistent revenue growth, expanding margins and tight control of operating expenses. As a result of these efforts, I am pleased to share that in the fourth quarter, we reported adjusted EBITDA profitability. The achievement of this notable financial goal marks a new inflection point in SmartRent's history. Adjusted EBITDA profitability was accomplished through deliberate strategic actions shaping how we operate and by focusing on our three sustainable competitive advantages, namely purpose-built hardware, open API software and robust end-to-end implementation and support.

In previous quarters, we've highlighted these unique differentiators that set us apart, but we'd like to provide more detail about how and why they work together to create a holistic unrivaled solution that is deeply embedded in the customer's property management infrastructure. First, hardware. Both the open hardware we design under the Alloy Smart Home brand and the third-party hardware we integrate with, are essential to powering our platform and for delivering on the value propositions that are meaningful for customers. Our offerings seamlessly integrate with customers' existing property management systems and we intentionally design hardware to augment third-party offerings. Our agnostic approach ensures we are able to provide remarkable and repeatable experiences for clients, while continuing to lead the way in innovation.

Hardware is core to our business strategy and will remain an essential component of ongoing operations.

For example, the recently launched Alloy SmartHome Hub+ is a significant upgrade over previous hubs, combining a thermostat and a hub into one device, which requires less hardware to install and maintain. In the residential communities where Hub+ has been deployed, customers are seeing higher levels of connectivity due to Hub+ being hardwired into individual units. This creates a better experience for rental operators to maintain community and in-home

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functionality of smart devices, a smarter living experience for residents and a more efficient implementation process.

Additionally, the newest Alloy SmartHome Leak Sensors were designed to have a longer 5- to 7-year battery life. Most customers request sensors to monitor potential leaks, thus significantly lowering maintenance and repair expenses at their properties. If you are a commercial operator managing tens of thousands of rental units, the maintenance logistics are replacing batteries annually can quickly become a drag on NOI. Longer battery life results in fewer work orders and hundreds of saved on sending on-site team members into apartment homes to replace batteries.

As with other technology companies that build their own hardware, SmartRent designed hardware is fundamental to operations and enables us to integrate with third-party products. Manufacturing SmartRent-owned hardware also gives us the opportunity to control cost, maintain rigorous quality standards and benefit from increased margins.

Next, software. Our open platform not only powers Alloy SmartHome Hardware, but also integrates with third-party hardware and customers' property management software. In short, the agnostic nature of our software is a core competitive advantage. A common challenge in rental housing is at fatigue with operators having to drive multiple applications to support their operations. SmartRent addresses this by offering interconnectedness with our single app platform, thereby reducing complexity and simplifying operations.

Dedication to streamlining and increasing efficiency for our customers and their residents is a key reason we have historically experienced low churn in our IoT business. For reference, net revenue retention in 2023 was 105%. SMRT software is designed to simplify the rental experience for both operators and residents. Our platform's capabilities have evolved since our inception, and today, we manage both workflow operations and resident experiences within a single app. For example, residents are able to report maintenance issues and submit work orders automatically.

Finally, end-to-end implementation and support.

By managing the entire implementation process from initial site surveys to expert implementation and support, we enable customers and the residents to achieve maximum benefits. The typical implementation process requires customers to have multiple points of

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contact with limited oversight. We eliminate this and are the single phone call clients make, we have excelled in taking on complex projects in the rental industry with more than 90% of our implementations in retrofit units. We should also note that customers are encouraged to upgrade their installed hubs and other SmartHome technology devices every five to seven years as part of their planning process.

Internally, we continue to improve logistics processes and are increasingly shipping new hardware to existing customers to upgrade new hubs and replace end-of-life devices, focusing on client satisfaction and educating them on how best to use their new solutions is key to creating outstanding experiences and smart operations that are sustainable in the long term.

In addition to competitive advantages, our commitment to expense control and reduction while optimizing operations, has established a solid financial foundation, upon which we will aim to continue to build in 2024. We ended the year with a strong balance sheet of \$216 million in cash, no debt and an undrawn credit facility of \$75 million.

During the second half of 2023, we added \$18 million of cash to our balance. Our strong balance sheet, coupled with achieving adjusted EBITDA profitability while sustaining a high growth rate, gives us the opportunity to invest in our company to maximize shareholder value.

To deliver sustainable growth, while aiming to expand profit margins in 2024 and onward, we intend to make a significant investment to further build out our capabilities to deliver community WiFi at scale by adding new team members and technology. We estimate the total addressable market for multifamily community WiFi and IoT solutions on existing professionally managed properties in the U.S. could produce annual recurring revenue of \$9 billion to \$16 billion. We believe investing in community WiFi now will enable us to deliver higher shareholder value while also capturing a sizable market share.

Today, we also announced a \$50 million stock repurchase program. Our Board and management team are constantly evaluating how to generate enhanced returns for our cash and believe that there is no better investment than in SmartRent.

In short, we remain extremely optimistic about prospects for growth in the coming years.

I will now turn the call over to Daryl to discuss the specifics of the 2023 results and the outlook for 2024.

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Daryl Stemm^ Thank you, Lucas. In March 2022, we stated on our earnings call the plan to become adjusted EBITDA profitable by the end of 2023. Since then, we have incrementally improved quarterly operating results by delivering revenue growth, expanded margins and tightly controlling operating expenses.

Q4 marked another quarter of continued strong execution. And as Lucas pointed out, we achieved adjusted EBITDA profitability. Total revenue for the quarter was \$60.3 million, up 4% from Q3 and up 49% from Q4 of last year. This was the second highest quarter of revenue in the company's history following Q1 of 2023. Revenue for calendar year 2023 totaled \$237 million, up 41% from \$168 million for 2022.

By revenue stream, hardware revenue was \$36.5 million, professional services was \$6.7 million and hosted services was \$17.1 million for Q4 of 2023. ARR increased to \$46.2 million in Q4 from \$43.3 million in Q3 and \$32.3 million in Q4 of 2022. This was an increase of 7% sequentially and a 43% increase year-over-year that primarily resulted from increasing total units deployed to 720,000 and our expanded product line.

SaaS ARPU was \$5.50 in Q4, a 7% increase year-over-year. As an integrated hardware and software company, the composition of revenue continues to evolve as our expanded product line is increasingly adopted. Hardware ARPU continues on an upward path and increased 28% sequentially in Q4 from Q3 to \$730 per unit shipped. We believe the significant increase is sustainable in the long run as it includes the shipment of hardware attributable to six WiFi projects. However, we caution that we may experience short-term fluctuations in hardware ARPU until WiFi deployments contribute more consistently to revenue.

For calendar year 2023, hardware ARPU increased 39% and professional services ARPU increased 32% year-over-year. Unit ship totaled 50,000 in Q4 and total units deployed increased to 720,000 with 37,000 units being deployed in the fourth quarter.

Historically, units shipped and units deployed have tracked relatively closely. There are three primary reasons for the divergence we saw between units shipped and units deployed in 2023. First, single-family rental customers tend to purchase hardware in a nonlinear manner, stocking up inventory and then deploying the units over a longer period of time. Second, certain customers buy hardware in advance of deployment to beat price increases. And third, as Lucas previously stated, some customers have commenced upgrade cycles.

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Hubs that are shipped to these customers are not counted as new units deployed as these hubs do not represent a net increase to the installed customer base. In other words, units deployed represent active units that are contributing to recurring SaaS revenue. In Q4, we shipped approximately 29,000 hubs for upgrades. We've deployed more than 700,000 units over the last five years and believe that our shipment of units for upgrades will comprise a higher proportion of future business.

Bookings for the quarter were approximately \$40 million, and there were approximately 42,000 new units booked, down 20% and 10%, respectively, from the previous quarter. The reduction in bookings is primarily attributable to two factors. First, we're working through backlog and believe that those customers will commence purchasing again when their backlog is exhausted. Second, we are seeing some deferrals as certain customers are planning to purchase IoT concurrently with community WiFi. We remain encouraged by bookings ARR being above \$5 million for the second quarter in a row and bookings ARR ARPU exceeding \$8 for the third consecutive quarter.

Since SaaS ARPU was \$5.50 for the fourth quarter, we can expect SaaS ARPU to continue to increase as we deploy these booked units.

Additionally, we experienced net revenue retention for 2023 of 105%. These metrics demonstrate, however, to cross-sell and upsell our suite of products are starting to flow through to the P&L, which we expect to drive our path to the expansion of SaaS revenue and ultimately, greater shareholder value.

We're pleased with the level of interest that rental operators are expressing in connection with our community WiFi. But we expect the WiFi projects will have both longer sales cycles and longer project implementation timelines. As I mentioned earlier, in the fourth quarter, we shipped hardware for six new WiFi projects that we believe will be completed in the first half of 2024.

Operational improvements continued to drive gross margin expansion for hardware and hosted services. For the fourth quarter, total gross profit was \$17 million compared to \$13.5 million last quarter and \$3.9 million a year ago. Hardware margin increased to 27%, up from 23% last quarter and 15% a year ago and contributed \$9.8 million of gross profit. Efficiencies in manufacturing, logistics and distribution continue to drive expanded margins and hardware.

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Posted services contributed \$11.4 million of gross profit and hosted services margin increased to 67%, up from 64% last quarter and 60% a year ago.

SaaS margins, a part of hosted services improved to 76%, an increase from 71% a year ago.

For the calendar year 2023, total gross profit increased to \$49.5 million from \$1.3 million in 2022 and total gross margin improved to 21% from 1%. Professional services gross margin increased in Q4 as a direct result of the investment in technology initiatives over the past several quarters that have allowed our teams to be more efficient with installations and transform professional services to a more variable cost model. We reduced losses in professional services by \$1 million versus the third quarter and reduced losses by nearly \$3 million compared to the same period a year ago. As we evolve the professional services model, we believe that we will have continued improvement throughout 2024 and anticipate reaching breakeven on a professional services margin basis by the end of 2024.

As a reminder, in the first quarter of 2022, we had an adjusted EBITDA loss of \$23.1 million. Adjusted EBITDA for the quarter was a positive \$743,000, an improvement from a loss of \$5 million in Q3 and a loss of \$14.1 million a year ago. Total operating expenses were \$22.8 million, a decrease of 3% from \$23.5 million in Q3 and a decrease of 13% from \$26.2 million a year ago. Put another way, we've reduced total operating expenses from 63% of revenue in Q1 of 2022 to 38% of revenue in the fourth quarter of 2023.

We provide important information related to business operations in the form of periodic SEC filings, earnings releases, these earnings calls and investor presentations on our website. For example, we've added new disclosures for net revenue retention, revenue by solution and a forward-looking table disclosing estimated revenue from amortization of nondistinct hub revenue. We anticipate that financial disclosures will continue to evolve as our business evolves, but we remain committed to providing the right key performance indicators that allow you to assess company performance. In this regard, I'd like to encourage listeners to review the fluctuation analysis included in the MD&A section of our Form 10-K. Each of the three revenue streams, hardware, professional services and hosted services include both rate and volume data.

Also note that because of the divergence between new unit deployment and revenue growth, we do not believe that our historically disclosed committed unit metric will continue to be an effective indicator of performance as it's not contractually binding. Thus, we have not included it in this quarter's disclosures and do not plan to disclose it in future periods.

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During calendar year 2023, our total cash balance decreased just \$2 million from approximately \$218 million at the end of 2022. On a sequential basis, our cash balance increased to \$216 million from approximately \$211 million at the end of Q3. The increase in cash this quarter is not a result of the ADI arrangement, but is primarily due to improved inventory management and better demand forecasting to reduce inventory levels as we gradually transition to ADI over the next year.

Our strong cash and balance sheet position allow us to deploy cash prudently to generate highly attractive returns for shareholders while maintaining sufficient liquidity for ample financial flexibility.

Today we announced the stock buyback program that allows us to repurchase as much as \$50 million of common stock.

Additionally, as Lucas mentioned, we are investing to enhance community WiFi and accelerate our ability to realize significant untapped opportunities from existing and potential new customers. Because of the strong customer demand we're seeing for community WiFi in which we are addressing with our planned investment, growth and profitability may be affected in the first half of this year.

Additionally, because of the synergies between community WiFi and core IoT products, we've decided with several clients to defer planned first quarter IoT implementations until the installation of IoT can be completed alongside community WiFi deployments. These decisions move the deployment of more than 10,000 units from the first quarter into later quarters this year.

While community WiFi sales cycles and deployments are significantly longer than our traditional offerings, we are confident that growth and profitability will rebound in the second half of the year. We will continue to closely monitor demand for community WiFi and carefully evaluate necessary investments to expand our offering and enhance long-term growth.

Accordingly, guidance for Q1 and full year 2024 are as follows: Q1 guidance for revenue of \$47 million to \$53 million and adjusted EBITDA of a loss of \$1 million to positive \$250,000. Full year 2024 guidance for revenue is \$260 million to \$290 million and adjusted EBITDA profit of \$5 million to \$8 million.

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I'll now pass the call back to Lucas for closing remarks.

Lucas Haldeman^ Thank you, Daryl. The fourth quarter marked the achievement of adjusted EBITDA profitability for the first time in the company's history through a combination of our team's hard work and dedication and leveraging our three unique differentiators.

From 2020 to the end of 2023, SMRT's competitive positioning has strengthened as evidenced by the growth in the metrics we report. We've increased total revenue from \$53 million to \$237 million, a 46% compounded annual growth rate. ARR grew from \$5 million to \$46 million over the same time, a 75% CAGR. SaaS ARPU grew from \$2.94 in Q4 2020 to \$5.50 in Q4 2023. We grew total units deployed from 155,000 in 2020 with less than 150 customers to 720,000 with nearly 600 customers at the end of 2023.

In addition to our investment in community WiFi and \$50 million stock repurchase program, in 2024, we will remain focused on assessing additional opportunities to add enhanced value for prospects and existing clients, improved gross margins and expense control and optimize ongoing operations. We believe SmartRent will continue to lead the rental housing industry as our SmartHome solutions not only address the needs of customers, but anticipate where the industry is headed. Our market leading position has been built on our first-mover advantage, scale and customer trust and will continue to be strengthened by innovative products and customer focus. We look forward to all that's on the horizon this year and beyond.

Thank you for participating on the quarterly -- call. We would now like to open the call for your questions.

Operator^ (Operator Instructions) We'll go first just Soham Bhonsle at BTIG.

Soham Bhonsle^ Hope you're doing well. So I guess the first one, I wanted to understand a little bit sort of what's embedded in the guidance range here. So it looks like you're guiding to a 20% decline in revenue in the first quarter sort of breakeven profitability. But then your full year revenue and EBITDA guide would suggest sort of a steep ramp here past the first quarter. So if you could maybe just provide some detail on the cadence of revenue and EBITDA and how you expect that to play out over the next few quarters?

And just what gives you confidence in sort of hitting the full year guide, that would be great.

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Daryl Stemm^ Thank you. Good question. This is Daryl. And I'd say there are two primary reasons that give us confidence in the back half of the year, one being our confidence in the WiFi demand. As we've pointed out, to have a relatively -- these projects have a relatively long life sales cycle as well as implementation timeline.

One of the issues, if you will, that we're faced with on these projects is getting the fiber to the community, and there's often a couple of month delay between the signing of the contract when we can even begin the project. So that would be a confidence builder number one. Confidence builder number two is the upgrade cycle that we're beginning to experience. We shipped about 29,000 hubs in Q4 that were related to upgrades and we believe that in the second half of the year, we should have at least 50,000 upgrade hubs available for shipment and deployment. Those would be the two primary drivers for increased revenue and profitability on the back half of the year.

Soham Bhonsle^ Okay. I guess on the WiFi piece, is there any way to sort of -- you noted that there's some deferral going on, but there's also perhaps some CapEx or spend going on. Is there any way to size what the guidance would have been if you didn't push for WiFi at this point?

Daryl Stemm^ Well, we do know, as we stated just a moment ago that we've moved about a little over 10,000 units out of Q1 into later quarters of the year. So that would be the approximate point.

Lucas Haldeman^ Yes. So, this is Lucas. I'll just add a little bit to that, that I think we're expecting some more of that in Q2. And while it's not ideal to have units move out of Q1 and Q2 really, if you look at the strength of the business, this is an incredibly positive thing that we're seeing. If we can take kind of a broader view of it, which is our hypothesis was that we would have a good time selling WiFi to customers who are also interested in IoT because we'd be able to do one construction project versus two.

And if you think about an occupied unit and disruption of residents and construction going on around you, not fun to have that happen.

And so while these are -- these projects are moving out of Q1 and Q2, I think it's really a net positive showing the momentum we're getting around our ability to sell and deploy WiFi and be really the only company that can do both an IoT and WiFi implementation at the same time.

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Daryl Stemm^ I think one other comment with regards to WiFi is that we did call out that we shipped hardware in Q4 for six new WiFi projects that we expect to be fully completed by the end of the first half of this year. But in Q4, I'll give you one more data point. We've also booked a new Wi-Fi project should be, we believe, the beginning of a good real strong relationship with a customer for the back half of the year on both WiFi and IoT projects.

Soham Bhonsle^ Okay. Understood. And then just last one, I wanted to ask you about the SaaS ARPU in your booking disclosure this quarter. So it looks like it was up to \$12, almost \$12, which is almost 3x last year. So was that just something specific to the cohort that came in this quarter? Or is that something more sustainable? How should we think about that?

Daryl Stemm^ Yes. I think that the -- good question. I think there's a bit of an aberration caused by the mix of bookings that we had during the quarter. I believe that the last two quarters, which have been in the \$8 to \$9 range are more indicative of what to expect going forward.

Operator^ We'll move to our next question from Ryan Tomasello at KBW.

Ryan Tomasello^ Daryl, I think investors would appreciate if you could provide some color on the breakdown of the revenue guide, particularly what you're modeling process revenue growth this year versus the more lumpier hardware and implementation revenue. 4Q SaaS revenue growth was running at over 40%. Is that a reasonable sustainable pace through 2024? And just curious, why not guide to that metric, given I assume that there is actually more visibility on that front than modeling the lumpier hardware and implementation revenue?

Daryl Stemm^ Well, good question. Two points. Number one, the -- certainly, the existing part of our recurring revenue is imminently predictable. And -- but the actual cadence related to further deployment do cause some predictability issues with regards to software revenue. So it's not quite as easy as you might suspect.

But I will give you one piece of guidance around software revenue, and that's that we do anticipate that it would be higher than the overall revenue growth rate.

Ryan Tomasello^ Okay. And then a follow-up on the ARPU metrics. Can you help us understand what assumptions you're baking into the guidance across the different revenue buckets,

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hardware, professional services, SaaS? And on SaaS ARPU, in particular, the [550] ARPU this quarter has been, I'd say, relatively stagnant in the last two quarters despite the acceleration in the bookings metrics. Some of that a function of the revenue mix and the nuances with the site plan revenue that's flowing through there.

Just trying to understand why the SaaS ARPU component should be growing materially faster than what we're seeing. And again, just a breakdown of maybe some of your assumptions on broader ARPU metrics in the guidance.

Daryl Stemm^ Okay. Thanks, Ryan. So with regards to the growth of ARPU I would say that until WiFi becomes a significant contributor, what I would expect to see is incremental growth like we've experienced over the course of the last year. It's tough to move that ARPU number too rapidly because the base that, that number is built off of are the already installed 720,000 units. So as we add 40,000 new units a quarter, and we're adding them at \$8, \$9 per unit, it's going to just have an incremental impact on ARPU in future periods.

The real needle mover and why one of the reasons why we're so excited about WiFi is the economics of WiFi to us could basically have a 2x impact on the recurring revenue. We're talking about, give or take, \$15 a unit per device deployed unit for WiFi.

Operator^ We'll go next to Tom White at D. A. Davidson & Company.

Thomas White^ Two, if I could, please. I guess, first on Professional Services and specifically kind of the cost structure and margin profile in that part of the organization. I guess, first of all, how close are you guys to kind of fully rightsizing kind of the fixed cost base there? And then how should we think about maybe any lingering overhang from kind of some of the older contracts you guys have talked about in the past, I think maybe have some volume-based price concessions? And then I just had a follow-up on WiFi.

Lucas Haldeman^ Tom, it's Lucas. I'll go first on this one and then let Daryl add some color. So the lingering overhang it's a good question. We still have some of that we're working through in Q1 and Q2, but we've largely worked through the bulk. So we're definitely winding that down through the first half of the year.

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And then on the Professional Services cost margin, I think we feel really about where we have that coming into Q1. And as Daryl said in the prepared remarks, we'll see that continue to trend the right way through 2024.

Daryl Stemm^ I also want to add one -- other point, Tom, if you don't mind, which is we actually -- some of our newer solutions like access control and the WiFi projects that we've completed to date actually have been completed at modest profit. So as those other solutions become more prominent portion of our total revenue, those will help as well as the additional investments in technologies and efficiencies that we've been incorporating.

Thomas White^ Okay. Great. Just one on WiFi, if I could. You've had, I think, some large REITs trialing issues. I was just hoping you could share kind of your updated or latest thinking about kind of how you think the timeframe between kind of a trial and presuming it goes well sort of full deployment might look like over the coming years?

And then this dynamic where folks are kind of deferring some of the IoT implementations to wait for WiFi. Curious whether that's a dynamic you can, I don't know, sort of addressed over time. Like is there any way to sort of divorce those two things? Or it's just given the fact that it's kind of breaking ground and it's a big construction project, that's always going to be something to contend with as you roll out WiFi

Lucas Haldeman^ Yes. Good question, Tom. I think it's something we could break apart, but we actually believe it's the right way to do these implementations. So we actually are in agreement with our customers and sort of aligned to say, the right way to do this is to do it all at once.

And I think the only downside to that is that it slows down the IoT deployments. But I think if you look across what we're seeing in the marketplace that our [land] and expand we used to really lead with IoT, it's almost morphing to where we're leading with WiFi. It's sort of becoming the new beachhead and that's sort of the fundamental product that we're leading with. And then we're able to draft behind that IoT at access control at other products as you're seeing from sort of the SaaS ARPU jump that we had, we're successful at sort of cross-selling on those.

But really, we've talked about this now three quarters a row, like WiFi is definitely very important to where we're going. And that's why we announced the investment that we're making in it. That's why we're -- we remain excited about the back half of the year, as Daryl commented on. The only thing is that it's slow to get going.

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And so I answer the first part of your question, most customers will run a pilot for 60 to 90 days before deciding on the next projects. Once those pilots are completed and we start rolling out, it's a similar cadence to IoT, where it can take 3, 4, five years to go from sort of not having anything in your portfolio to having portfolio-wide deployment. So that's sort of the timing.

Does that answer the question, Tom?

Thomas White^ Yes. That was great. Appreciate it.

Operator^ We'll take our next question from Brett Knoblauch at Cantor Fitzgerald.

Brett Knoblauch^ Maybe if you could just give me some idea of where the number of new units deployed you expected for this year. I know there's some seasonality and some are getting pushed back. But as we think of the full year, I guess, what should we be expecting relative to what you did in 2023?

Daryl Stemm^ Yes. Brett, we're not giving any guidance on units deployed because of the divergence between revenue and units. We would invite you to please focus on revenue growth as opposed to unit growth. We grew revenue by 41% in 2023 relative to 2022 and our units deployed -- new units deployed in the course of 2023 was lower than the new units deployed in 2022. But in spite of that, we were able to grow our revenue by 41%. We expect that divergence to continue and -- which is why we've discontinued unit guidance.

Lucas Haldeman^ I'd just add to that, Brett, that I think we're still seeing strong demand for the IoT in that product, and we're continuing to make traction with our partners on that. So I think we're not giving a number, we're not guiding to it, but I'm happy with the demand we're seeing in the marketplace for those products.

Brett Knoblauch^ Got it. And then just from the units shipped versus deployed, I guess, relationship. Should we expect maybe a similar performance in '24 as you did in '23 in terms of, I guess, the number of units shipped outpacing the number of units fully?

Daryl Stemm^ Yes. I would expect to see that. As I mentioned earlier, our expectation is that we should have at least 50,000 hub [ph] (inaudible) ready that we ship and deploy in 2024.

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Brett Knoblauch^ Got it. And then I guess on the recurring revenue duration, I think it was [2.6] years last or at the end of last year and a decline of [1.6.] I guess any insight into why the big decline in that duration?

Lucas Haldeman^ Well that's actually -- that's something we've been working through. And then it goes, Brett, to making sure we're not locking in pricing for too long. So that's actually an intentional metric that we're trying to work into line to give ourselves the flexibility to not be locked in on SaaS and hardware pricing.

Brett Knoblauch^ Got it. And then maybe just one quick follow-up on the NRR number, which thanks for giving that, I think it's very helpful. I guess any sense to where that metric has been? And where do you see that going over the long term, given it is a new metric you guys are disclosing?

Daryl Stemm^ No. We've just started to track that in the course of the last year, but it's based on a cohort of -- think of it as same-store metric, and it's based on the number of units from December of 2022.

Lucas Haldeman^ And I'd just add, I think our expectation is we'll continue to see that grow, knowing sort of what we're continuing to cross-sell and upsell and where we're reselling additional products to existing customers, you'll see that same-store number kind of grow.

Operator^ We'll take a follow-up from Soham Bhonsle at BTIG.

Soham Bhonsle^ Just one quick one, just around this sort of gap between shipped and deployed. I just want to understand. So especially if you are having a decent chunk of upgrades this year, I think, Daryl, you said that it should produce a shipped unit, but not a deployed unit. Is that number -- is that right? Because in my view, if it's a new unit and then if you're using a professional services person to actually deploy it, then that should come through that line as well.

So if you could just clarify how that actually flows through the P&L, that would be really helpful of the upgrade units, please.

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Daryl Stemm^ Yes. So there -- you're correct in your assessment of where it's going to impact the P&L, it's going to be hardware revenue. And depending on how it's installed, it might also involve professional services.

I can foresee some instances where the customer may choose to install it themselves perhaps on turn of the resident unit. So viewing it this way, not adding it to the deployed units, total deployed units, we're able to give you a metric in the total deployed unit that really is representative of if we were a B2C business, the number of subscribers that we have. The total deployed units really represent the number of units that are contributing to our recurring revenue. And I think that's a really important metric for you.

Operator^ And at this time, there are no further questions.

I would like to turn the conference over to Lucas Haldeman for closing remarks.

Lucas Haldeman^ Thank you, [Audra]. And thank you all for joining in for our Q4 call.

And we look forward to talking to you soon and seeing some of you in person. Thanks a lot.

Operator^ And this concludes today's conference call. Thank you for your participation. You may now disconnect.