05 - 08 - 2024

SmartRent, Inc.

First Quarter 2024

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CORPORATE SPEAKERS:

Kristen Lee
SmartRent, Inc.; General Counsel, Corporate Secretary
Lucas Haldeman
SmartRent, Inc.; Chairman, Chief Executive Officer & Founder
Daryl Stemm
SmartRent, Inc.; Chief Financial Officer

PARTICIPANTS:

Erik Woodring
Morgan Stanley; Analyst
Ryan Tomasello
KBW; Analyst
Tom White
DA Davidson & Co.; Analyst

PRESENTATION:

Operator^ Ladies and gentlemen, thank you for standing by. We'd like to welcome you to today's conference. This is the SmartRent Q1 2024 Conference Call. (Operator Instructions)

I would like to start our call and turn our call over to Kristen Lee, General Counsel for SmartRent.

Kristen, you may begin.

Kristen Lee^ Hello. And thank you for joining us today.

My name is Kristen Lee, General Counsel for SmartRent.

I'm joined today by Lucas Haldeman, Chairman and CEO; and Daryl Stemm, CFO, who will be taking you through our financial results as well as discussing guidance.

Before the market opened today we issued our earnings release and filed our 10-Q with the SEC, 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 certain 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 and quarterly reports on Form 10-Q.

We undertake no obligation to provide updates regarding forward-looking statements made during this call and we recommend that all investors review 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 the reconciliation to the most directly comparable GAAP measure is included in today's earnings release.

We would also like to highlight that our first quarter earnings presentation is available on the Investor Relations section of our website.

And with that, I will turn the call over to Lucas.

Lucas Haldeman^ Good morning. Thank you to everyone for joining us today.

This morning we reported revenue of $50.5 million for the quarter with nearly $12 million coming from SaaS recurring revenue products.

Our SaaS business improved by 32% year over year, driven by a combination of increased total deployed units as well as continued gains in our cross selling strategy.

We reported positive adjusted EBITDA of almost $400,000, beating our guidance and marking our second consecutive quarter of positive adjusted EBITDA.

Additionally, we ended the quarter with almost 750,000 deployed units, a 24% increase from the previous year.

We continue to see increasing demand in the market for Community WiFi. And as we previously announced, we are taking advantage of our strong financial position by investing in projects aimed at significantly expanding our Community WiFi offerings.

This initiative involves onboarding new talent as well as developing advanced technologies, aligning with our vision to dominate the early-stage multifamily community WiFi market.

As we look to the future, our strategy remains steadfast in scaling our solutions to meet the growing demands of the rental housing industry. This scalability is facilitated by our deep

understanding of our clients' needs, as demonstrated by the launch of a new software feature in the quarter that allows self-guided tour customers to take advantage of key functionality and answer automation, making it easier for residents to tour properties and saving significant time for leasing teams.

We prioritize innovations and SaaS that encourage deeper adoption of our solutions and facilitate cross-selling amongst our portfolio of offerings. Beyond our innovative software features a key differentiator for SmartRent and a critical purchasing factor for clients is our commitment to creating true integrations with leading property management systems.

Integrations are essential for our customers because they ensure smooth data flow between their existing systems and the SmartRent platform, driving automation and saving time.

We offer an extensive array of integrations and similar to new products we have a roadmap of integrations, we plan to add and enhanced to better serve our customers.

Our approach to deeply integrating with leading rental housing platforms, reduces vendor fatigue, automates processes and delights residents, ultimately leading to increased adoption of our solutions.

As we progress through 2024, our strategic vision remains sharply defined and our approach resilient.

We are not merely participants in the market, but at its forefront, spearheading innovation and consistently delivering substantial value.

Now I will pass the discussion to Daryl, who will provide detailed insights into our financial performance and share our outlook.

Daryl Stemm^ Thank you, Lucas. The first quarter marked another period of significant progress for SmartRent.

We continue to demonstrate strong SaaS revenue growth expansion in our gross margins and sustained adjusted EBITDA profitability amidst the complex dynamics of the markets we serve.

Total revenue for the quarter reached $50.5 million, which reflected a strategic realignment from last year's record Q1 with revenue streams diversifying further into more sustainable recurring sources.

By revenue stream, hardware revenue was $29.1 million, professional services was $3.5 million and hosted services was $18 million for Q1 of 2024.

Hardware and professional services revenue were both down year over year. The decrease in hardware revenue was almost equally attributable to a decrease in hardware ARPU, primarily

driven by the change in our product mix, which was more heavily weighted to our Alloy SmartHome hardware and a decrease in the number of units shipped.

The decrease in professional services revenue was primarily attributable to a decrease in new units deployed.

SaaS ARR increased to $47.6 million in Q1 from $36 million in Q1 of 2023, an increase of 32% year over year. Primary drivers of SaaS growth were a 24% increase in total units deployed and upselling and cross-selling our comprehensive platform solutions.

SaaS ARPU was $5.41 in Q1, a 4% increase year over year.

During the first quarter of 2024, we increased our total deployments to nearly 750,000 units with about 30,000 new units deployed.

Shipments for the quarter were just under 52,000 units.

Additionally, our Smart Operations solution is servicing roughly 1.3 million units. Bookings for the quarter were approximately $38.8 million including more than 46,000 new units booked.

Bookings ARR was $4 million, and units booked ARPU was $7.16 per unit, leading us to believe SaaS ARPU will continue to increase.

In the first quarter of 2024, gross margin increased to 38.5% from 14% in the same quarter of the previous year. This substantial improvement can be attributed to a favorable change in our product mix, which was more heavily weighted to our Alloy SmartHome hardware.

Gross profit increased by over $10 million in Q1 to $19.4 million from $9.1 million in the same period of 2023. Hardware gross profit more than doubled to $10.4 million from $4.8 million as product mix drove expanded margins. Within our SaaS business, gross margin improved to 75.1% from 73.4% a year ago. Hosted services gross profit increased to $12 million from $9.2 million last year and continues to be our most profitable revenue stream.

Professional services gross loss narrowed to $3 million from $4.9 million in the same quarter of the previous year. Total operating expenses were $29.6 million in the first quarter of 2024, increasing from $24.4 million in Q1 of 2023. The 2024 results included a onetime accrual of $5.3 million, resulting from an ongoing contractual dispute with a supplier as disclosed in our filings, $5 million of which is attributable to our expected return of inventory, which we believe is not satisfactory for our customer needs, and a cash payment of approximately $300,000.

Excluding this accrual, our operating expenses were similar to last year's first quarter.

Improved gross margins and continued cost controls helped us achieve positive adjusted EBITDA for the second consecutive quarter and an improvement from a loss of $8.5 million in Q1 2023.

At the end of Q1 2024, our total cash balance was $205 million, a reduction of $11 million from the prior quarter. The decrease in cash this quarter was primarily due to the repurchasing of approximately $4.4 million in stock and the payment of annual cash bonuses to our employees.

Our guidance for the second quarter and full year 2024 are as follows. Q2 guidance for revenue in the range of $49 million to $55 million and adjusted EBITDA in the range of negative $500,000 to positive $500,000.

Full year 2024 guidance is unchanged with revenue in the range of $260 million to $290 million and adjusted EBITDA in the range of $5 million to $8 million.

Our financial strategy is designed to secure a durable and resilient future for SmartRent, ensuring stable long-term earnings to create shareholder value.

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

Lucas Haldeman^ Thank you, Daryl.

Before we turn the call over to questions, I want to provide some color on the macro trends we are seeing in the rental housing industry.

Factors such as persistently higher interest rates, slowing rent growth and increasing supply are creating headwinds for many of our customers. Customers are taking markedly different approaches to navigate the landscape.

On the one side, we see a group of customers who are seizing the opportunity to accelerate their investments and leveraging our technology to gain a competitive edge in challenging times.

Conversely, we are also seeing a segment of our customer base, taking a more cautious stance, cutting back on investments and focusing on cash preservation.

For those customers focused on cost savings, SmartRent is uniquely positioned to provide asset protection solutions to safeguard against potential water damage and lower insurance premiums.

In addition, our self-guided tour platform has allowed our customers to significantly reduce the number of on-site employees.

One customer publicly stated they reduced leasing staff by more than 40%. Another client who is investing is Centerspace, who recently piloted 10 communities with our Smart Apartment

solutions including smart locks, thermostats, leak sensors and our resident mobile app, all powered by the SmartRent manager platform.

The pilot yielded such positive results that Centerspace is implementing our solutions in 38 additional communities in its next phase, and they have shared with investors they expect to generate an additional $3 million or more in cash flow due to rent premiums and savings on water leaks.

Centerspace is just one example of why SmartRent stands out as a leader shaping the future of the rental housing industry.

Our unique position stems from being the only provider to deliver purpose-built hardware software and end to end implementation and support. These competitive advantages are deeply embedded into the experience of our customers offering the most comprehensive solution that is unmatched in the market.

As we look to the second half of 2024, our outlook is reinforced by the durable, scalable nature of our offerings and our proven track record as a trusted provider to the top names in real estate. This positions us exceptionally well to capture significant market share and sustain our growth.

Before we conclude, I want to extend my deepest thanks to our dedicated team at SmartRent, your creativity and commitment are pivotal in driving our success and continuing to innovate solutions that create connected communities our customers are proud to manage.

Thank you to everyone for joining today's call.

We'll now open the line and take your questions.

QUESTION & ANSWER:

Operator^ (Operator Instructions)

Our first question for today comes from the line of Erik Woodring with Morgan Stanley.

Erik Woodring^ Great. Thank you, so much for taking my questions this morning.

Maybe Lucas -- I just wanted to touch on those last kind of macro comments that you made. Realize that your solutions can provide long-term cost savings.

Obviously the Centerspace example, is a clear example of that.

But if an operator is focused on the bottom line today I guess I would think that there would be risk to them pulling forward spend and making investments in your solutions even if that long term, IRR pans out.

So can you maybe just dig into that comment a bit and help us understand kind of what gives you the confidence that some of these operators will put aside, maybe these near-term investment concerns and focus more on the long-term IRR even in the environment that you described today? And then I have a follow-up, please.

Lucas Haldeman^ You're right, Erik, thanks for the question.

I think that you kind of illustrate the dichotomy that we're seeing. And so there's sort of that push and pull. Just to note, I want to make clear though, is it's not so much they are preserving cash as these expenses come out of CapEx. And so they're going to spend the dollars on something.

It's just a matter of they're spending the minimum amount of CapEx dollars they need to spend, as opposed to in some years when rents are growing fast and we're having good times, we'll see them pull forward and put more towards investments. And now just making sure we get our portion of that, that CapEx that they're that they're spending it on.

But it is definitely a tougher environment, especially around new customers and bringing on new logos, a lot of and that's why we brought up the Centerspace, they've been in pilot, they understand the value, they see the value, all of our customers who we've been rolling out are kind of falling in that boat. They're continuing to roll out, but definitely the challenging macro-environment.

Erik Woodring^ Okay. That's helpful. And then my second question was, there is a clear positive relationship between units deployed, professional services revenue and professional services gross margin.

In past quarters, you've talked about PS gross margins kind of breaking even by the end of 2024.

I realize that journey might not be completely linear, but I guess if that's kind of the North Star that we're looking for, would imply a fairly material step up in units deployed PS revenue through the year.

Just making sure you're kind of that's the right way to be thinking about these kind of three different line items as we look towards the end of the year and using that kind of professional services gross margin comment as the Northstar, so to speak? Thanks, so much.

Daryl Stemm^ Yes, hi, Erik. This is Daryl, and you hit the nail on the head with that one. The Northstar is that we expect to breakeven on a margin basis on the professional services stream by the end of this year.

We have made over the course of the past year and we continue to make further changes to our standard operating procedures, making a better use of technology to reduce the fixed level of our expenses.

And part of the dynamic that occurred during Q1 was that more of the deployments were done by the customers themselves as opposed to what we often refer to as full deployment.

So the revenue number came down a little bit, but I think the key thing is to focus on the Northstar and we've continued to reduce the fixed costs.

So we feel like we're on track to achieve breakeven by the end of the year.

Operator^ Our next question for today comes from the line of Ryan Tomasello with KBW.

Ryan Tomasello^ Hi, everyone. Thanks, for taking the questions.

I wanted to hone in on some of the SaaS metrics you reported.

If you can just provide some clarification on why SaaS revenue growth slowed pretty materially on a sequential basis, if there was anything to call out there from a churn perspective or just mix?

And also what drove the sequential decline in SaaS ARPU? And then as a follow-up on that, in terms of the guidance, I hate to sound like a broken record, but have you considered providing more explicit guidance for SaaS revenue.

I think many investors would agree that is one of the most, if not the most important driver for the stock and the color you provided there previously I think is that SaaS revenue would grow in excess of consolidated revenue growth, which is helpful.

But certainly a bit vague.

So and any additional guidepost there would be appreciated. Thanks.

Daryl Stemm^ Well I do want to reiterate that we do expect that SaaS revenue will continue to grow faster at a faster rate than total revenue. With regards to some of the specific metrics for the quarter, oftentimes, if you compare sequentially, you can see a little bit of an aberration and it has to do with the timing of the deployments.

So we have a quarter that has heavier deployments on the back half of the quarter. You're going to see maybe just one full month of SaaS, but incremental SaaS revenue as opposed to a quarter where the deployments are a little more heavily weighted on the first half of the quarter.

So certainly some of that happening. Q1, January has typically been a relatively slow month for us coming out of the holiday season.

Lucas Haldeman^ I guess the only color I'd add to that, Ryan, this is Lucas.

We're definitely looking at how we can enhance the guidance we're giving on SaaS.

We're trying to internally that's been a lot of discussion, so we hear the feedback and we're taking that into consideration.

Ryan Tomasello^ Okay. That's helpful. And then second question here, just on on WiFi, any update you can provide on the initial projects they were shipped, I think in the fourth quarter. Are those installations going according to plan and any early indications of demand from those customers intention to sign additional projects or the pipeline of new logos that are showing interest in WiFi and how you expect that to ramp through the balance of the year and into 2025? Thanks.

Lucas Haldeman^ Yes. I'll answer that one, Ryan.

So I think we are continuing to see robust demand for WiFi throughout the entire multifamily rental housing segment, it's actually an area where we're seeing more interest with new customers than IoT today. And I think part of that goes to sort of the question that Erik was asked about the macro. There's actually a quicker payback on WiFi in terms of IRR basis. And so we're seeing CapEx dollars being tilted that way which we think is a great thing and update on the projects, all the projects that were shipped in the Q4 have been either started or are nearing completion. And yes, we're continuing to have robust demand.

Operator^ (Operator Instructions)

Our next question for today comes from the line of Tom White with DA Davidson.

Tom White^ Great. Thanks for taking my question.

I guess on the guidance, so no change to the consolidated revenue outlook for the year.

So maybe you could just provide a bit more color on maybe some of the different scenarios that might result in you guys kind of only getting to the low end of that versus the high end, like if it's a WiFi, maybe it gets delayed for some reason.

Can you get to the low end kind of just mostly on the core business

And then just to follow up on the core IoT business and then just as a follow up.

I think last quarter you talked about some customers kind of deferring some IoT implementation until the WiFi stuff happens.

Can you help maybe quantify the number of units of IoT units that are kind of tied or attached to a WiFi project? Thanks.

Daryl Stemm^ Yes, hi, Tom. This is Daryl. And the two primary factors that are going to impact the back half of the year, we -- actually let me take a step back.

We talked on our previous call about some of the tailwind items that we're expecting to positively impact the second half of the year like the upgrade hardware, upgrade cycle and some SaaS renewals, as well as the expanding WiFi market.

I think the two primary factors, though that are going to impact where we land in the range will be that macro conditions, the macro headwind, conditions that Lucas referred to, as well as how fast WiFi expands.

Operator^ Tom, thanks for your question. Any follow-up from your side.

Tom White^ Maybe just a little color on, maybe trying to get a sense of how many IoT and implementations are tied to the WiFi deployments happening? You touched on that last quarter?

Lucas Haldeman^ Yes, Tom, we are seeing that continue but not at the rate we saw in the first quarter.

So I think we're actually working through a number of those pilots right now and feel like next quarter, we can give a more granular update on exactly how that's progressing.

But it's definitely -- it's still the case of, if an owner is interested in doing IoT and WiFi, they definitely want to do them together. And so we will see that continue to be a little bit of a headwind on the IoT.

But ultimately, the total revenue is so much greater, we think it's a good trade-off.

Operator^ (Operator Instructions)

Our next question for today comes from the line of Ryan Tomasello with KBW.

Ryan Tomasello^ Thanks, for taking the follow-ups. Just on a hardware gross margins came in very strong in the quarter, I think around 35% off of memory here.

Is that a sustainable run rate going forward? And if you can just give us some handholding on how we should be modeling gross margins for the balance of the year and into 2025, given the changing mix of the in-house hardware that you're deploying today?

Daryl Stemm^ Yes, part of -- the change you're seeing is the increase in the number of Hub-plus-Devices, that we're shifting Q1.

So Hub-plus as a quick reminder is a combination of both our traditional hub and also includes now a thermostat, which means that we have one third party device fewer that we're selling.

So there's a significant margin difference between when we're shipping hardware that is third party versus the Alloy SmartHome brand. And the Hub-plus went from about 10% of the total shipments in Q4 to about 30% in Q1.

We do expect that that percentage will increase over the course of the year.

So from that standpoint alone, we expect that it's a sustainable gross margin improvement.

However as WiFi business picks up, you can expect that they have a muted impact on the hardware margins.

Ryan Tomasello^ Okay. That's helpful color. Thanks, Daryl. And then just another follow-up here.

In terms of the outlook going back to the puts and takes around the high and low end of the guidance, are there any meaningful customer concentrations driving expected new unit deployments for the year that again could maybe swing in our results for the year or towards the high or low end of the range?

Lucas Haldeman^ No, Ryan, there's no real customer concentration there that would affect the higher or low end of the range.

We have a pretty wide diverse base that we're rolling out with right now.

Operator^ Our next question for today comes from the line of Erik Woodring with Morgan Stanley.

Erik Woodring^ Great. Thanks so much, guys. Just one last clarification question for me.

I'm just trying to think about the relationship between units booked and units deployed.

I guess in the last two years or I guess maybe this is nine quarters, you've booked over just over 500,000 units.

During that same time, you've only deployed a little over 400,000 units.

Can you just help me understand the mismatch where that 100,000 kind of missing units -- where that effectively went, just how to explain that mismatch. That would be helpful for me. Thank you so much.

Lucas Haldeman^ Yes, Erik, let me give you a little color on it. Not really a mismatch in my mind, it's just that when we talk about units being delayed and units being pushed out, that's that bucket that those fall into.

So we've always got a tranche of units that are signed that are going to be deployed, but are not currently scheduled for deployment are scheduled in the period farther out like we have some of the 100,000, we know is going to be Q2 and Q3 of next year even. And so it's just a matter of all of those units will be deployed.

We just don't know the exact time on both.

Erik Woodring^ Got it.

Daryl Stemm^ Yes, as Lucas, mentioned earlier, some macro impact and in some cases, not only is it a delay in the customer booking the order to begin with, but in some cases and this is what he was just referring to. The booking has already occurred, but the actual deployment is being deferred.

Operator^ Thank you, for your question. And gentlemen. I'll turn it back over to you for any closing comments.

Lucas Haldeman^ Thanks, [Aaron]. Thanks everyone, for joining our Q1 call.

And look forward to speaking with you all very soon.

Have a great day.

Operator^ Thank you.

Have a great day everybody.

Take care.