

11-06-2024

SmartRent.com, Inc.(3Q 2024 Earnings)

SmartRent 3Q 2024 Earnings

SmartRent.com, Inc.(3Q 2024 Earnings)

SmartRent 3Q 2024 Earnings

CORPORATE SPEAKERS:

Kristen Lee

SmartRent.com, Inc.; Chief Legal Officer

John Dorman

SmartRent.com, Inc.; Chairman of the Board

Daryl Stemm

SmartRent.com, Inc.; Chief Financial Officer

CORPORATE SPEAKERS:

Ryan Tomasello

KBW; Analyst

Matt Hedberg

D.A. Davidson & Co.; Analyst

Erik Woodring

Morgan Stanley; Analyst

SmartRent.com, Inc.(3Q 2024 Earnings)

SmartRent 3Q 2024 Earnings

PRESENTATION:

Operator^ Thank you for standing by.

(Operator Instructions) At this time, I would like to welcome everyone to the SmartRent Q3 2024 Earnings Call.

(Operator Instructions) I would now like to turn the conference over to Kristen Lee.

You may begin.

Kristen Lee^ Hello. Thank you for joining us today. My name is Kristen Lee, Chief Legal Officer for SmartRent.

I'm joined today by Daryl Stemm, CFO and Interim Principal Executive Officer; and John Dorman, Chairman of the Board.

Before the market open today we issued an 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 John, 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 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 the reconciliation to the most directly comparable GAAP measure, is included in today's earnings release.

SmartRent.com, Inc.(3Q 2024 Earnings)

SmartRent 3Q 2024 Earnings

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

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

John Dorman^ Good morning. Thank you, all for joining us today.

As we report on the third quarter at SmartRent, I'd like to first acknowledge the substantial resilience and strategic focus our team has demonstrated during this period of significant change.

It's been really exciting to see the level of passion, alignment, and commitment of the entire team during what is, by any definition, a challenging period.

It's now been 14 weeks since we announced the Board's decision to initiate a leadership transition at SmartRent.

During this period, reflecting on the significant importance of this decision toward driving sustainable improvements in shareholder value, the Board has been deeply engaged with the entire management team in assessing both the strategic direction and the operational effectiveness of the company so that we're all aligned around a viable plan for recovery.

In order to inform our investors about our progress in this important transition, I'd like to cover four key topics this morning.

First, I'll summarize what we've learned during this first quarter of transition.

Second, I'll highlight some things that we've accomplished during this period. Third, I'll provide an update on our CEO search process. And finally, I'll recap our four pillars of strategic focus that are guiding both our transition plan and our CEO search.

Everything we've learned since making the decision to initiate a transition in leadership has confirmed the key perspectives that framed the Board's decision. That is, we've confirmed and strengthened our firm belief that the key issues affecting SmartRent performance are execution issues, which are not too difficult to address, while the core business model, the growth potential of our market, our market leadership position, and the differentiated value proposition for our customers all remain very compelling.

We concluded that our execution issues and growth challenges nearly all stemmed from four key factors: number one, a lack of effective sales leadership to build and drive a scalable go-to-market organization; number two, an overreliance on hardware revenue to sustain high levels of

SmartRent.com, Inc.(3Q 2024 Earnings)

SmartRent 3Q 2024 Earnings

total revenue while distracting focus from SaaS revenue growth, which remains the primary driver of shareholder value; number three, a distraction of focus on the central importance of operational excellence during the drive to profitability; and number four, the headwinds resulting from macroeconomic conditions and election uncertainty. To be clear, our North Star financial objective is to become a company that delivers both high sustained SaaS revenue growth and profitable results.

While we are only one quarter into this transition, we were able to highlight some key accomplishments delivered during this quarter.

We stabilized the entire executive team, which has been described by some investors in the past as a revolving door. The team is highly energized by the transition, and we're confident that we're building forward momentum even before concluding the CEO search. Two, we successfully recruited Natalie Cariola as our new Chief Revenue Officer to lead the revitalization of our sales and account management teams. Three, we repurchased 9.8 million shares of stock for \$17.1 million to return capital to shareholders while demonstrating the Board's conviction that the stock is undervalued.

Four, we made excellent progress on our CEO search, which I will summarize shortly.

Five, we delivered 23% SaaS year-over-year revenue growth, despite the challenges I discussed earlier, thereby demonstrating the potential to deliver even higher growth as we address those challenges.

Six, we have actively engaged with our customers to listen and learn about their priorities and concerns.

We are deeply committed to customer alignment and service excellence and investing to address customer needs.

Seven, we have aligned the entire company around four strategic pillars, which I will expand on in a minute.

Importantly, these pillars have been shared with our leading CEO candidates to help ensure that the individual selected can hit the ground running.

When we launched the CEO search with an outside executive search firm, we cast a broad net to identify a long list of potential candidates.

We placed particular importance on finding candidates who had turned around businesses with performance issues, had run successful high-growth SaaS businesses, and had successfully

SmartRent.com, Inc.(3Q 2024 Earnings)

SmartRent 3Q 2024 Earnings

demonstrated general management skills at scale much larger than the current size of SmartRent.

We were quickly, very pleasantly surprised by the quality of the candidates that we were able to attract to the opportunity. The general perception of these candidates was that SmartRent's current challenges presented a significant opportunity for a new leader to be successful and drive an exciting value creation story. After interviewing several candidates, we narrowed our focus to multiple highly-qualified individuals, all of whom clearly met or exceeded our search criteria and expressed strong interest in the position.

We're in the final few weeks of that evaluation process and expect to select a final candidate and begin negotiating contract terms shortly thereafter.

It's our hope that we will be able to announce a new CEO during the first quarter of 2025. This process of deep engagement by the entire Board with multiple CEO candidates has been extremely helpful and has informed the Board's work with the management team to crystallize the strategic pillars we are using to align and focus the entire company to execute more effectively during this transition. These pillars are: first, sustainable and predictable ARR growth; second, platform superiority for the complete integration of our IoT and operations solutions; third, operational excellence, which includes a particular focus on world-class customer engagement and satisfaction; and fourth, collaborative innovation, which refers to our efforts at strategically enhancing our platform with AI to improve experiences for both residents and operators while forging strategic partnerships to maximize platform value. Through these four pillars, we can better align our focus and resource allocation around the key initiatives that will drive the highest value for shareholders.

As we discuss these pillars with investors, I hope it will become increasingly clear that our strategic North Star is to build an industry-leading SaaS platform to meet our customers' needs and focus our hardware development efforts on only those products that create a differentiated and sustainable competitive advantage in achieving that goal. Taking all of what I have shared this morning together, I can enthusiastically state that the Board is more excited and optimistic than ever that we're on the path to restore the credibility of SmartRent as a public company and to deliver enhanced value to shareholders.

We're well aware that we will only reestablish this trust over time as we deliver actual results. Towards that end, I'm pleased to announce today that the Board is committing a strategic investment of \$10 million over the next year to accelerate our momentum and deliver the results of our strategic transition more quickly. This investment will be directed to activities directly related to the four strategic pillars around ARR growth, platform superiority, operational excellence, and collaborative innovation.

SmartRent.com, Inc.(3Q 2024 Earnings)

SmartRent 3Q 2024 Earnings

We have sufficient cash to continue returning capital to shareholders through share repurchases and make this strategic investment in the business at the same time. To be clear, investment does not mean that we plan to return to negative margins to drive higher growth. Rather, we're using our strong balance sheet to make targeted investments that we believe will accelerate our transition and progress.

By making this investment now and carefully aligning it with our strategic pillars, we hope to demonstrate to our investors, customers, and other stakeholders that we're committed to reestablishing and accelerating our forward momentum. Thank you for your support and patience as we navigate this transition.

We look forward to delivering the results that will justify that patience next year.

I will now turn the call over to Daryl.

Daryl Stemm^ Thank you, John. And good morning, everyone.

We appreciate you joining our call today.

As we navigated through SmartRent's third quarter, our focus on delivering ARR growth and enhancing customer satisfaction has been top of mind.

We believe our core strategy remains solid, ensuring that as market conditions and our own operational excellence improves, we're well positioned to capitalize on growth. This quarter, we were focused on ARR growth over one-off hardware deals.

During the quarter, the company delivered a robust 23% year-over-year increase in SaaS revenue, primarily driven by improvements in SaaS ARPU and units deployed, two key metrics that are crucial for sustainable ARR growth.

Our SaaS ARR grew to \$53.2 million, up from \$43.3 million in the third quarter of 2023.

SaaS ARPU increased by 5% to \$5.70 from \$5.41 from the same quarter last year, primarily attributable to improvements in pricing. Units booked SaaS ARPU also saw an increase of 8%, up to \$9.73 from \$9.04 from the same quarter last year. Total revenue for the quarter was \$40.5 million, a 30% decrease from the same quarter last year, primarily driven by lower units shipped and new units deployed.

Hosted services revenue including \$13.3 million of SaaS revenue, increased by 12% to \$18.5 million. Hardware revenue decreased by 47% to \$18.7 million. And professional services revenue decreased by 45% to \$3.3 million.

SmartRent.com, Inc.(3Q 2024 Earnings)

SmartRent 3Q 2024 Earnings

As of September 30, 2024, units deployed reached just over 787,000, a 15% increase from last year. New units deployed during the quarter decreased by 53% with just over 15,000 units deployed.

Total bookings for the quarter were \$19.6 million, a decrease of \$30.1 million, or 61%, from the same quarter in the prior year. Total bookings includes bookings of approximately 17,000 new units.

Overall decreases in new units deployed, units shipped, and units booked are primarily attributable to our customers' decision to defer capital expenditures driven by broad macroeconomic conditions.

In addition, changes in leadership and the structure of our sales organization have impacted sales and overall volumes. Total gross margin improved significantly to 33.2% from 23.3% in the same quarter of the prior year.

This improvement was driven by changes to our product mix and cost management.

SaaS gross margin saw a slight decrease to 73% from 74.2%, primarily due to increased variable costs. Total gross profit was flat at \$13.5 million, primarily due to the reduction in shipped and deployed units, which offset gains in gross margin. Hosted services remains our most profitable revenue stream with gross profit increasing to \$12.1 million from \$10.6 million in the prior year.

Operating expenses increased to \$25.2 million this quarter from \$23.5 million in the same quarter in the prior year, primarily reflecting the impact of onetime separation expenses related to our leadership change.

Net losses were \$9.9 million compared to \$7.7 million in the third quarter of 2023. Adjusted EBITDA improved by 24% to a loss of \$3.8 million, down from a loss of \$5 million in the same quarter of last year. Although there were a few bright spots, our third quarter results were disappointing but not unexpected. Q3 was a quarter of significant, and we believe positive transition for the company.

As John mentioned, we remain optimistic about the future of the company.

Recent studies including one by Parks Associates, highlight the significant benefits of smart building technologies, benefits that our customers are already experiencing including reduced operational cost, improved net operating income, enhanced residence experience, and increased retention rates.

SmartRent.com, Inc.(3Q 2024 Earnings)

SmartRent 3Q 2024 Earnings

We believe there's demand at scale for integrated smart property technologies that enhance operational efficiencies and reduce costs. Turning back to the quarter.

Our strong balance sheet with approximately \$164 million in cash provides us strategic flexibility. This quarter, we continued our commitment to returning value to shareholders by repurchasing approximately 9.8 million shares at an aggregate cost of approximately \$17.1 million.

We've continued purchasing shares in Q4, and through November 4, we've repurchased approximately 2.4 million additional shares at an aggregate cost of \$4.1 million, leaving \$22.6 million available on our authorized repurchase plan. This action reflects our Board and Management Committee's confidence in SmartRent.

We will continue to focus on maximizing shareholder value, affirming our belief in the company's long-term value.

We continue to closely monitor several key indicators that will inform our decision to reinstate guidance including the stabilization of market conditions, clarity on economic trends that affect capital expenditure timing within our industry, and the successful execution of strategic initiatives currently underway.

As these factors align, we believe we will be better positioned to offer guidance.

In conclusion, despite the near-term challenges, SmartRent's strategic foundation is strong.

Our commitment to the pillars around sustainable ARR growth, platform superiority, operational excellence, and collaborative innovation, as well as prudent capital allocation, position us well to navigate our current challenges and capitalize on future opportunities.

Thank you for your continued support as we execute our commitments and drive towards sustained growth and innovation.

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

Operator^ (Operator Instructions) And your first question comes from the line of Ryan Tomasello with KBW.

Ryan Tomasello^ Appreciate all the updates on the strategic front. Just wanted to start on macro and was hoping you can put a finer point around how the headwinds you've been facing have evolved over the last few months since we last got an update, what recent indications

SmartRent.com, Inc.(3Q 2024 Earnings)

SmartRent 3Q 2024 Earnings

have been from customers around capital expenditures next year, and just generally, if there's any guardrails you can put around expectations for the fourth quarter as we think through a continuation of those headwinds around bookings and unit deliveries.

Daryl Stemm^ Yes. Thank you, Ryan. Appreciate the call.

We've been heavily engaged with our customers, in particular since we've added Natalie to our team.

The general feeling from our customers' real conditions are that it was a good start to see the interest rates go down in September, but there's still a certain amount of angst around the timing of future interest rate changes. Most folks are expecting a (technical difficulty).

But also there was, in my mind, a relatively surprising amount of angst around the election results as well. And as a result of those two primary macroeconomic -- just macro conditions, we didn't expect to see and still don't expect to see any loosening of capital expenditures in (technical difficulty).

We are hopeful that the results of the election might really lead to more investment from our customers in property technology in 2025.

Ryan Tomasello^ And I'm not sure if it's just on our end, but I think there's some issues on the audio front just for the operator.

Then maybe just turning to the strategic investment that was called out, \$10 million over the next year, maybe just elaborate on what exactly you mean by that, what areas of the business that's going to be allocated towards, how we should think about the impact to margins and the timeline to a more sustainable breakeven and cash flow positive profile for the business?

Daryl Stemm^ Okay. Thank you.

And the four strategic pillars that John did outline, that's going to be the general guidelines around the investment activities.

Some of the internal factors that John called out earlier around the (technical difficulty) leadership and building a scalable go-to-market organization, other things around really refocusing on our core solution, which is the IoT platform as well as work management solutions. These are the primary areas of focus.

SmartRent.com, Inc.(3Q 2024 Earnings)

SmartRent 3Q 2024 Earnings

And so, it's really going to, from a practical standpoint, lead to investments in sales and marketing, engineering as well as operations, anything that directly impacts the satisfaction of our customer experience is the most general way that I could put that.

Operator^ Your next question comes from the line of Tom White with D.A. Davidson & Co.

Thomas White^ Maybe just a follow-up on the last one about the \$10 million.

I guess I'm trying to reconcile the comments about not taking the company back into negative margin territory with the \$10 million.

Can you maybe just talk a little bit about what timeframe you're referring to there and when you think the investments might start to yield returns?

Then just a follow-up, Daryl, you mentioned a little bit more focus on some of the core products, like core IoT. Just curious how the Board views Wi-Fi, if you guys view that opportunity and the commitment to investing there any differently than Lucas did.

Daryl Stemm^ Yes, let me start and then perhaps John might offer a bit of context.

We're going to, first and foremost, and we've already started moving on this, we really need to work on the sales team and the sales leaderships, which again, we've already acted on. Natalie Cariola has been brought on the team about one month ago. And managing the sales team will certainly [fit]. Really speaking to the timing of the investments and the why, if we look back over the last several years, the company has started applying more attention to point solutions that are adjacent to our core offering.

And again, our core offering and our core (technical difficulty). Let me even take one step further back.

Our core value proposition is around protecting the assets and helping improving the efficiency of the operations of our customers.

Our core offerings, our IoT platform and our work management solutions, are the most direct way that we impact that core value proposition.

In recent years, we've applied more attention and more resources to adjacent point solutions that also impact the operations of our customers.

SmartRent.com, Inc.(3Q 2024 Earnings)

SmartRent 3Q 2024 Earnings

And in doing so, I think that we've (technical difficulty) our solutions, our work management solutions have lost their clear leadership positions in the market.

So this investment is to reinvigorate both our IoT and our work management solutions to reestablish clearly our market-leading position.

John Dorman^ I would just clarify further, Daryl, in response to the question both Ryan and Tom raised with respect to timeline.

While we can't and won't be specific about a timeline for returns, I would highlight that what's motivating these investments is we see some very specific opportunities around our highlighted strategic pillars to make some investments that will accelerate our achievement of our North Star goal of accelerating and developing more sustainable ARR growth.

It's not going to be measured in a long-term time horizon.

We see multiple opportunities to accelerate our growth in 2025, and we're investing behind those opportunities.

Operator^ Your final question comes from the line of Erik Woodring with Morgan Stanley.

Erik Woodring^ I have two. John, just maybe quickly, I understand the renewed focus on SaaS sales.

Obviously, that is high-margin, long-term annuity, so to speak.

But to turn on that SaaS you, obviously, need to deploy units.

I guess my question is more maybe a clarification, which was when we go to the beginning and talk about the four challenges or the challenges from four factors, one was an overreliance on hardware distracting from SaaS.

And I'm just wondering, [is] the comment there an overreliance on hardware, meaning deployments and not necessarily focusing more attention on SaaS, or a focus on developing your own hardware and a lack of focus on SaaS.

I just want to make sure I understand that comment.

Then I have a follow-up.

John Dorman^ It's more of the latter.

SmartRent.com, Inc.(3Q 2024 Earnings)

SmartRent 3Q 2024 Earnings

Obviously, our hardware is the leading tip of the spear that, with the sale and deployment of units, we drive SaaS growth.

But what I was referring to in terms of the challenge of the distraction is in the Board's evaluation, we became overly distracted and scattered our resources toward hardware point solutions, other hardware initiatives all around building our own hardware distractions from the core focus of driving SaaS growth.

It's that alignment around using hardware strategically to drive SaaS growth is our North Star.

Erik Woodring^ That makes a lot of sense.

Then my follow-up is maybe just what are you hearing from your customers, right?

Obviously, you went through the macro environment.

So I'm not really focused on that.

It's more just what are your customers saying about the internal changes that are going on at SmartRent and maybe concerns around either changing salespeople, changing relationships, uncertainty about the future path.

How is that impacting their confidence in working with SmartRent, whether that means ongoing work or even expanding with you. Would just love to hear what you're hearing from your customers over these last 14 weeks.

John Dorman^ I would say that our feedback from customers is encouragingly positive, which is not to say we don't have pressure from customers over some of the operational issues and principally the concerns we hear from customers is over the low stock price and what does that imply. And just a quick reminder about our balance sheet and our financial strength and our market leadership strength settles that down pretty quickly.

But our customers are happy with the solutions in general.

As Daryl alluded to, we have some issues around completing the integration of our operations platform with our IoT platform, and that's a very high priority area of focus with our investment to remedy that quickly.

But in general, the Board has been quite pleased with the level of commitment the customers have to SmartRent as a strategic provider.

SmartRent.com, Inc.(3Q 2024 Earnings)

SmartRent 3Q 2024 Earnings

Daryl Stemm^ And I just want to comment in that regard, which is two important metrics with regards to SaaS growth, our churn and net revenue retention.

And in both cases, it remains strong.

Our churn is about [100] and our net revenue retention remains above 100%.

So in both cases, it's a positive indicator about our customer experience.

John Dorman^ And that, again, drives back to the (technical difficulty) the turnaround opportunity here, which guided our decisions over leadership transition, was the clear indication that there's the core of a very strong, very successful SaaS business here.

We just need to focus on building the SaaS business and not get quite so distracted on other initiatives.

And we need to build this (technical difficulty) is fully aligned and scaled to the magnitude of our market opportunity by virtue of our market leadership position.

Operator^ That concludes our Q&A session. Thank you for joining today's call.

You may now disconnect.