05 - 07 - 2025

SmartRent

First Quarter 2025 Earnings

CORPORATE SPEAKERS:

SmartRent

First Quarter 2025 Earnings

Kristen Lee
SmartRent; Chief Legal Officer
John Dorman
SmartRent; Interim Chief Executive Officer
Daryl Stemm
SmartRent; Chief Financial officer

PARTICIPANTS:

Ryan Tomasello
KBW; Analyst
Yi Fu Lee
Cantor Fitzgerald; Analyst

PRESENTATION:

Operator^ Thank you for standing by. (Operator Instructions) At this time I would like to welcome everyone to the SmartRent Quarter one 2025 Earnings Release Conference Call. (Operator Instructions)

I would now like to turn the call over to Kristen Lee, Chief Legal Officer.

Please go ahead.

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

My name is Kristen Lee, Chief Legal Officer for SmartRent.

I'm joined today by our interim Chief Executive Officer, John Dorman; and Daryl Stemm, Chief Financial Officer.

Before the market opened today, we issued an earnings release and filed our 10-Q with the SEC, both of which will be 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 the 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 a reconciliation to the most directly comparable GAAP measure is included in today's earnings release.

We would also like to highlight that a fourth quarter and full year earnings presentation will be available on the Investor Relations section of our website.

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

John Dorman^ Good morning. And thank you for joining SmartRent's First Quarter 2025 Earnings Call.

We appreciate your continued engagement as we execute a focused plan designed to position SmartRent for long-term sustainable growth and value creation.

I've been a Board member for over three years, Chairman of the Board for the past year and now Interim CEO. Given this unique position I thought it would be helpful to use my time this morning to give investors some perspective on the evolution of SmartRent, our plan to drive the company toward meaningful and sustainable long-term value creation and where we are in executing the plan.

The SmartRent story really isn't all that complicated. And I hope to make it a little clearer this morning.

SmartRent was founded with a unique vision to deploy IoT technology to transform property operations and resident experiences.

Because smart rent was built on the foundation of experience from the multifamily and single-family rental operating businesses, the company's solutions were built with a very deep understanding of the needs and challenges of our customers. Three key and distinct elements differentiated our initial solutions drove our early success and still largely distinguish our platform today. Number one, integrating IoT hardware devices through an enterprise-scale software platform to fully deliver and maximize the ROI potential for property owners while enhancing the resident experience.

Number two, designing the software platform to fully and seamlessly integrate with existing systems in third-party hardware devices rather than constraining solutions to our own branded hardware. And number three, delivering solutions with the unique expertise to deploy them in a retrofit environment rather than limiting them to new build or major renovations.

This focus addresses the needs of the largest portion of the addressable market. The power and clear differentiation of these core products launched SmartRent on an initial phase of high-growth during which we successfully deployed our platform with 15 of the top 20 multifamily owners and operators in the country as well as several of the largest single-family rental operators and iBuyers. These early customers are still with us today. This early and rapid success enabled the establishment of first-mover advantage in a massive TAM.

However the company's operational processes and infrastructure including in its sales organization, did not adapt quickly enough to the size the business has become.

They reflected a culture that was too siloed and dependent on a small number of individuals and was, therefore, neither scalable nor sufficient to enhance our market-leading position and best serve our customers.

Over the past nine months, we have made significant progress in redesigning an organization that we believe will enable sustained growth as we move to the next stage of the company's evolution. This includes the addition of seasoned leaders across sales and customer success, most notably, Chief Revenue Officer; [Natalie Carola], who are leading the build-out of a scalable customer-centric sales organization and a high-impact customer success function to support long-term growth. And while CEO changes are not actions that any board takes lightly, they are often necessary, I'm pleased to announce we are now in the final stages of our search.

We have found multiple highly qualified candidates to serve the permanent CEO role and expect to be able to make an announcement in the coming weeks.

Over the past year, in addition to completing internal organizational changes, we've strengthened the Board of Directors by appointing three highly experienced and proven leaders. Collectively, they bring a strong track record in operating, financial and technology leadership at scale, experience that is directly relevant to guiding SmartRent through our next phase of growth. Enhancing board strength and ensuring we have a fit-for-purpose board remains a priority as we continue to position SmartRent for long-term value creation.

Now pivoting to today and what we are executing.

First, we are well into the process of addressing the company's go-to-market strategy and capabilities with our new sales organization and approach.

Second, we initiated a significant restructuring by breaking down silos and ensuring our infrastructure is scalable.

We are also refocusing our operations organization around the needs of our customers, and we believe our customers will begin feeling the benefits of these changes in the near term. And third, we have shifted our focus and technology investment away from developing and selling our own branded hardware components and are executing a strategy based on our four strategic pillars, which are: first, sustainable and predictable ARR growth.

Our value will be built by focusing on our hardware-enabled SaaS model, not on selling our own hardware.

Second, platform superiority. The ROI of our solutions for customers will be maximized by delivering a fully integrated enterprise-scale software platform.

Third, operational excellence.

As a SaaS company, our success will be highly dependent upon the success of our customers in deploying and maintaining our solutions. And finally, collaborative innovation, rapid and continuous innovation in building out our software platform will be critical to maintaining our position as market leader.

We now see strategic pillars in the third quarter of 2024, along with $10 million in strategic investments to accelerate our change.

We believe the fruits of that focus and investment became visible to our customers in the most recent quarter, with meaningful enhancements to our smart operations solutions.

We also started to deliver more focused customer engagement as we began to build a more robust customer success organization.

As we have proceeded with our operational reorganization and refocusing of technology investment, we have been successful in completing over $10 million in annualized cost savings that we believe will improve cash flow and produce a more rapid return to profitability. Quite simply, we believe we can operate more efficiently and more effectively at the same time.

Our conviction remains unchanged. The challenges we faced are largely execution related and solvable.

Over the past nine months, our work has enhanced the Board's belief that improving operating effectiveness and maturing our organization will unlock scalable, long-term growth and value creation.

Our confidence is grounded in several levers.

First, SmartRent's IoT platform solution has a long-term moat due to our hardware-enabled SaaS offering.

We sustained a customer retention rate above 99.9% over the past three years.

While our hardware and hardware implementation revenues have declined over the past year, our SaaS revenues grew by more than 17%, and our net revenue retention exceeded 100%. Number two, SmartRent has unrivaled scale and product advantage.

We believe that the unique product advantages that drove our initial wave of success and rapid growth remain, with over 80,000 units deployed, we remain the market leader. Number three, the TAM is large and underpenetrated with secular tailwinds driving smart home adoption in the long term.

The total market opportunity is estimated to be at least $11 billion to $13 billion, and even our current target of Class A and B buildings owned and operated by larger companies is a $3 billion to $4 billion opportunity.

As first mover and market leader, we seek to continue to capture a large share of this market opportunity.

Number four, our customers see real business ROI from adopting SmartRent.

While our execution challenges have impacted relationships with our customers, they remain committed to SmartRent and want us to succeed.

In a recent survey, 96% of property managers indicated that SmartRent has had a positive impact on their customer experience and 90% view actual realization of NOI expansion as a key driver of continued investment in smart home adoption. And number five, SmartRent is executing a plan to accelerate the return to delivering sustainable growth combined with profitability.

While our performance in 2025 will continue to reflect that we are building our foundation for future growth, we remain confident that we will be able to show evidence of continued progress in coming quarters.

Looking forward, we remain focused on scaling the business with greater efficiency while maintaining the strategic flexibility required in a dynamic market.

Our aim is to achieve non-GAAP adjusted EBITDA profitability without sacrificing long-term growth. The strategic foundation we've laid anchored by a growing base of high-margin SaaS revenue, a more streamlined cost structure and operational focus gives us confidence in our ability to deliver sustainable progress toward that goal.

As always, execution discipline remains key. To close, the last nine months have resulted in significant change at SmartRent that has strengthened our conviction that we are on the right path.

We appreciate investors' active engagement with us as we continue to execute this plan.

Our North Star is unchanged to deliver long-term shareholder value by scaling a high-quality recurring revenue business drives meaningful ROI for our customers and long-term value for shareholders.

The work underway is intentional. The pace of change is accelerating, and we look forward to updating you on our continued progress.

With that, I will turn it to Daryl to take you through our financials and key results.

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

We appreciate you joining our call today to discuss our first quarter 2025 results.

I'll now walk through the financials and provide some additional context on how we're balancing execution, margin management and strategic investment across the business. Total revenue for the first quarter was $41.3 million, down 18% when compared to the same period in the prior year.

Hardware revenue was $18.8 million, down 35% year-over-year which is a continued reflection of our strategic decision to reduce reliance on hardware sales as we focus on expanding annual recurring revenue.

SaaS revenue grew 17% year-over-year to $14 million, supported by improved ARPU, expanded platform utility and continued strength in customer retention.

In terms of unit economics, SaaS ARPU increased to $5.69, up 5% from the prior year and up slightly on a sequential basis. Units booked SaaS ARPU reached $10.28, which was a 44% increase year-over-year.

We believe these trends validate the value proposition of our platform and our strategy of placing the customer at the center of how we deploy, engage and grow revenue. Gross margin in Q1 was 32.8% compared to 38.5% in the prior year. This compression of roughly 570 basis points was expected and driven primarily by lower hardware volume and a shift in customer and product mix as we move away from bulk hardware sales.

SaaS gross margin remained strong at 70.7% and we continue to believe SaaS margins can expand over time with scale and further infrastructure optimization.

Operating expenses were $29.9 million including a $5 million legal accrual compared to $29.6 million in the prior year. Net losses increased to $40.2 million compared to $7.7 million in the same period prior year, primarily due to a noncash goodwill impairment charge of $24.9 million.

During the quarter, the company experienced a sustained decline in stock price, resulting in a significant decrease in market capitalization.

As a result, the company conducted an interim impairment test on its goodwill, utilizing the qualitative approach and determine that an impairment is more likely than not.

As a result, the company then performed an interim quantitative impairment test in accordance with GAAP.

The resulting impairment charge reflects a GAAP accounting adjustment based on a mix of income approach and market-based approach and does not represent a change in the company's view of the intrinsic or long-term value of the business.

Adjusted EBITDA was negative $6.4 million a year-over-year decline of $6.8 million, reflecting lower unit volumes.

We have executed over $10 million in cost savings as part of our broader initiative to simplify our structure, reduce cash burn and reorient the organization around customer value. These actions are enabling us to invest in critical areas including go-to-market capability, implementation efficiency and post-sale engagement without expanding our cost base.

We also remain disciplined in capital allocation.

During the quarter, we repurchased approximately 1 million shares from $0.2 million, leaving $20.4 million authorized under our existing buyback program.

We ended the quarter with $125.6 million in cash, no debt and $75 million in undrawn credit. A strong balance sheet that gives us the flexibility to continue executing from a position of strength.

Net cash used in operating activities in the first quarter was $12.2 million which, as we've noted in prior years, tends to be seasonally higher in Q1.

Looking ahead to Q2, we do not expect a significant improvement in cash use as the benefits of our cost reduction efforts will be offset by severance payments and other onetime items. That said, we do expect to see meaningful improvement in net cash use in the second half of the year, driven by the full benefit of these cost savings actions and improved operating leverage.

We're not yet free cash flow positive, but we believe we're taking disciplined steps to get there, reducing expenses, improving efficiency and aligning the business to a more durable recurring revenue model.

We continue to monitor our cash position closely and remain confident in our ability to execute our plan while maintaining sufficient balance sheet flexibility.

We're balancing disciplined expense management with targeted reinvestment in areas aligned to long-term growth and profitability.

While we're not providing a sales outlook at this time due to a number of macro factors impacting customer purchasing decisions, we remain focused on building long-term customer value and strengthening recurring revenue.

Finally, I want to note that recently announced tariff developments could present cost pressure in the second half of 2025.

We're actively assessing the potential impact and working through mitigation strategies to address exposure.

We remain confident in our strategy, our market position and our ability to execute with discipline.

Thank you for your continued support, and we'll now open the line and take your questions.

QUESTION & ANSWER:

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

Ryan Tomasello^ Starting on the restructuring actions, do the $10 million of savings you called out represent the full benefit that you ultimately expect to realize? Or are you expecting to drive more efficiencies on top of that? And then how much of that $10 million is run rating through your adjusted EBITDA in 1Q results? And if not, the full benefit, when should we expect that to flow through?

Daryl Stemm^ This is Daryl. The $10 million annualized savings are actions that we've taken, but we took them in April, so you're not seeing any adjustments for severance or any of the onetime charges related to these actions in the Q1 result. From a cash flow perspective, it will be relatively useful in Q2 as we just noted, we'll start to see a little bit of the benefit on adjusted EBITDA during Q2, but you won't see the full effect until Q3.

Ryan Tomasello^ Okay. And then in terms of the sales organization build-out that you've been executing, do you feel like you're in a good spot to support scalability? Or do you think there's still more to go in terms of hiring needs? And on the broader operational changes you highlighted, can you just define a point around what those entail in areas like customer success, and I guess, technology operations that you called out in your prepared remarks.

John Dorman^ Thanks, Ryan.

First, on the sales build-out, we think we've completed the initial wave of build out the organization.

But as you know new salespeople take time to ramp up.

So there's a little bit of a lag effect there.

But we've done the initial build-out of the sales organization.

We're still adding some talent in the customer success organization, but a great deal of that shift has come from the operational reorganization where we -- as I mentioned in the script, we concluded we were overly filed, and we've broken down those silos and we collapsed a lot of the customer-facing operations into the customer success organization and giving us more scale and the customer success organization and making a lot of our operational touch points with our customers, much more customers centered.

So we're quite excited about both.

It is a continuing effort.

We're not declaring victory or anything close to that, but we've made enough changes at this point that we're confident that we're going to start seeing the results as we move forward.

Ryan Tomasello^ And then I'll squeeze in one final one. Just considering the ongoing CEO search, how much of the broader organizational and strategy changes are you kind of hitting pause on and reserving for the time when the new CEO on board and can take their own kind of fresh look at evolve the strategy going forward?

John Dorman^ Yes.

We're really -- we're not hitting pause on anything right now. This is a different phase than the previous search phase when we didn't have an opportunity for somebody to set that at interim CEO, largely because of me being the logical one and constraints on my own availability at that point in time.

So we did have more things on hold during that period while the Board was coming to a greater understanding of the business to the search process.

But over that period of time over the past nine months, I and the Board have become very deeply engaged with the company on both strategy and execution.

And that allowed us, even with the recent quick turnover to really start doing that as a catalyst to accelerate or change and execute some of these organizational changes and cost cuts, and the strategy is pretty well evolved that's mapping out our plan for returning to growth and profitability. And our engagement on that with our final candidate is deep enough to the point where we're really confident that the -- and office is going to be so without having to pause anything.

Operator^ (Operator Instructions) Our next question comes from the line of Yi Fu Lee from Cantor Fitzgerald.

Yi Fu Lee^ I just want to follow up on the CEO change from the last caller -- the last analyst. Why like -- John, why the quick change again? And what are the qualities you say you're in the final stages in finalizing the CEO search.

What are the qualities you are looking to see for.

Ryan Tomasello^ I think I'll answer the first part of your question, I believe we answered that to the extent we could when we made the announcement, but I'll repeat that that quick change had nothing to do with this alignment strategy, nothing to do with the broader (inaudible) to do with current financial performance.

It was initiated by the board as was evident in our disclosures about the transition arrangements with the the CEO. And it was just one of those tough decisions the Board has to make.

But as I hope we've conveyed on the call this morning, -- it really wasn't a significant event in terms of affecting our execution of our plan.

And also as I believe we implied at the time we made that announcement, we were -- because we were just coming off a very robust search process, we were engaged on with multiple candidates that we've been able to move very, very quickly. And as I said in my comments this morning, we do expect to be making an announcement in the coming weeks, not months. And so we're moving ahead full speed with that.

As to what the qualities are we're looking for, they remain the same.

We want a CEO who has a proven track record of executing operationally in a recurring revenue business at scale.

A lot of the problems that we face -- when we launched this path of CEO transitions were related to not having matured the organization fast enough, and we're addressing all of those, but we're looking to bring in the CEO who has very slow (inaudible) ability of operating and executing a high recurring revenue business at scale.

Yi Fu Lee^ And a follow-up -- it could be (inaudible), John. You guys have a great NRR and very low churn in the business.

I ask them both at the same time right? Dan, you mentioned about you're trying to minimize the tariff impact.

Can you explain how SmartRent is able to do so considering the situation is still fluid.

And like with higher (inaudible) the fill out of the go-to-market team and you talked about there's still more work to be done in terms of hiring for customer success. When do you believe that the fruits of this I guess, the buildout and go-to-market team will inflect more positively in terms of the timeline? And that's it in from me.

Daryl Stemm^ Yes. Thank you for the question.

I start by addressing the tariffs and then hand it back over to John to address the sales.. The tariffs are nothing new.

SmartRent has historically sourced the vast majority of its hardware devices from overseas -- and there's nothing new about that.

So there's been obviously significant developments recently.

We believe from a kind of maximum exposure standpoint that we have potentially about a $2 million exposure in the back half of this year related to tariffs. That's subject to a couple of things that one would be the simple changing of the tariffs yet again.

But also, we began addressing the potential for tariff increases by changing where we do our own manufacturing of our own devices.

Also with regards to third-party source devices that come from overseas because of the lack of clarity -- most of our suppliers have not committed to a particular path, like passing along the cost to SmartRent. That may or may not happen in the future. And then the last point that points to potential mitigation is we are evaluating changing (inaudible) manufacturing locations, again, to a lower tariff nations.

John Dorman^ And regarding the time of evidence of the build out of the go-to-market function, I wouldn't be specific on pinpointing a quarter when that's going to be compellingly evident for a number of factors.

First of all, as you understand, new people and sales take time to ramp up.

We also had deal, which we have done our demand creation and lead generation organization, and that's early days.

We're also facing some macro factors still in the capital investment cycle of the multifamily market and as well as just the broader economic uncertainty right now. And then our products, as we discussed many times before, have a long sales cycle that is tied in with the capital investment cycle of our major customers.

So given all those factors, there remains some degree of uncertainty as to the timing for this year.

What I would characterize is that 2025 will be a year that is primarily a foundation building with some expectation of growth.

We're going to continue showing strong growth in our SaaS revenue, but with that foundation building, we expect to be able to show evidence of proof points along the way that will be to more sustainable growth as we enter two026.

Yi Fu Lee^ I guess what are those proof points is, John, is it like like SaaS revenue as a -- I know it's like a third right now.

Obviously you could chime a minute on this, right? What are the proof points that will make the Board and yourself and the management team be more positive throughout the year?

John Dorman^ The principal one would be the beginning of a sustainable path of acceleration in bookings.

Operator^ Since there are no further questions, I will now turn the call back over to Interim CEO, John Dorman for closing remarks.

John Dorman^ Thanks, for joining us today.

As we wrap up, I will leave you with a clear message.

We believe SmartRent is a very compelling long-term opportunity for value creation. This is a company with unmatched scale, real product differentiation in a massive addressable market that is still largely untapped.

We have over 800,000 units deployed, net retention rate north of 100% and recurring SaaS revenue that grew 17% year-over-year, while we were in the midst of fixing execution challenges.

We faced some near-term execution challenges, but the fundamentals haven't changed.

In fact, they've gotten stronger. We streamlined the business, realign leadership and refocus the organization around a disciplined SaaS strategy that prioritizes (inaudible) platform superiority and customer success.

What we've done over the (inaudible) months is not just about fixing what wasn't working.

It's about laying the foundation for something much bigger. The SmartRent of tomorrow is more focused, more efficient and more ambitious. So for those watching us closely, here's what I'll say.

We believe the opportunity ahead of us is significant.

We execute urgency and clarity, and we believe the value creation potential from here is real, durable and meaningful. Thanks again for your time your engagement and your continued support.

Operator^ Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.