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SmartRent

Second Quarter 2025 Earnings

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CORPORATE SPEAKERS:

Kelly Reisdorf
SmartRent Inc.; Head of Investor Relations
Frank Martell
SmartRent Inc.; President and Chief Executive Officer
Daryl Stemm
SmartRent Inc.; Chief Financial Officer

PARTICIPANTS:

Ryan Tomasell
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 Two 2025 Earnings Release. (Operator Instructions)

I will now turn the call over to Kelly Reisdorf. Head of Investor Relations.

Please go ahead.

Kelly Reisdorf^ Hello. And thank you for joining us today. My name is Kelly Reisdorf, Head of Investor Relations for SmartRent.

I'm joined today by our President and Chief Executive Officer, Frank Martell; 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 are available on the Investor Relations section of our website.

Before I turn the call over to Frank, 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 in 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.

We would also like to highlight that the second quarter earnings presentation is available on the Investor Relations section of our website. And with that, I will turn the call over to Frank.

Frank Martell^ Thank you, Kelly. And good morning, everyone. We appreciate you joining us for our Second Quarter 2025 earnings call.

Before we dive into the quarter, I want to start by saying how energized I am to be stepping into the CEO role at SmartRent.

Over the past year, my service on the Board of the company has provided me with critical insights into both the company's foundational strengths as well as areas we need to address to fully realize our full potential.

I believe I bring to SmartRent and all of our stakeholders a significant and long established track record of generating growth and profitability while successfully navigating challenging internal and external factors. From my point of view, SmartRent opportunities for profitable growth and sustained market leadership are compelling.

We operate in a large, expanding market with a purpose-driven, differentiated platform and a growing SaaS footprint.

As a hardware-enabled SaaS company with meaningful scale, our foundation is domain expertise and close alignment with the needs of our customers, both property owners and operators.

Our solutions are retrofit friendly, integrate seamlessly with third-party hardware and property management systems and are designed to deliver measurable ROI.

With roughly 850,000 units deployed, we believe that we have significant scale advantage and are increasingly poised to leverage that advantage through continued operational efficiency, the introduction of new and enhanced capabilities across such areas as IoT, data and analytics as well as the infusion of AI into our products and operations.

SmartRent delivers strong value that our customers rely on. As a result, we've developed sticky and long-term customer relationships.

In a recent survey, 90% of property managers cited net operating income expansion as a key reason for continued investment in SmartRent. As a further proof point, our second quarter net customer revenue retention rate was 108%.

We believe that our customers recognize the power of our deep domain expertise and strong platform. For these reasons and others, we believe that we are uniquely positioned to lead the category during the next phase of growth.

Our continued leadership will be built on a relentless focus towards operational rigor and financial discipline as we continue innovation and close customer engagement.

In this regard, I will focus my remaining remarks today on key actions the company has and will be taking to address our near-term challenges, namely resetting our cost structure, returning the company to profitability and accelerating top line growth.

Regarding our cost productivity and reduction initiatives, at the end of the first quarter of this year, the team implemented cost actions resulting in more than $10 million in annualized savings.

Over the past month, we expanded our cost reduction program by an additional $20 million. The majority of our cost reductions come primarily from workflow optimization, lower staffing levels and reduced third-party spending.

The $30 million in cost reductions I just discussed should progressively benefit our financial results over the remaining months of this year. Given our expected revenue run rates over the balance of this year and the impact of the cost reduction program, we believe the company is on track to achieve adjusted EBITDA and cash flow neutrality on a run rate basis exiting 2025.

As of June 30th, 2025, the company has a significant cash balance of $105 million, achieving cash flow neutrality together with a disciplined push on working capital execution which is expected to generate approximately $15 million of working capital from our balance sheet should result in us maintaining a significant cash balance.

As we head into 2026, our cash reserves will allow us to continue to fund product innovation and further operating efficiencies, resulting in a strong base for long-term success. At the same time we are resetting our cost structure.

We have taken important steps towards accelerating top line growth rates as we approach 2026.

As you may recall about a year ago, the company announced a $10 million investment to accelerate product development, enhance deployment capabilities and strengthen our go-to-market team.

We are seeing these investments beginning to bear fruit. The rebuild of our sales organization is yielding increased customer engagement and product enhancements are gaining traction.

In Q2, we recorded over 24,000 new units booked, our highest total in over a year.

In addition, our SaaS revenues continue to grow, and we saw strong interest in new solutions and product enhancements like our energy dashboard and SMRT IQ, which are fueled by SmartRent's unique data advantage from having nearly 850,000 deployed units, comprising over three million connected devices.

As Daryl will discuss in a few minutes, our revenue growth profile has been negatively impacted over the past 1.5 years by a conscious decision to transition away from onetime bulk hardware deals, lacking alignment to customer implementation timelines.

As we enter 2026, we believe our reported growth rates will benefit from better alignment to customer buying cycles. This alignment should result in a shift towards more consistent, predictable and recurring revenue models.

In closing, I want to thank the SmartRent team for their focus, resilience and commitment to execution. I believe in the company and that we are aggressively taking the right steps to realize its full potential. I look forward to sharing our continued progress in the quarters ahead.

With that, I'll turn the call over to Daryl, who will take everyone through our quarterly financials for Q2.

Daryl Stemm^ Thank you, Frank. And good morning, everyone. We appreciate you joining us today to discuss our second quarter 2025 results.

I'll now walk through the financials and provide some additional context on how we're executing against our plan, managing the business with discipline and making targeted investments to drive long-term growth and operating efficiency.

For the second quarter of 2025, total revenue was $38.3 million, down 7% sequentially from $41.4 million in the first quarter and down 21% year-over-year. The year-over-year decline was primarily attributable to the decision to move away from bulk hardware sales, which Frank alluded to earlier. This approach is expected to result in more predictable revenue through better alignment with our customers' buying cycles.

Hardware revenue totaled $15.1 million in the second quarter, representing a 20% decrease sequentially and a 39% decline year-over-year reflecting the decision to move away from bulk hardware sales, which I just discussed. Professional services revenue came in at $4.3 million, up 10% sequentially from $3.9 million in Q1 and down 26% from the same quarter prior year. The sequential growth reflects stronger sales organization execution, while the year-over-year comparison continues to reflect the broader slowdown in new unit deployments.

Hosted services revenue reached $18.8 million, representing a 1% sequential growth and a 5% increase year-over-year. This category now makes up nearly half of our total revenue and continues to benefit from expanding platform usage, high retention and increasing demand for our software capabilities across our installed base.

As Frank and I both discussed, these results highlight the underlying transformation in our revenue mix as we move towards a more predictable recurring model that supports long-term margin expansion and financial stability.

Importantly, SaaS revenue, which is a component of our hosted services revenue for the second quarter totaled $14.2 million and now comprises 37% of the company's total revenue, up from 34% in Q1 and 26% from the prior year quarter.

Our annual recurring revenue reached $56.9 million, up 11% year-over-year. This growth reflects the continued expansion of our recurring revenue base and the successful execution of our strategy to drive higher margin platform-led value.

SaaS ARPU reached $5.66, which is up slightly from $5.63 year-over-year, while units booked SaaS ARPU rose to $8.21, up from $8.07 in the same quarter last year. These improvements reflect disciplined pricing, enhanced value delivery and our ability to drive more revenue per booked unit as our platform capabilities expand.

SaaS gross profit came in at $10 million, up 1% sequentially and up 4% year-over-year, resulting in a gross margin of roughly 70%. This continued strength underscores the efficiency and scalability of our software infrastructure and reinforces the core thesis behind our shift to a higher quality revenue mix.

As of the end of Q2, SmartRent has approximately 850,000 units deployed, an increase of 3% sequentially and 10% year-over-year. This continued growth in our installed base reflects steady adoption across our customer portfolio.

Importantly, the quality of our installed base remains strong. Churn is exceptionally low, less than 0.01%, and net revenue retention continues to exceed 100%, supported by consistent customer engagement across the platform. These characteristics position us to drive increasingly predictable cash flows as we continue to execute against our financial and operational targets.

We booked over 24,000 units in the quarter, representing our highest quarterly booking performance in more than a year and signaling early commercial traction following our go-to-market rebuild. Total gross profit in the quarter was $12.7 million compared to $17.3 million in the prior year quarter, reflecting the impact of lower hardware shipments and associated margin mix.

By segment, hardware gross profit was $2.3 million down from $8.4 million in the prior year, reflecting lower shipment volume and continued transition away from bulk hardware deals and changes in product mix. Professional services gross loss improved to $1.9 million compared to a loss of $3.1 million in the prior year quarter, driven by operational efficiencies and improved unit economics. And finally, hosted services gross profit totaled $12.3 million, essentially in line with the prior year quarter.

Gross margin in Q2 was 33%, down from 36% in the prior year quarter, reflecting the impact of unfavorable changes in hardware product mix, partially offset by continued strong SaaS gross margins of 70% in the quarter.

We continue to believe SaaS margins can expand over time with scale and further infrastructure optimization.

Operating expenses were $24.4 million, compared to $24.2 million in the prior year. Q2 2025 included approximately $2 million of severance and legal expenses, which have no prior year counterpart.

Net losses increased to $10.9 million compared to $4.6 million in the prior year quarter, primarily reflecting lower hardware sales, which were discussed previously. Adjusted EBITDA was negative $7.3 million, a year-over-year decline of $8.3 million.

We ended the quarter with $105 million in cash, no debt and $75 million in the undrawn credit, giving us a strong balance sheet and the flexibility to execute from a position of strength.

During the quarter, we used a total of $20.6 million of cash. Cash use was primarily a result of $6 million from operating losses, net of noncash expenses, $8.5 million of accounts receivable growth and we repurchased $3.7 million of our stock.

As we've discussed, one of our key short-term financial goals is to achieve a cash flow neutral run rate as we exit 2025.

To support that, we remain focused on driving operating efficiency while continuing to reinvest in our highest return areas of organic growth.

During the second quarter, we continued to take aggressive actions to right size our cost base and invest in our future growth as well as our operational effectiveness.

The majority of our targeted cost reductions have been actioned and we believe they'll contribute to achieving adjusted EBITDA profitability and run rate cash neutrality exiting 2025.

As I discussed earlier, we're taking actions to reduce our cash burn and to preserve a significant cash position as we head into 2026. These funds will allow us to fund additional value-creating opportunities including investments in our go-to-market organization as well as new products

and solutions that should promote growth within existing customers as well as potential new customers.

We are executing with clarity, operating with discipline and building a stronger business every quarter.

Our strategy is focused, our team is aligned, and we believe the foundation we're putting in place positions us for long-term value creation. Thank you for your continued support.

Operator, you may now open the line for questions.

QUESTION & ANSWER:

Operator^ (Operator Instructions) The first question comes from Ryan Tomasello from KBW.

Ryan Tomasello^ In terms of the $20 million of incremental cost savings, I know you gave some color in your prepared remarks, but maybe a bit more detail on the sources of those savings. And from here, do you think there could be more room to extract some efficiencies beyond the cumulative $30 million?

Or do you feel like you're done with the expense side of the P&L for the time being?

Frank Martell^ Ryan, it's Frank Martell yes, look, I think the three areas that I covered is where the predominant amount of the reductions are. A lot of it is staffing reductions and third-party spending. Those are the two principal areas. To answer your question regarding the future, I think there is plenty of productivity yet to come to the company as we work on the fundamental workflows and bringing some automation, some additional talent.

So I do think there is continued efficiency as well as procurement -- areas like procurement of hardware and that sort of. So there's more runway.

I think that the good news we executed substantially all of the actions necessary to achieve the $30 million. We're already seeing benefit in the P&L.

I would expect, as I mentioned in my script, that that should be over the course of this year that will come out this year with $30 million substantially running to the P&L.

Ryan Tomasello^ And Frank, now that you've had a few months as CEO, and I know you've had some tenure on the board as well. Maybe just another opportunity to give us your holistic view as it stands today on how you intend to evolve and refine SmartRent strategy going forward. Just generally, where you feel like some of the more attractive and low-hanging fruit opportunities are to reposition the business in order to drive growth from here?

Frank Martell^ Yes. So a couple of comments there. Number one is the team is great here.

It's really dedicated, smart and creative. I think from my point of view that's the basic building ingredient needed to go forward. I think our customers -- I've been on a number of customer calls.

I think we've got really good relationships despite all of the kind of the ups and downs in the last year or two. So that's also, I think something that is sticky, a huge installed base. I think there's room to grow that installed base as well.

Our clients are all very positive about the company and what we contribute to their operations and their success. So from that point of view, our customers are sticking with us, and I think there's room in every count to grow. I think there's also new segments that we haven't played in that we're looking at. So I think there's plenty of opportunity for growth. That strikes me.

I've been in businesses where starting out with a very sticky customer and a scale advantage that we have, 850,000 deployments with three million connected devices is a great opportunity for us to expand.

We're going to invest selectively in AI. I think from that -- everybody is doing that, but we really have not done it to the degree that we should and could. So I think that's another area. That offers us both, I think internal efficiency and offers our customers more value. So there's plenty of opportunity to grow.

It's just unfortunate that we've had this whipsaw effect of these bulk hardware sales that now will work through the system, and we're seeing the end of that. Hopefully, as we get into fourth quarter.

So we'll just -- without that, I think as Daryl said, we'll have a more predictable revenue trajectory that we've had in the last 1.5 years.

Operator^ The next question comes from Yi Fu Lee from Cantor Fitzgerald.

Yi Fu Lee^ So like my question, Frank, is similar to Tom. Like I just want to get more clarity color on your vision, your strategy in terms of like what is new from your current plan?

I know you're still on the board before, so you have experience with SmartRent versus the prior CEO, what is different that we should expect?

And I also have more follow-up.

Frank Martell^ Yes.

Look, I think from my point of view, I'd like to have a smart rent setup in every apartment in the country. I think we have that capability. So I like SmartRent technology to be everywhere in the multifamily space. I think we have a good jump on that. We're certainly the big players.

I think we have a little work to do to make sure that the economics work for smaller installations, but I think that's not going to be a major issue for us because the (inaudible) company is starting with really the large players and building out a big scale.

So I think from my point of view, strategically, we want to expand the company. We need to get more operating leverage, to be honest. So that's both on the hardware and the software side. That's about everywhere from installation to operations.

We have to make sure that one plus one equals three. And so those are operational matters that I think we have a good line of sight to dealing with.

Then look, I think there's a big game to play in AI, everybody is struggling to get talent in the AI space but customer engagement, operational effectiveness, planning and product are all going to benefit from AI.

We have -- does some work there. We have a lot of data to put to work as well. So I think those are all great opportunities, very significant opportunities over the long run. So the good news is, we don't lack for opportunities.

We just have to do it effectively and to make sure that it results in profitability, which is what Daryl mentioned when we talked about financial discipline and rigor around tracking and measuring our success.

Yi Fu Lee^ That makes sense, Frank. And for me to follow this, like the SaaS revenue model adoption, obviously staying at 37% of total revenue.

Obviously Daryl, you can help out on this as well that comes to the financials as well. You mentioned by the end of this year; the hardware headwind will subside. Does that mean like 2026, we should see expansion?

That's number one.

Two, can you help us do the journey like the transition journey in terms of getting customers to get to SaaS?

I understand that it's a new customer, I assume you don't want to sell SaaS. But if I'm already an existing customer, how hard is it to get them to SaaS with the understanding of obviously SaaS enjoys a higher margin, like you said, over 70%, and there's more to go, right?

Frank Martell^ Yes. Let me -- I'll hand it over to Daryl.

I just want to mention on the revenue point, when you do bulk hardware sales, they're very large as a percentage of our revenue in some quarters. So when you eliminate that, those sales don't go away. They just have a different timing profile.

So from my point of view, the lumpiness will dissipate, and you'll have more progressive growth profile. I'm not saying every quarter necessarily will be growth. But you should see a growth profile.

In a business like this, we should see an acceleration of growth because we have a lot of virgin territory to go after in terms of customers and products.

And I think from that point of view, it's a big space.

We have a big, big base already, but it could get much, much bigger. I think that's -- those are the fundamental drivers. But I'll let Daryl kind of cover the other matter just (inaudible).

Daryl Stemm^ Yes. Some additional thoughts on the SaaS revenue.

For us, our primary driver of increased SaaS revenue is adding new units to our platform. The number of units that we currently have deployed is about $850,000 in total, and that represents about a 10% increase year-over-year.

So number one, simply expanding the installed base is very important.

The other is, we've been increasing and enhancing our product offerings to deliver more value to our customers, and it's reflecting itself in a higher average SaaS ARPU. what's really important to note with regards to the ARPU metrics is that our existing deployed base is averaging about $5.66 per unit and the new bookings that will then become deployed units are averaging in excess of $8.

So what that tells us is that we're offering an enhance value. We just want to make sure one of our objectives would be to continue to book SaaS at rates that are above our existing deployed SaaS rate.

Yi Fu Lee^ Got it. Got it. Then, Daryl, let me -- and there was one last question.

I'll ask them both, more financial related. You mentioned adjusted EBITDA as well as free cash flow neutrality as you exit 4Q of this year.

So does this mean that going forward 2026 and beyond, should we expect breakeven or above?

That's number one.

Then, Frank, on the product side, you mentioned about infusing AI into the product. Can you tease us a little bit more on what are the things that in your roadmap, technology roadmap that you want to build into product.

As Daryl mentioned, obviously the new book is you're enjoying over $8 in ARPU. So I just want to get a sense of the AI infusion.

Daryl Stemm^ Yes. First, let me answer your first part of the question is, we believe that we're positioning ourselves to exit this year on a breakeven basis.

We're not yet giving guidance formal guidance. We do hope to provide that at some point in the not-too-distant future. But we're simply saying that we've now aligned or planning on fully implementing a plan to align our costs with our existing revenue level.

Then with continued discipline, financial discipline, we would anticipate positioning ourselves for profitable growth, leveraging our existing operating expenses and optimizing our operations further, but we're not yet formally instituting guidance, to be clear.

Frank Martell^ Yes. And look, to answer your question on AI, but just also mentioned, the idea, we have $105 million of cash at the end of the second quarter.

We want to keep that cash and invest it in the future. I think that's the opportunity that we have, and we're laser-focused on.

So -- and eventually grow the balance because that will be the fuel for investment and realizing our fullest potential over the three- to five-year kind of planning horizon.

In terms of AI, we are already in AI to a certain degree, I'd say it's small at this point. We have a lot of data. So the use of that data to help our clients make better decisions as an area, for example, that AI will play a role in.

In addition, across our ability to having our 850,000 units installed is a pretty large servicing effort as well. So this helps us to be very efficient in responding to customer inquiries.

Then eventually, it will help us to, I think diagnose and detect risk elements, for example, leaks and other things. So there's a lot of application to AI here for both our workflow and for our customers' workflow, and that's really where we're going to focus the next 12 to 18 months.

Operator^ And that concludes or Q&A session. I will now turn the call over to Frank Martell for closing remarks.

Frank Martell^ Okay. Thanks, Operator. Look, in closing, I want to thank all of our talented employees and all of our stakeholders for your ongoing support. It's very meaningful.

I think we've laid out a clear plan at this point to drive for profitability in the coming quarters and to grow our business with property owners and operators at a more rapid pace as we get into 2026.

We're going to remain laser-focused on the next couple of quarters on disciplined execution and market leadership, and that's the recipe for our long-term success. So thanks, everybody. And I look forward to reporting more on our progress in the coming quarters.

Operator^ That concludes today's call. Thank you, all for joining. And you may now disconnect.