NASDAQ:KSCP Q4 2025 Earnings Call Transcript

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William Santana Lee | Chairman and CEO of Nightscope:

All right, let's get going. My name is William Santana Lee, Chairman and CEO of Nightscope and here with our trustee CFO, Apoorv Devedi. We're going to do a little bit of a different format today. First, an announcement regarding this Thursday, then Apoorv will go through the 2025 financial results that we filed on Form 10-K. And then we aggregated a bunch of questions that have come in, including from the three equity research analysts, and we'll try to put that in a much more efficient approach to answering questions. So with that, I'll start it off with... We're going to have our first annual Autonomous Security Force Day and also celebrate our 13th year anniversary in business. I often like to say we're here in Silicon Valley. There are 22,000 startups here. 95% of them failed despite having unbelievable ambition, financing, and the like. And for us to be able to start the company, get it funded, grow it, take it public, buy two companies, and still be at it 13 years later is really a testament to the relentless nature of the Nightscope team. And I couldn't be more excited about our future as we build out the nation's first autonomous security force. So this Thursday, we're going to have several VIP private sessions for previews as to what we're building during 2026 and intentionally to get some market feedback. And then we're going to have an open house presentation. in the evening here in Sunnyvale at our new headquarters, and there's rumors flying around there's going to be an ice cream truck and a bunch of other stuff. So hopefully if you haven't RSVP'd, please be sure to check our social media channels or newsletters, and you can grab a spot there. So that will be at 6 p.m. this Thursday. All right, with that, I'll turn it over to Apoorv. We'll walk you through history, meaning 2025, and kind of what happened then. Then we'll talk a little bit about the acquisition and the questions and why all the excitement for 2026 and beyond. So with that, Apoorv.

Apoorv Devedi | Chief Financial Officer of Nightscope:

Thanks, Bill. Good afternoon, everyone, and thank you for joining. I will begin with a review of our financial performance, first for the Q4, and then the full year 2025, followed by commentary on liquidity and capital strategy. With that, let's jump right in. Q1, sorry, Q4 revenues declined approximately 9.8% year-over-year product shipments primarily driven by supply chain constraints, which we've talked about in the past, that resulted in delays of VCD product deliveries. The services business remained materially unchanged. gross loss of 1.6 million reflects ongoing margin pressure driven by elevated material and other input costs for production and by under absorption of fixed manufacturing overhead these factors were consistent with full year trends and underscore the need for improved scale and supply chain normalization to drive margin recovery for the company Our operating expenses of 9.7 million in the quarter increased approximately 3.8 million year over year, driven by higher investment in both R&D and SG&A functions. R&D spending reflects the company's deep commitment to continued advancement of our next generation platforms, such as the K7, the K1 capsule, and the signal software. SG&A increased primarily due to targeted investment in talent and organizational capabilities, which are critical to positioning the company for future scale and growth. Overall, the cost structure reflects a deliberate investment phase to support long-term expansion. Q4 2025 net loss of $11 million. widened versus prior year due to a combination of lower revenue, continued gross margin pressure, and sustained operating investment. The quarter reflects a near-term financial impact of scaling the platform while revenue growth remains uneven. With that, moving on to full year. 2025 full year revenue grew approximately 4.9% to $11.3 million. driven primarily by the services revenue expansion in both the machinism service ASR offerings and our full service maintenance plans on the ECD install base. However, growth in the product revenue was modest due to the uh already discussed supply chain related constraints and shipment timing issues discussed earlier million increased by approximately 1.1 million versus prior year reflecting higher bill of material costages and production variability The lack of scale

continues to pressure unit economics, reinforcing the importance of driving higher volume and utilization as we continue to grow. Full year operating expenses increased approximately 12.1% year over year, driven primarily by a $5.4 million increase in R&D investment compared to 2024. This reflects continued focus on platform development and next generation products to support future scalability. The increase was partially offset by cost savings in SG&A, expenses of approximately $1.8 million, as well as the absence of half a million in restructuring charges incurred in the prior year. This demonstrating progress in optimizing the company's cost structure while investing in growth. Full year loss increased to approximately 33.8 million. This reflects a combination of modest revenue growth, continued gross margin pressure, and elevated investment levels, consistent with the company transitioning to growth. Voted average loss per share of $4 decreased by approximately 63.5% year over year. Finally, From a balance sheet and cash flow perspective, we used approximately $30.3 million in operating activities during 2025, reflecting a continued investment in

Apoorv Devedi | Chief Financial Officer of Nightscope:

scale.

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Importantly, we raised 42.2 million through financing activities, allowing us to strengthen our balance sheet and support ongoing operations. We ended presenting a significant increase from the 11.1 million of the 83% year over year improvement in cash position. Looking ahead, our focus remains actively on managing liquidity through a combination of capital markets access, operational discipline and strategic initiatives designed to improve cash generation over time. In summary, 2025 was a year of foundational investment. We strengthened the liquidity position, continued to grow revenue modestly, and made critical progress in evolving our business model towards a more integrated and scalable platform. While near-term financial performance reflects that investment phase, we believe the combination of our technology, software, and now human-enabled delivery capabilities position Knight Scope to pursue larger opportunities and improve financial performance over time. With that, I'll turn the call over to Bill as you go through the questions provided by our analysts.

William Santana Lee | Chairman and CEO of Nightscope:

Yeah, of course, I think there's some connectivity issues, so if you want to kill the PowerPoint and turn your video back on, it would be great. So while he does that, let me put things in context a little bit. We've been at this problem and tackling this issue of trying to see if we can make the U.S. the safest country in the world, utilizing technology, AI, robotics, electric vehicle technology, telecommunications, the whole gambit. And after working on the problem for over a decade, it's become obvious to me that the nation's addicted to CCTV cameras, security guards, and video management systems running on Windows and are unwilling to change or willing to change at a snail's pace. And so we wanted to try to be helpful to our clients to build a managed service provider that can take a lot of the technological burden, complexity, regarding the technology itself, installation, IT, cybersecurity, keeping things up to date, making sure it's all operating off of a chief security officer's hands and go to market with a complete full solution instead of having this disparate set up widgets all over the place that don't talk to each other and the like. And an accelerant and catalyst to do that was the acquisition of EventRisk that we recently announced. And that's a transformative and strategic acquisition so that we can go to market as a managed service provider to actually fix a client's problems instead of doing the mix and match. And that's one of the reasons we're extremely excited about our future. You know, we've been at this for a very long time. I've never been this excited to get around with the team here. It's like I couldn't sleep before because all kinds of problems and stuff. Now I can't sleep because I'm too excited. So the future looks genuinely bright. We have a lot of contracts signed and just focused very much on execution, both operationally and technologically. We've got a lot of new technologies that we're developing, and we're

going to showcase some of that this Thursday. And these coming years are going to create literally a new kind of entity that has never existed before, a managed service provider that can be that nation's first autonomous security force. So with that, we got a bunch of questions in from a variety of folks, including our research analysts. So, Paul, if you want to read off the first easy question, we can get on it.

Apoorv Devedi | Chief Financial Officer of Nightscope:

Absolutely. All these questions are easy. Excellent. The first one was basically, can you provide visibility on timing of supply chain issues clearing up? And basically, you know, are any supply chain disruptions anticipated due to the, you know, due to all the global conflicts happening across the Middle East and Europe?

William Santana Lee | Chairman and CEO of Nightscope:

I think there's volatility prior in the system, still in the system, and I would forecast going forward we'll continue that volatility. So we need to better manage the volatility. Some of it has to do with tariffs, geopolitical instability, et cetera. Some of it has to do with an end-of-life component. And some of it has nothing to do with, hey, can you get the NVIDIA chip? It's the one specific resistor or button or what have you that ties up the whole thing, and it's not one strategic component. So this continues to be a whack-a-mole kind of problem that we're working through. We now have a supply chain manager and a team that's proactively working the issue. So we're starting to plan better, buy in advance, replace components, outright replace suppliers if needed. But to be on a cautionary note, we've had our struggles. I think we can try to minimize the damage, but a lot of it is not necessarily directly in our control.

Apoorv Devedi | Chief Financial Officer of Nightscope:

um so so we're working through the problem uh for poor vieta different take on that no agreed bill i think you know the the the volatility you know is is driven primarily by macro events and i think we're doing a lot of things internally to to mitigate as much as possible right the broader electronics market in particular continues to be volatile there's longer lead times tighter availability and items like compute modules networking hardware memory etc so I think those are some things that are just outside of control or control directly but we are putting in place a mitigation steps so things like you know making sure we're not relying on single source for expanding our relationships to multiple vendors, making sure that we identify items that have the highest risk and making sure that we have enough of those in stock, which is an investment in inventory. So there's a lot we're doing and we've been able to learn over the last few months that we're working through. I would say, you know, keeping supply chain production in sync is important for us and we'll continue to adjust as we things progress. We do expect that versus prior year, this year will have slightly better, if not much better outcomes as you continue to invest in supply chain and our relationships. All right, next. Next question was on the move. Is the move to Sunnyvale facility complete and up to operational efficiency?

William Santana Lee | Chairman and CEO of Nightscope:

Mostly. Mostly done. We have a little bit of a challenging landlord situation with less flexibility than we want, but we're working through it. One of the reasons we're having this Autonomous Security Force Day here is to showcase the progress that we've made since we've moved into the building. Still a lot more that we want to complete, but things are looking pretty good. I will confess that some of us are nervous that we're going to run out of space a lot sooner than we were planning, but that's a good problem to have in the coming months.

Apoorv Devedi | Chief Financial Officer of Nightscope:

Next one is on the recent acquisition. Following the event risk acquisition, can you give us an estimate of how much your potential market has expanded? Do you have an estimate around the new TAM?

William Santana Lee | Chairman and CEO of Nightscope:

I've been wanting to do an acquisition like this for five years, so the TAM that we actually put in the investor presentation, if you haven't seen the latest one, it's at nightscope.com slash America. That $230 billion there is the TAM that we're going after and remains unchanged because this was kind of the overall plan. I think this is an unlock or a catalyst for us to be able to go to market much more efficiently and much more aggressively. So I think one of the enticing things that's going to happen in the coming quarters is just to see genuine accelerated growth versus the less than optimal growth that we've seen to date. And the idea is to be able to... maybe two different steps here. One, we have existing clients between the acquisition and our legacy clients. And there's a significant amount of opportunity to cross-sell technology or security agents back and forth. So there's that kind of literal synergy. And then there's the, once that's done, let's go to market together in a in specific verticals for us to be able to, again, bring a total solution. So the TAM doesn't change the amount that we can go grab after the TAM and do it in an accelerated fashion has, I think, dramatically increased. If you haven't heard, the team's well over 400 employees now, and we're on a pretty serious pace of growth.

Apoorv Devedi | Chief Financial Officer of Nightscope:

Yeah, I agree, Bill. I think, you know, the way to think about it is not whether the TAM has increased, but more our ability to penetrate and grab a larger piece of that market share faster is definitely accelerated. You know, we've talked about this in the past where we've said, you know, Generally, when there are RFPs and RFQs out for security guards only, we were, for example, excluded from those because we don't have guarding services, we don't have humans, we're only technology. And then when we would try to go after technology, only RFPs and RFQs. Again, we didn't have a full-on solution, so it kind of limited us a little bit. Now, with the acquisition and being able to go to market in a way that allows us to provide that fully managed services or fully managed security services, it just allows us to go to market faster.

William Santana Lee | Chairman and CEO of Nightscope:

Yeah, and a little bit more context for those newer to that conversation. There are I think rough numbers, more than 6,000 guarding companies in the U.S. that maybe have more than 100 employees, plus or minus. Our friends over at Lake Street helped us vet the first hundred and we came across Event Risk and Eric Rose and a lot of special things about why we got so animated and excited. Having a combination of a serious operator who's been more than around the block has been able to work in large established guarding companies, helped train the Navy SEALs, Marine, law enforcement, and been able to grow and bootstrap an entire company unto himself with the team. It was an accomplishment in and of itself. If you add the growth, the continued double-digit growth that he's been able to enjoy over the past few years is another important bullet point. But another one that's very interesting, the industry's 100% to 400% employee turnover rates. The Nightscope security force is at 6%, very laser-focused on recruiting employees. Recruiting the right people, providing them health benefits, providing them the appropriate training. And in our case, we're going to be adding a few more things. The board of directors kindly approved stock options for the entire team so we can also attract more people and keep the people employed and engaged and have them be part of the winning solution here. And we're working on some new technologies to add. to those security agents. So in the future, you'll be hearing us talk about ASAs or augmented security agents that really don't exist today. And that allows all of that combined with The stationary technology, the autonomous robotic technology, the augmented security agents all having that data fed into our upcoming new signals software platform and our

remote monitoring team is going to give an unprecedented capability to properly secure a facility. And our security analyst that's remotely operating then now has machines to do things autonomously. They can escalate things to a different risk level to have some humans involved. And then there's a response element, both armed and unarmed. and that's unprecedented in the industry and one of the reasons why we're in good spirits and more than rather excited about the future.

Apoorv Devedi | Chief Financial Officer of Nightscope:

A question on the sales forces and how we mesh them together. Two questions, and I'll combine them here. What is the overall sales pipeline expected for the ASR, the ECD, and the event risk, or now known as the Nightscope Security Force businesses? And then what is the timing around being able to sell legacy Nightscope with the Nightscope Security Force services together?

William Santana Lee | Chairman and CEO of Nightscope:

I'm going to want Wall Street media and our own team internally to really stop focusing on selling widgets. How many of these units did you sell? How many of this standard stationary device did you sell? What we really need to focus on is aggregate total revenue growth of providing an actual solution to our clients. And that is the overall strategy for us to deliver a managed service provider and try to focus on fixing the client's problem improving outcomes, improving quality, improving service levels, and hopefully there's some cost reduction in there for a client depending on the location. But overall managed this much, much better than it's being done today and not focused on did you sell an agent or 10 agents or 100 or 300 agents with that contract or did you sell? The important part is are we fixing the client's problems? And that is a bit different now. and why the change in strategy is to force that change in adoption that's needed across the country. Most humans and most large organizations don't want to change. I told the Pentagon, DHS and Congress the same thing. This whole country does not want to change. uh even when you know sitting here silicon valley is a bunch of engineers like you hand them uh electricity fire and the internet uh in in terms of ai is like no no i'm good i know what i'm doing like i don't know uh i think we need to find a different path to to make those changes and give some relief uh to the chief security officers if you really put yourself in their shoes In this day and age, it was different 30 years ago. But when, you know, if you're ex-law enforcement, ex-military, you're here to secure a property, that's kind of your go-to skill mix. this day and age, hey, you know, can you please talk to me about, you know, 4G and 5G versus private LT versus industrial Wi-Fi? And then I don't know about the drone. And then is this cybersecurity compliant? But does the DOD accept the impact level five or is it a FedRAMP thing? And you want the robot to work with the guard, and it's just too much. You're asking a CSO to be the chief technology officer, the chief information officer, the chief information security officer, the head of facilities, purchasing, and everything else, and then we're wondering why it's not working and it costs too much money. So I really want the whole team, external and internal, to be focused on top-line revenue and bottom-line profitability as we get there.

Apoorv Devedi | Chief Financial Officer of Nightscope:

From a modeling perspective, will UB breaking event risk into its own reporting line item, or will it be included within the services revenue? I can answer that one, Bill. Really, TPD, we're assessing the right way to reflect the NISCOPE security force. revenues and line items in the business. Most likely, though, we do consider it to be a service, and we would want to include that in the services line. However, there are some gap rules that we're, you know, evaluating along with our auditors to make sure that we not only provide the right level of disclosures, but the right level of visibility as we go forth and draft up our 10 Qs and 10 Ks.

William Santana Lee | Chairman and CEO of Nightscope:

I don't think we missed part of the answer to the other question. The pipeline is rather healthy, let's put it that way. And we're intentionally focused on execution as primary drivers. So changing the recruiting profile of the team, setting the standards of the team differently, changing processes, figuring out appropriate uses of AI implementation for specific areas, building new technologies. Everything's very much focused around execution because the pipeline's rather healthy.

Apoorv Devedi | Chief Financial Officer of Nightscope:

Absolutely. Next question is, will you be announcing the contracts of the NYSCOPE security force when they are won?

William Santana Lee | Chairman and CEO of Nightscope:

I think that's also a TBD. As we mentioned during the sit down with Eric, if you haven't seen the interview, go on our YouTube channel. We want to take a thoughtful balance of the year process to Think through the branding, through IT, through HR, through finance, accounting, audit, technologies, et cetera, instead of rushing decisions. So that also applies to press releases, public relations, external affairs, government relations. and investor relations. So some will ponder and think through as the company continues to mature as a premium managed service provider.

Apoorv Devedi | Chief Financial Officer of Nightscope:

Next question kind of tails right into that, Bill. Can you provide a timeline for integration? How is the process so far? And are there any notable items to call out?

William Santana Lee | Chairman and CEO of Nightscope:

So this is probably my... I've lost track, 24th, 25th, or 26th acquisition. And as I often say, doing the deal is the easy part. For those that have been around the block, it may not seem that way for people that participate, but it is actually the easy part. The hard part is day one after you close a transaction. I will say it has gone a lot more smoothly than all of us expected. We have willing folks who want to work together, who want to make changes, who need additional support and changes. But as I just stated, the integration plan is try to get everything sorted in a reasonable timeframe over the balance of the year. In terms of priorities, let's call it finance, accounting, audit-related stuff first. probably dovetail HR and IT kind of the same time. And then the last is the go-to-market branding, marketing, and that sort of thing. We are planning to be at GSX in Atlanta in September so that you'll start getting a good – more than a sneak peek then as to how the integration is going.

Apoorv Devedi | Chief Financial Officer of Nightscope:

Yeah, I think, you know, being super deliberate in how we merge the two organizations, primarily around culture, around go-to-market strategy, and obviously the back-end support needed to Support the growth of the combined organization are things that we're looking at. From a timeline perspective, I think, you know, it will take a couple of quarters, if not more, for us to kind of get our hands around how we want to move forward as a combined company. We are looking at internally some of the things you talked about, for example, finance first, just integrating finance functions first. then looking at HR IT, and then finally as we move into the client-focused or public-focused face of the combined company. Any outlook for any more M&A

over the next year?

William Santana Lee | Chairman and CEO of Nightscope:

So we continue to look. for accretive opportunities. Typically, probably around two or three subjects. One is on the technology side. Again, living here in Silicon Valley, there's always some interesting items that might be easier to buy than to build. So, we continue to look on the coal, just coal technology front. Those often may not be, you know, top-line revenue focus. It's more the nugget of talents or technology that we want. Another would be on the remote monitoring side of things. So we want to continue to build up the RTX capabilities as we build out the security force. So we're actively looking there. I think the growth on the security force itself is, as I said, healthy. So I'm not sure we want to do a bolt-on just yet, but we have a lot of activity going on. So M&A, open for business, but always want to make sure it's going to be helpful for our shareholders and the overall growth of the company. And be mindful and careful and make sure we get a good deal.

Apoorv Devedi | Chief Financial Officer of Nightscope:

Last question, Bill. What are some key milestones should investors watch out for in 2026?

William Santana Lee | Chairman and CEO of Nightscope:

I can start. Maybe you want to finish. But I think the 10-Q that we filed in the second quarter that will reflect part of the activity from the Security Force side of things would be, one, the following 10-Q and then the following 10-Q. So I think keeping an eye on the regulatory filings starting mid-May. would be important uh maybe there are folks on the in the audience that don't realize this but usually when you have make an acquisition there's like this 71 day rule i'm sure i'm going to screw this up but within 71 days you need to file the uh kind of overall impact so we're working on that um and so that'll occur in uh in the coming weeks um probably in the in the may time frame um So that to us is going to be really important because that will show is the strategy working or not and is the company growing and heading towards profitability. Second, technology. This all gets very exciting if you can have a – pretty serious competitive advantage in a very large marketplace with capabilities that no one else can do. So, we probably want to keep an eye on the beta prototype testing actually occur in the second half of the year for the K7, which we're spending a lot of time on. When the board's excited, the management team's excited, the team's excited, our suppliers and vendors are excited, and all the recruits that we're hiring. Oh, by the way, go to nightscope.com slash careers. We've got a lot of openings. Are all excited and dying to work on the K7. Like, hey, maybe we're onto something. So keeping an eye on the K7 progress important. On the stationary side, we're unveiling the K1 capsule in Supertower here this Thursday. So progress there is important. And then also on the signals platform, I think those three things. that we can publicly talk about um or things to to keep an eye on so uh basically two answers to the question like is night scope uh doing well or not is the revenue going up yes or no and not based on press releases or anything else i want to see the regulatory filing is are the numbers going up yes or no and then or you're making uh serious progress on technology uh development that'll give us a sustainable competitive advantage i think those probably should be the two key items to keep an eye on almost before you've got another one?

Apoorv Devedi | Chief Financial Officer of Nightscope:

No, Bill. I think, you know, at the end of the day, it comes out to, you know, improvements in execution and how does that reflect in the company's financials and the way we are perceived in the market and by our investors and customers and clients and vendors. It's really our ability to go out and, you know, grow revenue, And with the combined company, we have a theory that this will actually accelerate this. So look out for the second half to see some of that proof. Obviously, product launches and commercialization of our new

product development that the team is working really hard on, that's going to be important. And overall, just watching, hopefully, as we do these things the right way over the next few quarters, especially going into the latter half of 2026 and then 2027, you should see improvements across all of our P&L line items, both on the revenue side as well as the cost mitigation side. And that's going to be the sum of all things we do from an execution perspective. If we do that right, it will show up in the financials.

William Santana Lee | Chairman and CEO of Nightscope:

And then I've gotten a lot of questions asynchronously here on – Hey, what does Bill and Apoorv and Mercedes know about running a guarding business? Well, keep in mind that the idea and how we approach this is very similar to how a private equity firm would look at it, which is basically we want to go buy a solid business that's run by stellar management. And then we give them the tools and support and technology for them to grow and give them the autonomy, frankly, to be able to do that. And we found that in event risk. The management team is very strong. They've been growing very quickly. The client retention rates are astronomically good. The employee retention rates are astronomically good. And we've got real hitters that we're betting on to continue to grow the business. And then what we're going to come with is technology then that will ensure that it's not a commodity staffing business of headcount the way it's kind of the industry has been run today. So, we're reimagining and re-architecting how physical security gets delivered to a client. And our initial interactions with folks that are in the know or prospective clients or in a pipeline, we know we're on the right path. Our focus right now is just heads down on execution. So the balance of the year to kind of wrap this up is focus on technology development, focus on growth, finish up the integration so that 2027, 28, 29 are hopefully some epic years for us. And again, we're in great spirits. The market, I think, is trying to understand what we just did. both on Wall Street and in the security industry. But the proof is going to be in the pudding. And I'm betting on this team, and we're highly confident that the future is bright. So, Paul, did you have any last remaining thoughts?

Apoorv Devedi | Chief Financial Officer of Nightscope:

No, same, Bill. I echo both your sentiment and the team's sentiment in that, you know, we have a lot to do. We have a lot going on, and, you know, we just have to keep our heads down and focus.

William Santana Lee | Chairman and CEO of Nightscope:

Lastly, I want to publicly thank our board of directors and the management team for the support in doing this strategic acquisition. Again, I've been wanting to do this for half a decade and finally got the brave pill to do it. And now I'm just kicking myself that we didn't do it five years earlier. But this is going to be a lot of fun. So hopefully for those of you that can join, we'll see you Thursday night for our first annual Autonomous Security Force Day. Please be safe. Thanks, everybody.