NASDAQ:KSCP Q2 2026 Earnings Call Transcript

Generated on 8/18/2026

Apoorv Dwivedi | Executive Vice President and Chief Financial Officer:

Good afternoon, everyone, and thank you for joining Nightscope's second quarter 2026 earnings call. I'm Apoorv Dwivedi, executive vice president and chief financial officer, and I'm joined by William Santana Li, founder, chairman, and chief executive officer. By now, you should have had a chance to review our second quarter 2026 earnings release, which was published at 1.05 p.m. Pacific time, just after markets closed. Before we begin, please note that today's discussion contains overlooking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our goals, growth, prospects, product roadmap, and outlook. Actual results may differ materially due to the risks and uncertainties described under risk factors in our most recent annual report on Form 10-K as updated by our other FCC filings. Overlooking statements speak only as of today, and we undertake no obligation to update them except as required by law. With that, it is my pleasure to turn this call over to Bill.

William Santana Li | Founder, Chairman, and Chief Executive Officer:

Thank you, Apoorv, and good afternoon, everyone. Thank you for spending part of your day with us. I'm going to start with the business and marketing highlights from the second quarter, what we won, what we built, and how we're setting up the second half of the year. Then I'll hand the call back over to Apoorv. We'll take you through the financials in detail. So let's dive right in. The second quarter of 2026 was the best quarter in NightSculpt's history. Revenue came in at $9 million, up more than 200% from $2.7 million in the same quarter last year, and a new quarterly record for the company. We now serve 434 clients across 42 states. That marks two consecutive record quarters following first quarter revenue that was up 106% year over year. Back in May, I stood in front of institutional investors in New York and made a simple commitment. Each quarter, better than the last. We have delivered exactly what we said we would do. In the second quarter, we built on the momentum from the first quarter of 2026, and we believe that we have laid the groundwork to keep it going forward. This compounding effect is the result of relentless commitment to execution across the entire organization. Apoorv will walk you through the drivers behind those numbers in just a few minutes. The integration of our recent acquisition now known as our security force is proceeding as planned and the collaboration between the teams is amazing to witness. Seeing firsthand the team collaborate on our new H1 wearable that will define the future augmented security agent or ASA is truly, truly invigorating. The teams are operating and beginning to work as one. as we look to expand our offerings with our current client base. This was our second acquisition as a public company, and the discipline the team has shown, closing it, filing it, and now integrating it without missing a beat, tells you a lot about the caliber of the team. More importantly, it strengthens exactly how we intend to differentiate Nightscope, the unique combination of hardware, software, and humans delivered as one managed service. This team has been working on efficiencies and delivering tangible results, including cutting the assembly time for one of our product lines by almost 80%. We've grown the depth of our technical team significantly as we're seeing interest in Nightscope grow significantly. We restructured our field service network in Northern California and the Northeast region by building relationships with local service providers and by insourcing Field Services in Southern California to provide better services while lowering our service delivery costs. We also strengthened the leadership in the company, recruiting multiple senior executives with a track record of scaling companies. Growth with discipline, that is the operating model. The K7, our all-new autonomous security robot, passed its Alpha prototype gate review. and we remain on track for initial deployments in the fourth quarter of 2026 as we move into the beta prototype phase. In April, we announced our partnership with Carnegie Mellon University, the top robotics institution in the country, whose graduate robotics program is now working directly on autonomous patrol technology under the guidance of our engineering team. We're taking a disciplined approach to the K7's market introduction, focused on success in the field. Client interest in the K7 deployment continues to grow. Simultaneously, significant work is well underway on an all-new signals platform designed to orchestrate our autonomous robots, stationary devices, sensors, augmented security agents, and our mission intelligence remote monitoring. An industry-first that combines pioneering proprietary 3D digital twin technology with AI agents to eliminate blind spots and provide an auditable trail for proof of work. Hardware, software, and humans working as one. One team, one force. Now let me spend a few minutes on the brand. Because security is not sold, it is adopted through trust. and building trust at a national scale requires showing up everywhere, with clients, with the media, with communities, with recruits, and with Wall Street. This quarter, we sharpened our positioning. Nightscope is a managed service provider, the only company uniquely combining hardware and software humans into one integrated offering. We are building the nation's first autonomous security force. That message resonated strongly with institutional wrestlers during our non-deal roadshows in New York, and its momentum is building. The team has been hard at work preparing for GSX 2026, the security industry's largest gathering, September 14th through the 16th in Atlanta, Georgia, where we'll officially launch the autonomous security force on the biggest stage in our industry. If you're attending, come and see us. One more signal of momentum. In June, we hosted a career night at our headquarters here in Silicon Valley and there was literally a line around the building to get in. The best people in the country want to work on this mission and we're hiring the best of the best. With that, I'll turn it over to Apoorv to take you through the numbers.

Apoorv Dwivedi | Executive Vice President and Chief Financial Officer:

Thanks, Bill. Revenue for the second quarter was $9 million, an increase of 228% compared with $2.7 million in the second quarter of 2025, and a new quarterly record. Growth was driven by the full quarter contribution from the Security Force acquisition, in addition to our core ASR subscriptions and ACD deployments. Gross margin was .7 million, or approximately 7% of revenue, compared with a gross loss of .9 million in the prior year period. This marks our second consecutive quarter of positive gross margin, driven by full quarter impact of the immediately accretive security force acquisition and margin expansion across both technology product lines, demonstrating that our integrated technology plus services model is structurally more profitable than either business alone. Operating expenses were $13.8 million compared with $5.4 million in the second quarter of 2025, primarily driven by investments in R&D to support the development of our next generation technology, as well as increased headcount across all departments and the integration of the security force. Despite the 3.9 million increase in R&D expenses from last year, the acquisition improved our operating leverage by adding higher margin revenue and leveraging our existing operating infrastructure. We expect these benefits to continue and strengthen as we achieve our new product development milestones. Net loss for the quarter was 14.1 million or 79 cents per share. and others. This was primarily due to the higher OPEX highlighted earlier as well as approximately $1 million in other expenses related to the fair value and the change in the fair value of the contingent consideration or earn out due to the seller of the recent acquisition. Turning to the balance sheet, we ended the quarter with cash and cash equivalents of 8.2 million. This is flat to prior year and with an improving cash conversion cycle due to the effects of the acquisition. In summary, record revenue, immediately accretive margins from the acquisition, expanding margins from maturing machines and network and service efficiencies, and continued discipline in expense management. The financial profile of the company is strengthening in step with the operational execution Bill described earlier. And now, we'll open it up to Q&A. So, Bill, what I'll do is I'll read the questions to you.

William Santana Li | Founder, Chairman, and Chief Executive Officer:

Give me all the easy questions.

Apoorv Dwivedi | Executive Vice President and Chief Financial Officer:

I'll give you all the easy questions.

William Santana Li | Founder, Chairman, and Chief Executive Officer:

All the hard questions go to you, the really bad ones.

Apoorv Dwivedi | Executive Vice President and Chief Financial Officer:

We'll send an e-mail. So the first question from the Autonomous Security Force Strategy bundles machines, software, and licensed human agents. What are the unit economics? What is a blended ASF contract more profitable for a client than a standalone robot lease? Oof.

William Santana Li | Founder, Chairman, and Chief Executive Officer:

Okay. I think we start off where humans can't do everything and technology can't do everything. Yeah. But that combination is extremely, extremely powerful. And so what we need to think about is how do we solve the problem for the client, not trying to optimize margins for individual discrete items. If you go pull just the contracts and the margins for traditional guarding unarmed, they're not very attractive, right?

Apoorv Dwivedi | Executive Vice President and Chief Financial Officer:

Yeah.

William Santana Li | Founder, Chairman, and Chief Executive Officer:

They're positive, but they're not software margins. If you're able to scale software, you're 60%, 70%, 80% gross margins. Probably on the low end, you're 10%, 20% on the human guarding side. If you're able at scale, and we've done this. Remember, we did the analysis of our longest standing clients. You're somewhere in the 50%, 60%, 65% gross margin over that five-year period. So the Jedi mind trick is to be able to land with what a chief security officer would accept today, which are licensed armed and unarmed agents, and then over time become that trusted advisor. Hey, we've operated at your facility for quite some time now. I wouldn't really stretch the staff that way. You might want to consider, based on the data that we have, You might want to shuffle some things around and add some technology, maybe pay the team more appropriately. And over time, I want to see, and this is going to take some time to scale, but I want to see us in the 50%, 55%, 60% gross margin net when all is said and done. And again, we need to focus on solving the client's problem first. and stop, as I keep driving my team crazy, stop selling widgets. Don't, you know, please buy my robot, please buy my sensor, please, you know, hire my agent. We really need to focus on positive outcomes for our clients, hopefully significantly improved quality and over time reduce those costs. So the last bit I would say, it's deter. You want to deter negative activity before it occurs. And that could be a human presence, it could be technology. You want to be able to detect. Mostly that's technology where you're able to do, say, superhuman capabilities that a human wouldn't be able to process. Then you need to actually respond. You saying, hi, let me, all these alerts and stuff, and you don't respond or 90% of the alerts are false, kind of problematic. But the key here is the data wheel, is being able to learn over time. So deter, detect, respond, learn.

Apoorv Dwivedi | Executive Vice President and Chief Financial Officer:

Learn.

William Santana Li | Founder, Chairman, and Chief Executive Officer:

improve the algorithms, improve the technology, improve our standard operating procedures, and over time you become that much more effective for the client. And if you do that really well, that client will tell the next client.

Apoorv Dwivedi | Executive Vice President and Chief Financial Officer:

And I think part of that also is going back to the outcome. So unit economics work when we're selling to a traditional audience, and we kind of are, but the expectations are traditional. Oh, I'm going to go buy a camera. I'm going to go buy as a guarding service. I'm going to go buy access control. I'm going to go buy something else.

William Santana Li | Founder, Chairman, and Chief Executive Officer:

And each one has its own unique, you know, economic... Or the cameras don't talk to the guard. The guard doesn't talk to the remote monitoring team. The remote monitoring team doesn't talk to the investigation team. Why is the chief security officer having to manage 8, 10, 12 different vendors? They're all very, you know, competent in invoicing you. but can you actually account for everything that happened with an audible proof of work and a track record of everything that happened at that location?

Apoorv Dwivedi | Executive Vice President and Chief Financial Officer:

Yeah, and I think that's what we'll prove out is that the solutions-based skills approach takes away the unit economics and focuses on outcomes. Next question is what is the appetite for additional M&A and what criteria would you be looking for in a potential transaction? Is the incremental revenue the priority or something else?

William Santana Li | Founder, Chairman, and Chief Executive Officer:

Okay, so this recent acquisition was the 25th of my professional career. Doing deals, as I often say, the deal part is actually relatively speaking easy. It's the day one and integration after is going to make or break a deal. So you got to be very careful what you pick. I think it probably sits in three buckets. The first bucket, there's probably... Somebody's going to do the research here, but plus or minus maybe 8,000 gardening firms in the U.S., plus or minus maybe 6,000 have more than 100 employees. I believe most of them are owned by boomers that are retiring. The kids don't want to take over the business. And the large big box staffing companies aren't likely to buy them. So you literally have an illiquid market, which is an interesting dynamic. for doing a roll-up. I think if we're a private equity shop, you'd look at the recent acquisition as you bought a platform company. You've got a growing company, a strong management team, actual results, and something that you want to build on. So I think there's opportunities for us to organically grow the security force. Maybe there's some bolt-on acquisitions as we get further along. So that's the first bucket. Second bucket, We've been actively looking at remote monitoring companies. This could be immediately accretive because that remote monitoring company likely does not have a security force component and likely does not have a technology or robotics component, but does have a client base, cash flowing, and could be highly synergistic. Again, we need to be kind of a little picky here, make sure we're careful, but we've been shopping for that I think lastly, we live here in Silicon Valley, 22,000 startups, as I often say, some of the most brilliant minds in the world, backed by millions and sometimes billions of dollars, literally 95% fail. And so there's all kinds of goodies and assets sitting around at any point in time. It could be a piece of technology. It could be a particular algorithm. It could be a sensor. It could be a team. So we're always on the lookout there. So those would be the three buckets. Continued inter-organic growth on the security force side, remote monitoring opportunities that are likely to be highly synergistic, and then the last one would be on the technology side, yeah.

Apoorv Dwivedi | Executive Vice President and Chief Financial Officer:

I would probably even go a little bit to kind of summarize that if you think about our strategy, which is hardware plus software plus humans. We're really good at the hardware. The hardware we have, the humans pieces, we're working on that, and that's where the opportunity is. And the software is where the opportunity is because, again, there's so many people working on some really brilliant technologies and analytics and software that if we can find the right one to plug in, Why don't we do that?

William Santana Li | Founder, Chairman, and Chief Executive Officer:

And then, again, if you go on our brand-new Chinese website at nightscope.com, it literally says on the homepage, for you, the chief security officers of the United States of America. And so any decision that we would be making would be in your interest for us to build the most powerful autonomous security force offering to really fix the client's problems and, frankly, our nation's problems, right? Next question.

Apoorv Dwivedi | Executive Vice President and Chief Financial Officer:

Let's talk about clients. Can you give your perspective on client retention, renewals among the legacy security force client base?

William Santana Li | Founder, Chairman, and Chief Executive Officer:

I'm sure this is not 100% accurate, but one of the reasons we made the acquisition was very rarely to zero have the security force lost the client. They may have fired a client, which is different, but The retention has been really strong there, I think, one. I look at our client base. We're now 434-plus clients across 42 states. If you go to our – there's a new investor updated deck. If you go to ir.nightscope.com, our new IR site, you can pull that down. I think there's a slide on there that reflects something to the effect of, If you take the top five of the 434 clients, their security spend is on the order of about $850 million. So what is the easiest sale you're ever going to get? Frankly, an existing client. So I've been very much focused on thinking through strategies and approaches on how do we leverage the 434 and see what Good We Can Do for them. And along the way, we've met a lot of folks that are struggling with the existing kind of setup. So there's going to be primary focus on existing clients with some additional new clients as we go along. But the opportunity is certainly there. It's taken a very long time to go build the foundation to make all this happen. But this is a unique opportunity in time and a unique company. This is a managed service provider for physical security that's never existed. And knowing what we know, let's just say everyone in the building is in good spirits, right?

Apoorv Dwivedi | Executive Vice President and Chief Financial Officer:

Yep. Number four, can you expand on the meaningful synergies from the security force acquisition? This is it. This is it. Easy one.

William Santana Li | Founder, Chairman, and Chief Executive Officer:

It was easy? Meaningful synergies. So I think we want to look at it from a few different angles. Obviously, you've seen the numbers. There's a significant component on the revenue growth. You know, triple-digit growth two quarters in a row is kind of not normal. And over time, Wall Street will begin to learn Thank you for joining us. In terms of the synergies, there's 434 clients. So you might imagine a large portfolio of nationwide blue chip clients that have only had security force kind of footprint, I guess pun intended, and no technology. So there's a significant opportunity for we already landed. Let's go expand and be very thoughtful about, okay, please tell us what issues you're having. not by generalities, that particular address in that particular location. What incidents have you had? What's the budget? Where are you struggling? How can we be helpful? Have you thought about X, Y, and Z? What's the lighting look like? What's the signage look like? Try to be that thoughtful, trusted advisor that hopefully we can win that trust over time and go expand with technology. Similarly, you're kind of cross-selling doing the other way. So we have a lot of clients that have only technology that have an existing security staffing model with a lot of the big box staffing companies and aren't too particularly fond of the quality of service. And so for us to say, hey, listen, we offer executive protection. We have armed agents. We have unarmed agents. We will be unveiling the H1 wearable here shortly, so we'll have augmented security agents that no one in the industry will have. How can we help you with that? So there's that kind of cross-synergy is really important. And I think the second one, the third one, first is financial, second cross-selling, third is just cultural. One of the most difficult parts of M&A is, again, not just the integration, it's people. It's people, people, people. And trying to get everyone in the same boat rowing in the same direction is not easy. Sometimes public companies have to do stuff that a normal private company would never do and vice versa. And so little by little we've got to kind of get that to work. But I'll say this in good form. The security force team is highly disciplined, command and control.

Apoorv Dwivedi | Executive Vice President and Chief Financial Officer:

Yeah.

William Santana Li | Founder, Chairman, and Chief Executive Officer:

follow orders, and off you go. The kind of original technology side of Minescope, Silicon Valley, Scrum, let's kind of pie in the sky, think about how we're going to do this, let's collaborate, and all this other thing. And for us to be successful, it's not one or the other. You actually need to think about how to do this Apoorv Dwivedi, William Santana Li and you can't just tell an agent to say, go be autonomous. Do whatever you kind of feel is right. That's not going to work. But at the same time, the security force team has so much knowledge, experience and relationships and insights from the industry and that influence on the technology, we're already seeing some benefits of that. We actually have agents here today testing out the prototypes for the H1 wearable. And so I think that's where one plus one equals seven.

Apoorv Dwivedi | Executive Vice President and Chief Financial Officer:

Yeah, I agree. I think on the top line, if you think about or go to market strategy, we're uniquely positioned to go after the outcome-based approach, which we think we have the right positioning to do so. Simultaneously, we've talked about this. If you look at the P&L below the gross margin, the OPEC side, which are already integrating finance, integrating HR. So those synergies in the shared services model internal to the corporation allows us to kind of do some of the cultural things you were talking about.

William Santana Li | Founder, Chairman, and Chief Executive Officer:

And financially, I think it's also really important that in order to be public, it costs literally millions of dollars, right? Absolutely. And just because we add more revenue and more capabilities, more everything, We can now sweat the assets that we have. So a crude example would be like if we had solely one client, but we needed to remotely monitor the health of those machines and the security aspects of it, you still need four people to run 24-7, right? It's not – but if you added 30 more clients, do you need to – 30 times 40? No, you don't need to do that. So there's some scaling as we add. There's more efficiencies as we continue to scale. And you're not going to quintuple the marketing department because you quintuple the revenue, right? So there's a lot of leverage coming. And as we committed during the recent non-deal roadshows, every quarter is going to be better than the last. And that's a tall order. We've been working very hard, and we've got two quarters to prove it. We just need to keep at it.

Apoorv Dwivedi | Executive Vice President and Chief Financial Officer:

Question on pipeline. Any thoughts on – I know we don't share pipeline data, but it looks like we're getting asked for some indication.

William Santana Li | Founder, Chairman, and Chief Executive Officer:

I think the best thing for us to say is we have 434 clients. Somebody can go do a guesstimate with Claude or whatever. I might have done that. I don't know. There's not an auditable number because it's literally a guesstimate from AI. But those 434 is probably $3 to $6 billion of annual security spend. If 5 is 850, you can imagine it's somewhere in the billions range. So I think that's the most important focus. And then we need to focus on the technology itself. We've got an all-new K7 that everyone's really excited about. It takes time and money to go do that. We've got an all-new H1 wearable that's going to go on our agents and our agents only. That's going to also take some time and money. We've got the all-new Signals platform, a piece of software that's going to orchestrate everything, hardware in terms of the robots, the stationary devices, the sensors, plus our agents, plus our mission intelligence remote monitoring. That piece of software is an industry first. This is like literally we're going to remotely monitor a location in three dimensions. This is going to be absolutely... I think the last question is somebody asked, I would love to hear Bill's thoughts on when he believes the public will catch on and the stock price will rise. Oh, my. Okay. Like I said, despite all the emails, texts, and voicemails, I don't control the stock price. You do. So all I can do and the team can do is improve our financial performance of the company. We can grow the company. And we can communicate, communicate, communicate. The rest is literally up to the market. And I'll just restate what I said earlier. If you think about... where the company is going. We have all the pieces all now beginning to get integrated into one holistic managed service provider. We know that this is a massive pain point for this multi-billion dollar industry. And so if we just focus on fixing the damn problem, like you're going to get rewarded for it. So the best thing the team can do is continue to focus on execution. Topline revenue growth up, cost of goods down, careful with our fixed cost basis, scale things up and get the technology to do magical things that no one in the industry is going to be able to do or can do, and then put the numbers up on every Q and every K. And then the way the stock should respond is simply on the numbers. And that's why we... to look at the changes from all these years prior to what happened in the first quarter, what happened in the second quarter, and now start thinking what the third, fourth quarter, and next year is going to look like. We are building something extremely special, and all the pieces of the entire puzzle are falling in together, and I've literally been and this is not the founder being the founder and buying a glass half full or building a glass factory. I've never literally been this excited about Knight Skills Future in all 13 years of my career here. We've got an unbelievable team. We've got unbelievable technology. We've got existing clients. We just need to focus on execution. And on that last point, how you de-risk the execution side, You hire brilliant people. Absolutely.

Apoorv Dwivedi | Executive Vice President and Chief Financial Officer:

With that, I think this concludes our Q&A. I'll hand it back to you if you have any comments.

William Santana Li | Founder, Chairman, and Chief Executive Officer:

Thank you, Apoorv, for doing this. Let me leave you with this. In the second half of the year, we expect to deliver on these four things. First, initial K7 deployments in the fourth quarter. Second, The official launch of the Autonomous Security Force at GSX in September. Third, the initial launch of Signals, our software orchestration platform. And fourth, the same thing you've seen the last two quarters. So thank you to our clients for their trust, to our shareholders for their support, and most of all, to the absolutely relentless Nightscope team. One team, one mission, one