NASDAQ:KSCP Q3 2026 Earnings Call Transcript

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Conference Operator | Operator:

Good day, everyone. Welcome to the Knightscope third quarter 2026 financial results conference call. All participants will be in a listen-only mode until the question and answer session begins. Following the prepared remarks, we will conduct a question and answer session. As a reminder, this conference is being recorded. If you have any objections, please disconnect at this time. I would now like to turn a call over to Apoorv Dwivedi, Chief Financial Officer of Knightscope. Please go ahead.

Apoorv Dwivedi | Chief Financial Officer:

Thank you, operator, and good afternoon, everyone. Earlier today, Knightscope issued a press release announcing financial results for the third quarter ended September 30th, 2026. The release is available on the investor relations section of our website at knightscope.com. Before we begin, please note that today's discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These include statements regarding our expected financial and operating performance, the conversion of renewals, bookings and client awards into revenue, product deployment timelines, margin improvements, and our liquidity and capital needs. These statements are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially. are described in our filings with the Securities and Exchange Commission, including our most recent annual report on Form 10-K and our quarterly reports on Form 10-Q, including the Form 10-Q for the third quarter we filed earlier today. We undertake no obligation to update any forward-looking statement except as required by law. With that, I will turn the call over to Bill.

William Santana Li | Chairman and Chief Executive Officer:

Thank you, Apoorv, and thank you all for joining us this afternoon. Last quarter, we committed to continued execution consistent with the first two quarters of the year. Today, we affirm that commitment. Third quarter revenue was $8.7 million, up 177% year over year. That is our third consecutive quarter of triple-digit year-over-year revenue growth. That is our third consecutive quarter of triple-digit year-over-year revenue growth. Just as important, our service business is now running at a positive gross margin. A year ago, the company recorded a gross loss of $1.6 million. This quarter, we delivered a positive gross margin of $0.4 million. That is a $2 million year-over-year improvement, and it shows the operating model starting to work. This year, we redefined our go-to-market strategy around one idea. Clients do not want to buy equipment. They want security outcomes. That is why we are pairing our autonomous machines and AI-driven software with licensed armed and unarmed security agents to deliver one accountable operation under one contract. In September, we unveiled the Autonomous Security Force at GSX 2026. We presented autonomous machines, AI-driven software, and licensed security agents together as one managed service. The response from clients, partners, and prospects confirmed that this is the right offering for the market. Commercial momentum continues. Since May 2026, we have secured approximately $27 million in renewals, bookings, and client awards. That is a corporate record. We're also moving to accelerate delivery. K7 Manufacturing has begun at Nightscope headquarters to accelerate deployment during the fourth quarter of 2026. On the software side, Signals, our proprietary orchestration software and operational digital twin, is live in its initial release at Nightscope headquarters. We demonstrated it live to the public last week. See our YouTube channel if you want the replay. Signals is the layer that ties our machines, our software, and our people into one coordinated operation for the client. Our priorities are clear. Convert the approximately $27 million in

renewals, bookings, and client awards into revenue and expand with clients we already serve. Simultaneously, continue to improve our operating margins. With that, I'll hand it back over to Apoorv to walk through the financials.

Apoorv Dwivedi | Chief Financial Officer:

Thank you, Bill. I will review our third quarter results, and all the comparisons are to the third quarter of 2025, unless otherwise noted. Total revenue was $8.7 million, up 177% from the $3.1 million in the prior year period. Service revenue was $8.6 million, up 349%. This included $6.6 million from Nightscope Security Force, or KSF, the business we acquired in February of 2026. Service revenue now represents nearly all of our revenue, reflecting our intended shift to a recurring managed services model and service contracts that bundle machines, software, and agents. Product revenue was $0.1 million compared to $1.2 million in the prior year period. We continue to sell our products, though at a slower pace, as we evaluate direct and channel partnerships that help us convert inventory to revenue, margin, and organic operating cash flow. Gross margin was positive 0.4 million, or 5% of revenue, compared with a gross loss of 1.6 million in the prior year period, an improvement of 2 million year over year. Services gross margin was 0.7 million, or 8% of revenue, compared with the services gross loss of 1.6 million in the third quarter of 2025. Margin improvement remains a top priority and we expect scale, contract mix, and operating discipline to drive further progress. Total operating expenses were $12 million or 138% of revenue compared with $7.9 million or 254% of revenue in the prior year period. Revenue is growing faster than our cost base and we continue to demonstrate operating improvement. Research and development expenses declined 5% to $3.6 million. This is primarily due to the fact that we've completed majority of the development work around our new products. And as we move towards pilot deployments, we continue moving engineering in-house to improve development speed and control while reducing overall costs. SG&A expenses were $8.4 million. This included two items worth calling out. First, approximately $1 million of events and sponsorship costs, primarily for the autonomous security force unveiling at GSX 2026. This was a deliberate investment and, as Bill noted earlier, the response from existing prospective clients validated our approach. Second, We incurred a cost of 0.6 million of higher intangible asset amortization related to the KSF acquisition. Net loss was 11.8 million or 50 cents per share as compared with the net loss of 9.5 million or 98 cents per share in the third quarter of 2025. On the balance sheet and liquidity side, we ended the quarter with cash and cash equivalents of 6.8 million. With that, I will turn the call back to Bill for closing remarks. Thank you, Apoorv.

William Santana Li | Chairman and Chief Executive Officer:

To summarize, three consecutive quarters of triple-digit growth, a service business now at positive gross margin, a record level of renewals, bookings, and client awards, and a fully integrated autonomous security force now in market. Our job now is execution. Thank you to our team, our clients, and our shareholders for your continued support. Operator, we're ready now to take questions.

Conference Operator | Operator:

We will now begin the question and answer session. If you would like to ask a question and have joined via the webinar, please use the raised hand icon, which can be found on the black bar at the bottom of the webinar application screen. When you hear your name called, you'll be... prompted to unmute your line and ask your question. We will now take a moment to allow the queue to form. Your first question comes from Max Michaelis with Lake Street Capital Markets. Please unmute your audio and ask your question.

Max Michaelis | Analyst, Lake Street Capital Markets:

Hey guys, thanks for taking my questions and congrats on the quarter. First one from me, can we talk about pipeline here for K7 as well as KSF? I mean, Where are we at in terms of potential deployments for KSF? I know we're starting to manufacture it and coming out of GSX. I mean, what's the buzz there? Do we have potential customers lined up? And then when we think about KSF, talk about sort of the new contracts, maybe going into 2027 and sort of the growth around that.

William Santana Li | Chairman and Chief Executive Officer:

Hey, Max. I appreciate the question. I can start it off and Apoorv can add to it. I really want the street and our prospective and existing clients to really start thinking about solutions as opposed to individual products or widgets. So the question around the K7 would be more aligned with, is the K7 part of an overall solution to secure a facility? Like just putting out a single machine, similar to just putting out a single security guard or agent, is not going to fix the client's problem. And that's where we're really focused on delivering positive outcomes. So if there's an opportunity for us to look at critical infrastructure, very large manufacturing distribution type of locations, corporate campuses and the like. And the K7 is part of that integrated solution of stationary devices, armed and unarmed agents or augmented agents. We have a pretty strong pipeline. I think one of the things that the street hasn't yet understood, I think we disclosed this prior. If you look at just our top five clients, their annual security spend is estimated on the order about $850 million a year. We now hold about 434 clients across 42 states. I think that estimates around in the $3 to $5 billion range. So one of the most important things we can do is serve our existing clients with improved solutions to reduce their costs. Yes, we do have maybe a little bit too much interest in the K7. And so we're working through a very disciplined, like we said we were going to do, Apoorv Dwivedi, William Santana Li We want to make sure that we are very disciplined in the execution so we can deliver a high quality outcome for our clients. But the pipeline and the opportunities for the autonomous security force integrating software, hardware, and humans is substantial and why we believe that will continue to put up new 10Qs and 10Ks that are better and better each quarter as we've done for the last three quarters this year. Apoorv, did you want to add anything?

Apoorv Dwivedi | Chief Financial Officer:

I think, Bill, you covered it. It really comes out to, again, how we and many more. It's important to note that really we are the first ones doing it. So, you know, we have to be deliberate, we have to be strategic, and we have to make sure it's successful. And that's kind of what, you know, what's driving our timeline as well as our desire to kind of make sure that we're not rushing it.

Max Michaelis | Analyst, Lake Street Capital Markets:

Okay. What's your production capacity for the K7 or overall robotics?

William Santana Li | Chairman and Chief Executive Officer:

I want to make sure. Maybe not revenue.

Max Michaelis | Analyst, Lake Street Capital Markets:

We don't need to go into too much detail around revenue capacity, but maybe robotic capacity or vehicle capacity in terms of the K-7.

William Santana Li | Chairman and Chief Executive Officer:

We typically don't think of it that way, Max. We don't do... Remember, maybe to refresh the audience's memory and yours as well. We do... Light Industrial Assembly. We don't do raw material conversions. We don't have a large assembly line to put anything else. If we need additional capacity, frankly, it's human power and additional warehouse space. There's not a long lead time. I came from the automotive industry. I know what you're asking about. Well, can that plant do 100,000 units a year or 60 jobs an hour or whatever it might be? And there's usually a huge lag on fixed costs and tooling and all the life needed to spool something up. We don't suffer from that kind of constraint. I'd actually put the constraint on the opposite side. It's on the deployment side where you actually need to be out in the field and implementing and integrating and installing all the stuff. Usually, frankly, it takes longer than the build. We're starting lower production volumes this coming year for the K7. I think internally, I don't think it'd be a surprise. We're likely to run out of space in our existing facility over the next few quarters. So we'll have to kind of reassess that. But we don't have like the manufacturing capacity constraint kind of concern that one would normally have with a hardware related item.

Max Michaelis | Analyst, Lake Street Capital Markets:

Okay, thanks for that. And the last one for me, that $27 million in renewals, bookings, and awards number, can you help me understand which or what percentage of that is new business one?

William Santana Li | Chairman and Chief Executive Officer:

Apoorv, do you want to take that one?

Apoorv Dwivedi | Chief Financial Officer:

Yeah, we don't necessarily break it out into that type of detail, but I would say a big portion of that actually is newer revenue, right? Meaning we have either expanded existing clients, Max, or we are getting new logos. Again, today we don't break it out, but if you look at our historical run rate versus just the bookings itself, it's easy to tell that a lot of that's either expansion or new revenue.

Max Michaelis | Analyst, Lake Street Capital Markets:

All right, guys, thanks for taking my questions.

Conference Operator | Operator:

Your next question comes from the line of Edward Wu with Ascending Capital. Please unmute your line and ask your question.

Apoorv Dwivedi | Chief Financial Officer:

Yeah, can you hear me? Yes. Can you hear me? Yes, we can hear you.

Conference Operator | Operator:

Edward, we are able to hear you. Please ask your question. Seems that Edward is having some technical trouble. We will return to his question. and we turn now to a question that was a written submission. It reads, you received the NASDAQ bid price deficiency notice. What is your plan to handling this?

William Santana Li | Chairman and Chief Executive Officer:

As typical, we have 180 days, and we're evaluating all the options to regain compliance. Priority for us is execution, and we're going to continue to put up improved Ks and Qs throughout as we've done the last three quarters. And we expect that the market will understand that if a company is continuing to grow in triple digits consistently, in a $200 billion plus TAM in the space of physical AI, robotics, autonomy, and security that probably should not stand. But we will see if the market agrees with us, but we're continuing to evaluate all options.

Conference Operator | Operator:

As a reminder, if you would like to re-enter the queue, please click the raised hand button at the bottom of your screen. Your next question is a written submission which reads as follows. Excluding KSF, what was growth and why did product revenue fall to 0.1 million?

Apoorv Dwivedi | Chief Financial Officer:

Apoorv, can I take that one? Go ahead, Apoorv. Yes, thank you. So on a product revenue, as you mentioned earlier, the company is reevaluating or continuing to evaluate how we go to market, right? So if you think about the ECD product line, which is what product revenue primarily was, We are looking to see how we integrate it into our bundled approach. And as part of that, we believe that we had to make some changes internally to how we go to market. And that's kind of where product revenue is. I think the business is shifting from one-time hardware sales to bundled services. And although we continue to sell the products, we are going to see how they fit into the overall integrated model.

Conference Operator | Operator:

Your next question reads as follows. Service growth margin is 8%. What does it look like at scale and what are the drivers?

William Santana Li | Chairman and Chief Executive Officer:

I can take that one. I think historically everyone knows that the manned guarding security industry is for the large three companies or, you know, kind of treat this more like a staffing model with less than stellar gross margins. And as when we announced the entire autonomous security force strategy was to land with humans, as we say, and expand with technology. The industry has not been the most technologically progressive. So we want to get a relationship established with the chief security officer who today trusts a unarmed or armed human agent. And then us as the managed service provider over time will understand how that operation works and then can be that technical architect to come in and say, well, here's how we would, here are three options on how we would re-architect the solution. And here are the potential benefits of improved outcomes, reduced costs, proof of work, audit trails, et cetera. And we would manage that on the client's behalf. So they would not have to take that execution and technical risk. We know what we're capable of doing and want to be able to provide that advice and service to our clients. So the answer is today. Thank

you so much for joining us. Your next question reads as follows.

Conference Operator | Operator:

Any idea when the company plans on becoming profitable?

William Santana Li | Chairman and Chief Executive Officer:

Apoorv, do you want to take that?

Apoorv Dwivedi | Chief Financial Officer:

Yeah, again, good question. It is definitely on top of all of our minds. Again, I think the answer lies on scale. Our goal is to continue to drive scale as we grow the business from where it is today and continue on the path that we are. As Bill mentioned earlier, we're seeing triple-digit growth. We expect that to continue and to drive that scale that we need. Becoming profitable really hinges on three profitable things. One is we have to grow revenue. Number two, we have to grow it profitably and grow our margins as we grow and as we scale. And three, maintain our operational costs. And the goal for the company is to do that. At this point, we don't provide guidance on specifically when we plan on and how we plan on it. Sorry, when you plan on getting there. But our team is entirely focused on achieving profitability as soon as possible.

William Santana Li | Chairman and Chief Executive Officer:

I'd emphasize that it's at the top of mind for the entire board of directors, including myself and the management team. We now are genuinely excited about our strategy on go-to-market in terms of the autonomous security force having unveiled that at GSX, as we mentioned, in front of 16,000 security professionals and being able to spend three days eye-to-eye trying to understand what the client's needs are, where the pain points are, where are the opportunities where we can help. We're highly confident in the strategy. and then fortunately we had the opportunity to spend three days at LD Micro in front of a significant number of investors at that conference and also being able to understand what the market is looking for in terms of Wall Street, in terms of our performance and then also seeing where the company is going with our signals orchestration platform, our H1 augmented security agent We feel that we have a strong understanding of what the markets are looking for, and we intend to focus on exactly that. We don't have a market risk. The market for crime is not going to collapse tomorrow. I was an engineer a long time ago. Technology can always be improved, but we don't have a technical risk. We solely have an execution risk. And that's what we're laser focused on, on making sure we have the right people in the right seats. and the right quantities so that we can reiterate what Apoorv covered. We need to significantly increase revenue, which we're working on. We need to dramatically improve gross margins, which we are also working on. And we also need to maintain our much improved Your next question reads as follows. How come the stock price is so low when U.S. security is very important? and a humorous note, a number of people that keep emailing me and texting me and leaving me voicemails wanting me to change the share price. All we can do is continue to improve the performance of the company, the financial performance. We continue to grow the company and we need to communicate, communicate, communicate. but the rest of it is frankly up to the market. I haven't been to that aforementioned LD Micro conference. The entire small cap market has taken a very large beating but I think long term, the capital markets are typically right. Maybe in the short term, they're not always correct. And the share price is supply and demand. More people buy shares, likely the share price goes up. Less people buy shares or more people selling likely go down. But as you noted, what we are working on is in the national security interests of the United States of America. And we will continue to execute relentlessly as we've done over the last 13 years. We've been through a lot of struggles. We've seen a lot worse than this. And we just need to continue to execute. And hopefully the market will reward us for

continued execution again. Triple digit growth, three quarters in a row. That is not normal. And we expect that the market will hopefully soon realize that you can't have a company growing that significantly in the space that we are with a heavy technology focus trading at these levels.

Conference Operator | Operator:

There are no further questions at this time. The call has concluded. Thank you for joining. You may now disconnect.