Snap One Holdings Corp.(Q3 2023 Earnings)

November 7, 2023

Corporate Speakers:

- Eric Steele; Snap One Holdings Corp.; SVP, Finance
- John Heyman; Snap One Holdings Corp.; Chief Executive Officer
- Mike Carlet; Snap One Holdings Corp.; Chief Financial Officer

Participants:

- Erik Woodring; Morgan Stanley; Analyst
- Chris Snyder; UBS; Analyst
- Adam Tindle; Raymond James; Analyst
- Keith Hughes; Truist; Analyst

PRESENTATION

Operator^ Good afternoon, and welcome to Snap One Holdings Corp.'s Fiscal Third Quarter 2023 Earnings Conference Call. At this time, all participants are in listen-only mode. After the speaker's presentation, there will be a question-and-answer session.

I would now like to turn the call over to Snap-on's Senior Vice President of Finance, Eric Steele. Sir, please proceed.

Eric Steele^ Thank you. Good afternoon, and welcome to Snap One’s third quarter 2023 earnings conference call. As a reminder, this call is being recorded.

Joining us today from Snap One are John Heyman, CEO; and Mike Carlett, CFO.

Before we begin, we would like to remind everyone that our prepared remarks contain forward-looking statements, and management may make additional forward-looking statements in response to your questions including, but not limited to, statements of expectations, future events or future financial performance.

These statements do not guarantee future performance, and therefore, undue reliance should not be placed upon them. Although we believe these expectations are reasonable, we undertake no obligation to revise any statements to reflect changes that occur after this call. Actual events or results could differ materially. These statements are based on current expectations of the company's management and involve inherent risks and uncertainties and including those identified in the risk factors section of our latest annual report on Form 10-K and our latest quarterly report on Form 10-Q filed with the SEC. All non-GAAP financial measures referenced in today's call are reconciled in our earnings release to the most directly comparable GAAP measure.

This call also contains time-sensitive information that is accurate only as of the time and date of this broadcast, November 7, 2023.

Finally, I would like to remind everyone that this conference call is being webcast and a recording will be made available for a replay on our Investor Relations website at investors.snapne.com. In addition to the webcast, we have posted a supplemental earnings presentation accompanying these results, which can also be found on our Investor Relations website. I will now turn the call over to our CEO, John Heyman. John?

John Heyman^ Thanks, Eric, and welcome, everyone, and thanks for joining us this afternoon. To begin today, I'll give some company background very quickly. I'll follow that up with a review of our strategy and recent performance, and then I'll turn the call over to Mike Carlett, our CFO. Mike will discuss our financial results for the quarter. In more depth, and provide more on our outlook for the remainder of the year.

I'll then share some closing remarks, and then we'll open the call for questions. All right. Let's get started.

As a reminder, here at SNAP One, we develop and distribute smart living platforms that empower professional integrators to deliver joy, connectivity and security to discerning residential and commercial customers worldwide. We work with our growing network of approximately 20,000 professional do-it-for-me integrators to distribute our proprietary and third-party products through our e-commerce portal and local branches.

We further support our integrator partners with our proprietary software platforms and workflow solutions to allow them to successfully serve their customers throughout the project life cycle. We believe the Smart Living opportunity is large and durable secular tailwinds, including technology adoption, software enablement, housing construction and small business formation will continue to propel the industry and our company forward. Many end users will seek professional health to select, install, integrate and support the technology solutions they require.

At Snap One, we aim to provide our integrator partners with the right tools to capitalize on this opportunity. I'll now turn to our business update. This is an incredibly exciting time at SNAP One. We closed the third quarter with momentum following an impressive showing at the 2023 CEDIA Expo that reinforced our leadership position in the smart living industry. It's always energizing for our teams to engage with a forward-thinking community of industry leaders with many of our integrator partners in attendance.

Before I get to some CD highlights, I want to first speak about the distribution platform we've been building. During the third quarter, we converged our SNAP One and control 4 portals in the United States, finally bringing together a unified experience for our partners. Snap One place to go to get the best products, training, workflow tools and service. Second, we continue scaling our brick-and-mortar presence, opening local branches, in Raleigh, North Carolina and Chantilly, Virginia to serve our partners in those attractive markets. These and other sales and marketing initiatives are helping to differentiate us in the market.

Now back to CDI. At the expo, we showcased the breadth of our smart living solutions across a range of both residential and commercial applications and included our audio, networking, power, surveillance, lighting, control and infrastructure categories. The strength of our overseas and Control4 software platforms were on display as the connective tissue underpinning our industry-leading solution portfolio.

Our team once again earned numerous industry awards, including: number one, CDA Best New hardware award for our Luma X20 family of video surveillance solutions, reflecting expanded residential and commercial applications. We believe surveillance will be the next form of security and Lumax is leading the way for our industry.

Two, residential tech today, Innovation Award for the new Control4 single-room bundle and Triad passive sound bars, highlighting our continued product innovation and opening new opportunities for our industry. And third and finally, the CDA Hall of Fame Award for overseas and for Control4 OS 2 recognizing the Snap One software platforms that have shaped this industry and transformed the way our partners run their businesses.

One of the most exciting takeaways from the CEDIA Expo this year was the continued hunger within the industry for an improved service model. Historically, the industry has operated in a transactional way with limited ongoing client engagement following the initial installation. This has often resulted in performance degradation of installed systems in the field, often missing software upgrades and interoperability updates over time resulting in low consumer satisfaction with their smart living experience.

The investments we have made in Control4 and overseas are enabling us to help change the way the industry serves its customers. We are positioning the industry to consistently improve the end customer experience with new features and functionality as well as integration and security updates.

These enhancements will allow customers to continuously improve their systems so they get more out of their systems during their lifetime of ownership.

After years of investment, we are looking forward to some exciting introductions in the first half of next year. As we look to close this year strong, we are reaffirming our continued focus on 2 other key strategic initiatives. First, driving higher platform and product adoption by our partners and in turn, delivering a far better end consumer experience; and two, expanding our operating margins through several key programs which have already yielded positive results. From a platform adoption perspective, our continued innovation in our products, solutions and service models, enhance our relationships with our partners, delivering a better end customer experience and driving market share gains for SNAP One.

This year, an unprecedented number of product launches has elevated our leadership role in the industry and extended our position in new channels. Complementing our product portfolio, we continue to enhance our go-to-market strategy to drive ecosystem adoption. We took several important steps during the third quarter including launching several targeted sales and marketing initiatives to drive towards a strong finish in 2023, completing a quarter's long effort to converge our U.S. and e-commerce portals to provide unified partner experience.

And finally, expanding our local brand presence by opening 2 local branches, as I discussed earlier. That brings the total number of North American branches to 43 at the end of the quarter, and we expect to open a few additional local branches in the fourth quarter. Strategically, we remain committed to extending our product line for the residential and commercial market while making it more profitable for our integrators to adopt these solutions, providing tighter integration through Control4 and oversea to deliver an easier install and unparalleled system reliability.

And finally, making it easier for our integrators to buy from us week after week through whichever channel they prefer. While we continue to drive growth, our second strategic initiative is achieving operating margin expansion.

During COVID and the supply chain crisis, we prioritized keeping our partners in business. This created near-term inefficiencies for us, including securing componentry, expediting product and pivoting R&D efforts based on abrupt changes and chipset availability.

At this point, the supply chain has largely normalized and our team has successfully extracted these cost inefficiencies, driving sustained contribution margin expansion this year. Importantly, this recovery has allowed our product teams to do what they do best, get back to building new products. We're also driving scale within our operating model. Integration activity related to previously completed acquisitions as well as investments we have been making within our technology infrastructure have continued to yield results. These investments will support our operating margin growth expectations going forward and are evident in our third quarter's results, which I'll now discuss.

Our team delivered solid results in the third quarter. We generated $270.1 million in net sales and $33 million in adjusted EBITDA, which represents another quarter of performance that was generally in line with our expectations. As discussed over the last few quarters, our sales have been impacted by ongoing channel inventory destocking since the middle of 2022, and but we continue to believe that the industry will reach a normalized level of channel inventory by the end of this year.

We're having success driving efficiency with our supply chain efforts, which, in addition to our focus on disciplined spending and ongoing efficiency initiatives has allowed us to expand operating margins to over 12% in the quarter. We expect to build on this momentum heading into next year. And now I'll quickly talk about demand factors. We balance our excitement for the future with a pragmatic view of the current operating environment. The ongoing macroeconomic uncertainty and channel inventory destocking headwinds have put modest pressure on near-term demand.

Generally speaking, our integrator partners continue to report healthy backlogs and they're optimistic about the future. They're highly adaptable and have proven an ability to pivot to a variety of projects to remain successful in changing market conditions. These can include upgrading their installed base with new products, or pursuing commercial projects. We have a unique ability to support this flexibility with our diversified business model and product portfolio, which allow us to serve integrator partners across a variety of price points and end markets. While we are seeing some softness from more budget-conscious end consumers for entry-level projects, we believe that the high-end residential and growing commercial markets remain resilient.

While we expect to see some demand headwinds continue into 2024, we're confident that we're winning share and will emerge as an even stronger company as the operating environment bounces back. With that, I'm going to turn the call over to Mike Corlett to discuss our third quarter financial results and 2023 outlook in greater detail. Mike?

Mike Carlet^ Thanks, John. I'll now turn to discuss our financial results for the fiscal third quarter, which ended on September 29, 2023. Our net sales in the fiscal third quarter decreased 3.9% to $270.1 million, down from $281.2 million in the comparable year ago period. As John alluded to earlier, our data continues to show that integrators have been working through their elevated inventory levels since the levels peaked around the mid-2022.

In Q3, our data indicates that our partners stop channel inventory at a rate that was a bit higher than we anticipated, which we estimate to be approximately $25 million in the quarter. Our recent data though suggests that the pace of channel inventory destocking continues to quickly decelerate and supports our continued expectation that the industry will arrive at its new normal level of inventory by the end of this year. Contribution margin, a non-GAAP measurement of operating performance decreased 0.2% to $113.6 million or 42% of net sales in the fiscal third quarter from $113.8 million or 40.5% of net sales in the comparable year ago period.

Contribution margin as a percentage of net sales increased due to an improvement in the supply chain environment our execution of cost management initiatives, which drove cost input efficiencies in the period. This was partially offset by lower proprietary product mix due to the year-over-year net change in back order fulfillment and channel inventory destocking as well as growth in third-party product sales, which was largely driven by new local branch openings, incremental brand assortment, and certain manufacturer promotions.

Our selling, general and administrative expenses in our fiscal third quarter decreased 6% to $84 million or 31.1% of net sales from $89.4 million or 31.8% of net sales in the comparable year ago period. The decrease in SG&A expenses was primarily attributable to a continued focus on cost controls and operational efficiency initiatives as well as our variable compensation leverage and a $1.6 million decrease in fair value adjustments to contingent value rights.

Our net loss totaled $0.9 million in the third quarter compared to a net loss of $1 million in the comparable year ago period. Adjusted EBITDA, a non-GAAP measurement of operating performance totaled $33 million or 12.2% of net sales in the 2023 3rd quarter compared to $31.9 million or 11.3% of net sales in the comparable year ago period. These changes were primarily attributable to contribution margin rate expansion and the reduction in SG&A expenses, as we previously discussed, partially offset by the net sales decline.

Adjusted net income, a non-GAAP measurement of operating performance decreased 24% to $11.3 million or 4.2% of net sales from $14.9 million or 5.3% of net sales in the comparable year ago period.

Our free cash flow, a non-GAAP measurement of operating performance totaled $45.7 million in the 9-month period ended September 29, 2023, compared to negative $25.4 million in the comparable year ago period. The increase in free cash flow was primarily attributable to the working capital benefit associated with the reduction in inventory levels. We're very happy to report that we came very close to achieving our previously communicated target inventory level of approximately $275 million compared to be approximately $293 million we were carrying at the end of last quarter.

At the end of the fiscal third quarter, we had approximately $135 million in total liquidity, including cash and cash equivalents of $40 million and undrawn revolver capacity of $95 million. We are pleased with the current liquidity position of the company and the operational flexibility it provides.

In the context of our capital allocation policy, our Board has extended the current share repurchase program by 1 year to December 31, 2024. As a reminder, the Board previously authorized up to $25 million of share repurchases, of which the company has executed approximately $3 million to date. With this extension, we will continue to evaluate share repurchases and in line with our stated capital allocation strategy.

Now I'll take just a few minutes to provide our financial outlook for the rest of fiscal year 2023. As a reminder, Snap-On provides annual guidance for net sales as well as adjusted EBITDA as we believe these metrics to be key indicators for the overall performance of our business. Our full year 2023 outlook remains largely intact. We are maintaining our focus on increasing profitability while investing prudently for long-term growth. This requires a continuous prioritization of our strategic growth initiatives to ensure we're allocating our resources appropriately.

In conjunction with this prioritization, last week, we executed a modest workforce reduction of about 2% in our business. We believe this action was an important step to streamline our cost structure and to position the company for success in 2024. Given our enhanced visibility into full year performance, we are narrowing our outlook for both net sales and adjusted EBITDA for 2023. We now expect net sales in the fiscal year ending December 29, 2023, to range between $1.06 billion and $1.07 billion, which would represent a decrease of 5.7% to 4.8% compared to the prior fiscal year on an as-reported basis.

We expect adjusted EBITDA to range between $110 million and $116 million representing a decrease of 3.6% to an increase of 1.7% compared to the prior fiscal year on an as-reported basis. So with that said, as we look to the future, we continue to believe that the growth in smart living adoption, the central role of the integrator in providing mission-critical solutions, our competitive differentiation, and our coming service innovations will enable us to prosper in dynamic macro environments and will propel our long-term success. So that completes my summary. John, I'll now turn it back over to you for just a few more comments.

John Heyman^ Mike, let me leave everyone with a few thoughts before we hit Q&A. First of all, we're really proud of our team's ability to grow EBITDA compared to the same period last year and expand our operating margins despite the headwinds that we face. And we remain incredibly confident in our expectations for consistent long-term growth, notwithstanding those headwinds. Through 3 quarters, we've made strong gains in our contribution margin, and we plan to continue expanding our operating margins.

Second, we remain committed to our overarching strategy. This includes growth versus via new proprietary product launches and market-leading service, growth in markets such as commercial and additional local branch openings. As I mentioned previously, we're also very focused on transformational software investments. And as a result, we have an exciting new service offering that we'll be announcing early next year. Of course, all these aspects of our company strategy continue to revolve around making our partners' lives easier even in an uncertain operating environment, we continue to strive to be the one partner that they can trust to support and grow their businesses.

And third and finally, we believe that all homes and businesses will become smarter over the next decade. Driving demand for the types of experiences we offer today and those we can only imagine in the future. We've invested in scale and software platforms and workflow and distribution platforms that will drive better solutions for the end customer, more capacity for the integrator and growth for our company in a way that increases operating margin over time. And with that, we'll turn it back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator^ Thank you. (Operator Instructions) iOur first question or comment comes from the line of Erik Woodring from Morgan Stanley

Erik Woodring^ I have two. John, if we set aside the branch openings, channel inventory headwinds, pricing changes and really just focus on kind of organic volumes I'd love to get your take on how you believe this behavior or whether you believe this -- the behavior that you're seeing from your integrators and that they are seeing from their customers, is really just a reflection of kind of the cyclical pressures and a product of the macro? Or if there's parts of this that is also a function of customers kind of rationalizing spend kind of following the boom of COVID.

And therefore, this is almost a bit like mean reversion behavior. I'd love if you could just kind of parse out what your data, what your pipeline and what your integrators are telling you about those two different trends and maybe the impact it's having on your volumes? And then I have a follow-up.

John Heyman^ I feel like you just asked five questions in one, Eric. Let me attempt to answer them. So first of all, I think that it's hard to separate some of what you mentioned because our integrators, if I look at the data and the surveys we conduct or have access to -- it feels like pipelines, all the stats that we measure in terms of industry capacity are what I would call on average, down slightly. And when I say down slightly, I'm talking low to mid-single digits. So that's number one.

So that affirms our belief that the industry continues to operate basically at capacity. They have more demand than they can serve, and that was the case during the peak, and that continues to be the case.

There's plenty of new homes being built. There's plenty of remodels being done, and there's lots of commercial projects out there, and that keeps our integrators very busy. I do think balancing that and when we look at the -- we also have access to certain proposal data. And it's pretty clear in virtually all our product categories that we're gaining share as we look at the content of proposals. And then you ask, okay, then why even in -- with the channel destocking, why our revenues not performing in line with our expectations.

And the answer I would come back to is probably more around what I call descoping. And this is -- I see it when I speak with integrators, we see it in some of our own data. And what's happening is we serve a very well-heeled and customer. They've still got plenty of money. And -- but what is happening, I do feel like is you'll see people start to descope.

That means they may put cheaper speakers in the ceiling. That means they may not do an additional room of automation. That means not just cheaper speakers in the ceiling, maybe only two in a room versus four.

And we have a good, better, best product line. We also sell third-party products. And in my conversations and view of the data, I think what we've seen as a slight descoping going on in the industry where there is either a trade down by the end customer or the builder is trying to keep costs inside a project prudently down given what's happened with interest rates. And we see all of that happen a little bit in the business. And so what we continue to anchor back to as we make investments is we know that United States is significantly under-housed and a sizable construction boom is coming.

We know that the installed base of customers that this industry has is running with products, frankly, that may be providing a good experience, but they're outdated. There's a better experience available. And so we're trying to position the company for that boom that we see and we're trying to position our integrators to thrive in this market with our good, better, best product lines. I hope that answered all your questions.

Erik Woodring^ You did. You answered every single question underlying that multipart question, so -- for my follow-up, Mike, I just wanted to ask a quick clarification question. You get the easy one, I guess. In your prepared remarks, you talked about, I believe, a $25 million channel inventory work down this quarter. If we look at the slides, it shows that the channel, what was about a $5 million headwind in the quarter.

I was just wondering if you could kind of unpackage exactly what the channel headwind was in 3Q? Because ultimately, that then dictates how much the channel headwind would be in 4Q. So just a quick clarification there.

Mike Carlet^ Yes. No problem, Eric. And thanks for only asking 1 question. In Q3 this year, the channel inventory destocking was about $25 million. Remember, the way we do this, we're taking operational data and looking at time to install and doing some extrapolation and a bunch of work.

So these are always directional numbers. They're not going to be exact numbers. And we've been refining it to get a little bit better every time we look at it, but we think we've got it better every quarter. So we feel pretty good about the number.

But around $25 million came out compared to last year, about $20 million came out. So the year-over-year impact was $20 million came out last year, $25 million came out this year. So net-net, about $5 million difference between the 2 years. we get to Q3 in our guidance, we sort of still feel -- I'm sorry, Q4, we still feel like it's going to be a $5 million to $10 million impact as it reaches the end, and we still feel highly confident that as we go into next year the quarterly impact will be close to 0, and we'll just be lapping whatever happened in the previous year.

Operator^ (Operator Instructions) Our next question or comment comes from the line of Chris Snyder from UBS.

Chris Snyder^ I wanted to ask about the descoping process, because I think, John, the way you phrased it. Can you just maybe talk about how that dynamic has trended in previous cycles? And what's ultimately the driver for that descoping. Is this a homeowner looking to maybe lessen the size of the project? Is it the integrator descoping to maybe get more margin on their end?

Can you just kind of talk about those dynamics?

John Heyman^ Thanks, Chris. I don't think it's the integrator destocking. In fact, if you look at most proposal data, you would see proposal dollar sizes are up, but closed proposals are actually down. So the integrators recognize their marketing to a high-end customer, and they typically go in with more bells and whistles and then have to meet budgets. And as you might imagine, all things being equal, budgets are -- budget pressures tougher today than it used to be.

I think that holds whether you're selling to an end customer or a spec home builder. I think that -- so that's number one.

Number two, in previous cycles, the most drastic cycle was 2007, '08 and '09 in both Snap and Control4, which were separate companies, experienced quite frankly, a growth during those times, which were some of the worst times in housing, obviously, in the country's history. And the reason for that was there was a trade down from higher-end systems to more budget-oriented systems. Snap One has typically not played at the highest end. That's in terms of when you think about price, -- we build great products, but we've never competed with what I'll call the ultra premium. And so I think that positions us generally to win share.

But what I will say is, as I look at our data in certain categories, there are also products that are less expensive than our own. We have good, better, best. And so there are products that are priced less expensively. We sell those products to. They're typically third-party products.

And we've definitely seen some growth in those categories. So whether it's our own trading down from in the good, better, best world from best to good or from -- or to some 3P products, we definitely see some of that, and we balance all that. But we feel like we're, again, in most of our 1P categories, we are gaining share, and that's because we either have a price advantage or the power of integration with our software systems wins the day.

Chris Snyder^ I appreciate that. And then maybe just following up on that. If you look at the 1P versus 3P product this quarter, a pretty big disconnect proprietary down third-party at almost 6. I understand over the long term, third-party more white space, maybe that's just the better grower. But is the delta you're seeing right now just kind of reflective of the channel dynamics in that the proprietary products are seeing the most significant rate of destock -- and that's the last one.

John Heyman^ Let me -- I'm going to turn that question. I'm going to let Mike unbundle that for us. But what I will remind everybody is the inventory destocking headwinds that we see are all around our proprietary products. So in the third quarter, we're still fighting that as we do compares in our proprietary products, we're not fighting that, generally speaking, in third-party products. But Mike, do you want to deconstruct that for Chris?

Mike Carlet^ Yes, John. No. I think that's certainly one of the factors. I think Chris, there's four factors that we look at that are driving the difference in performance when you just look at the raw numbers, but you're right, with third-party products being up 5.5% year-over-year in our 1P being down 8.3%.

(Inaudible) is exactly what John said, it's a channel inventory while it does impact both 1P and 3P, our data would say it impacts on piece significantly more. The second thing is as we open new local stores and continue to ramp that up, it disproportionately grows the 3 product sales. So it's not a same-store analysis on a same-store basis, you'd see a bit different. It took out the impact of new stores. The third thing is this gets a little less said, but there's impact of back orders when you think less this year because this year, the supply chain sort of normal.

But if you wanted to last year and look, there were timing of back orders, both on 1P and 3P product that we're clearing at different times. So whether that was like an audio video receiver that was out of stock while or projectors had a big out of stock and then cleared or other things that happened. So the timing of backwards all on Texas.

And the last thing is new product launches. We've actually been making an effort to launch some new noncompetitive third-party products over this year. which we've added in. So if you disaggregate the numbers down internally, and I don't want to get to all the specifics of it, but if you just were looking at what we do internally, we would note that if you took those 4 things out and normalize for all of them, the one and 3P growth rates are almost the same. In fact, 1 piece slightly ahead.

But then on a same-store, same product basis, excluding channel inventory, excluding bad orders, you get to numbers that are almost the same from a growth rate standpoint.

Operator^ Our next question or comment comes from the line of Adam Tindle from Raymond James.

Adam Tindle^ Okay. I wanted to start on the channel inventory piece. And just for context, I think the story we've been hearing prior to this was -- backlog was growing because there's not even enough resources at the integrator to keep up with the demand that they're seeing. Now we're on kind of the other side of that, and I know these things go in cycles. But I guess the part of the question first, John, would be what this is saying about demand.

There's some aspect of backlog getting bidded because supply is normalizing, like you said, but curious if you could comment on demand and any metrics that you look at, whether that's pipeline, et cetera, -- and then for Mike -- sorry, it will be a multiparter, but I'm breaking it up between you, too.

For Mike, you're calling the bottom in Q4, it sounds like from the destocking perspective. I'm sure we'll get asked tomorrow, what gives you the confidence in that given Q3 was a little worse than you had forecasted. What gives you the confidence to call Q4 at the bottom.

John Heyman^ Okay. Let me try to tackle the first part of your question, Adam. I think we look at a lot of macro statistics. We all read the headlines about housing. But the macro statistics would say the luxury market is still in pretty good shape.

I think if you look at the listings of new homes, it's roughly 59,000 this year versus 55,000 last year, new listings are up somewhat. We also know homebuilder confidence is down with interest rates.

But those are the macro stats, again, when we get back to the industry, we focus on the capacity of the integrator and how many integrators we have. And they have a significant amount of demand in front of them. Proposal activity is actually up. The pipeline shrinkage that they've seen is negligible -- like down a couple of days. They are continuing to sign up new clients.

There is as the business index, there's no slowdown that speed that they're sensing. And that's because they pivot their capacity to whatever the highest and best use of their labor is. There are still plenty of homes being built or being sold -- to start to utilize their capacity. They go to commercial projects, or they go back to their installed base and have them upgrade their surveillance system or sell them our new halo remotes, which are doing fantastically in the market or upgrade their networks.

And so all of those things keep the industry very busy. So I think the -- I think people look at our company and say, gosh, the macro is really tough. The company has got to be feeling it. I've already spoken to the fact that we are feeling it a little bit. But the fact is the industry has significant demand still to serve.

They may be serving it in a more budget-oriented manner. And that is one of the headwinds we face right now. That's different than back in 15 years ago where money was flowing freely. Mortgages were super cheap. The integrator would could sell anything they could get their hands on, including very expensive projects.

And so I think we're just back to a little bit kind of a normal right now. And so we're positioning the company through the -- our integrator acquisitions to the software initiatives we have through all the product introductions we have to grow through that. And we're very happy, as now I'll turn it over to Mike to see this channel destocking quickly getting behind us. So Mike, let me turn it over to you.

Mike Carlet^ Yes. Thanks, John. Yes, Adam, so just to be clear as I said before, we actually don't track inventory. What we track is time to install. What we were able to see is for all of our IP connected products, whether they're oversea enabled or our control systems when do they leave our warehouse and when do they get installed.

And so we take that time and we do some extrapolation and we look at cost and a bunch of other factors and try to say, okay, what does that imply for inventory. And so it really has been a bell curve.

And so if you go back to early to mid '21, would have been pretty much a straight line, so much of a straight line that we never really used to look at it. We had the data, but it was -- we never tried to tie it to our financials. And it was pretty much a straight line of that time to install. I'll make up a number here and just call it 50 days. It's not the real number, but just say 50 days.

And then an increase up to almost 100 days, and now we've been watching it come back down. And so the guest work we've been doing, is it going all the way back to 50 days? Is it going below 50 days? Is it going to stop at 60 days? And as we're sitting here today, we definitely have seen that inflection point of the curve at the bottom of a bell curve, where we start seeing it going to the tail.

We've definitely seen that in the last few months. as we're here. We still don't know exactly where it's going to end. I still think originally, we thought it was going to end somewhere above the 50-day time frame. We still think that's probably the case, but it's probably coming back to where it was before closer to where it was before than we originally anticipated, but we definitely see that we've reached that inflection point.

It's definitely slowing down -- and we, again, have a high level of confidence that we'll be there by the end of the year. Not to say that there won't be small variations. I think there'll always be small fluctuations. We will absolutely be looking at and tracking the future. But I think they will be de minimis.

I think there will be things it won't be a significant factor of our sales going forward outside of something else causing it to spike up or for a different reason, crash down, but we're not seeing that in the data.

Adam Tindle^ Great. Super helpful. Maybe just a quick follow-up at a higher level, John, from a strategic standpoint. When you talk about software, you talk about the word transformational it also sounds like you've got a new services offering that is going to be embarking early next year, if I heard that correctly. So on the topic of kind of lumping software and services together because of important optionality for investors as they think about how the company could look different over time.

Maybe you could speak to what you're learning from either end customers or integrators on key asks around these areas. What they'll pay for and what you think you can monetize? And any additional comments around this topic would be helpful.

John Heyman^ Yes. Thanks, Adam. I think we've got a great foundation with our foresight subscription offering that we've got well over 100,000 homeowners that subscribe to that. And we have a service offering, Parasol which serves thousands of homeowners directly so that homeowners can get service when they need it, meaning 24 hours a day, 7 days a week when they're using their systems and sometimes their integrators aren't working. And for those of us who have systems or even just are using regular cable or even if we've cut the cord, if the Internet is not available, that's very painful when you're trying to watch TV or listen to music.

So we -- that was our foundation. We have done a number of end customer surveys. We know what customers want are access to software upgrades. Unfortunately, in the industry, frequently, the customer an install happens and they never get an upgrade. And that results in reliability issues in their systems, plus it prevents them from getting new functionality that's available to them such as kind of our recent introduction around voice.

And so we've surveyed that and we've been making big investments around overseas and Control4 to solve those issues specifically ensuring they get the best software we have available and 7/24-hour service that we can scale effectively due to overseas. And we have been working with the industry and our partners on solving that. I think the other piece of it is making sure we create alignment in the industry. The industry has always been hungry for our recurring revenue model. And we've got one with Foresight and Parasol.

But we -- in the -- with the exception of foresight, we haven't made it available to the masses.

And so we've been doing a lot of testing around the products people want and the services people want in the field. We've been doing a lot of testing around pricing, and we are gaining a lot of confidence around kind of what the production release, if you will, will look like for the industry next year. So I think it's going to be super exciting. I think it's going to create kind of the most loveable experience that is available to any homeowner in the future. So a lot of investment going on inside of the company right now, a lot of passion, really thankful for the integrators who are partnering with us on it.

Operator^ Thank you. (Operator Instructions) Our next question or comment comes from the line of Keith Hughes from Truist.

Keith Hughes^ Could you give any kind of at least directional indication how the residential markets look versus the commercial markets move at a different rate

John Heyman^ Yes. I think, Keith, the short answer is the commercial market is slightly outperforming the residential market, which might not make sense to you, but I do think the commercial market has also, in some places, suffered because of what's going on with office buildings that we're all aware of. And when we say commercial versus residential, I'm really speaking about channel like the residential integrator versus the commercial integrator. And so the residential market is almost keeping pace with the commercial market. But inside our integrators businesses, we know that some of their capacity is being directed more to the commercial market than, say, a couple of years ago.

Operator^ At this time, this concludes our Q&A session. I'd now like to turn the call back over to Mr. Hayman for his closing remarks.

John Heyman^ Thank you to all our investors for spending time with us today and our analysts, thanks to the integrators that are on the phone and special thanks to the team at

Snap One, who are working hard to meet all of our constituencies expectations. Look forward to speaking with you early next year. Have a great holiday season.

Operator^ Ladies and gentlemen, thank you for joining us today for Snap-One's Fiscal Third Quarter 2023 Earnings Conference Call. You may now disconnect.