

 View Summary

Owlet, Inc.

Owlet, Inc. - Q1 2026 Earnings Call

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Event Participants

Executives ³

Jay Gentzkow, Kurt Workman, Amanda Crawford

Analysts ³

Owen Rickert, Jungwon Kim, Ian Arnt

Operator Operator

Hello, everyone. Thank you for joining us, and welcome to the Owlet Q1 2026 Earnings Conference Call. [Operator Instructions] I will now hand the conference over to Jay Gentzkow, Investor Relations. Jay, please go ahead.

Jay Gentzkow Executive

Good afternoon, everyone, and thank you for joining us. Earlier today, Owlet released financial results for the first quarter ended March 31, 2026. I'm pleased to be joined today by Kurt Workman, Owlet's President, CEO and Co-Founder; and Amanda Twede Crawford, Owlet's CFO.

Before we begin, please note that our financial results press release and presentation slides referred to on this call are available under the Events and Presentations section of our Investor Relations website at investors.owletcare.com. This call is also being webcast live with a link at the same website. The webcast and accompanying slides will be available for replay for 12 months following this call. The content of today's call is the property of Owlet. It cannot be reproduced or transcribed without our prior consent.

Before we begin today, I'd like to refer you to our safe harbor disclaimer on Slide 3 of the presentation. Today's discussion will contain forward-looking statements based on the company's current views and expectations as of today's date. These statements are only predictions and are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. These risks and uncertainties include, but are not limited to, those described in our most recent filings with the

SEC and in the Risk Factors section of our annual report on Form 10-K as updated in the company's quarterly reports on Form 10-Q and other filings with the SEC.

Please note that the company assumes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

With that, it's my pleasure to turn the call over to Kurt.

Kurt Workman Executive

Thanks, Jay. Good afternoon, everyone, and thank you for joining. Before we dive into the business results, I want to address a recent leadership transition and a renewed path forward for Owlet. On behalf of the Board and the entire Owlet team, I'd like to share our deep gratitude for Jonathan Harris.

Jonathan was instrumental in navigating Owlet's breakthrough growth following FDA clearances. Owlet is in a better position as a result of his contributions, and we wish him well. As Owlet enters this next stage of our growth and evolution, I'm stepping back into the CEO role as announced in April. I'm back to build on the mission I started in a garage 12 years ago with a clear long-term mandate to lead Owlet through this next phase of scale and development in pediatric health.

While our core mission hasn't changed, we are sharpening our focus on execution and concentrating resources on our highest value opportunities. I want to highlight 3 strategic priorities where we see the greatest opportunity to improve performance. First, we're prioritizing the Owlet360 subscription and telehealth opportunity more deliberately than we have in the past. With well over 0.5 million parents purchasing a new Owlet device every year, we already have an established user base to support subscription conversion. We believe the structure of the modern parenting journey creates a meaningful opportunity.

Among parents, the average family grows to just over 2 children with siblings typically arriving within a few years of each other. Owlet is uniquely positioned to secure a 4-year subscription window. By extending high-value subscription features that span the child's first 2 years, we aim to increase engagement and retention over time, evolving the customer relationship from a onetime user into a 4-year subscriber. This evolution from a hardware-centric sales to a multiyear subscription model fundamentally shifts our growth trajectory, compounding our recurring subscriber base into the millions.

Owlet is increasingly operating with a subscription-first approach across the business. That means the product road map, marketing and channel partnerships are aligned toward increasing subscription penetration across our entire customer base. We have 3 key Owlet360 subscription priorities to execute this year.

Number one, launch new features and AI integrations for Dream Sock to enhance the subscription value proposition and support continued increases in our attach rate. Number two, launch compelling new camera subscription features that deliver value to hundreds of

thousands of nightly active cam users. The Dream Sight subscription feature set is critical toward extending LTV as many families use their cameras throughout the toddler years.

Number three, expand subscription access to our large and growing customer base outside of the U.S. Our objective is to establish Owlet360 subscription as a foundational value add for a family's first 2 years of parenthood. For families with a single child, this can significantly extend LTV. For those families that grow to a second child, it can extend the subscription life cycle to multiple years, supporting a longer-term high-margin subscription relationship. This evolution from a hardware-centric sale to a multiyear subscription model has the potential to fundamentally transform our business profile and strengthen Owlet's role as a long-term partner in the parenting journey.

Owlet is building a generational opportunity on AI, anchored by what we believe is the most scaled pediatric health data set in the world. By combining our data moat, FDA-cleared hardware and trusted parent relationships, we believe we can deliver the kind of personalized proactive infant care that has never before been possible in the home and establish Owlet as the defining pediatric health platform of this AI era.

Turning to our second strategic priority. We are sharpening focus on the high-value opportunities within our existing core markets, where we continue to see meaningful growth potential. In the geographies we're currently in, we still have large underpenetrated markets of just under 20 million children under 24 months of age. With market penetration sitting at just over 11% in the U.S. and low single digits in Europe, we believe there is substantial room for expansion within our existing footprint.

We continue to see significant runway for growth in the U.S. with penetration rates approaching at or above 20% in key states like Utah, Nebraska, Wyoming and Kentucky. We view these markets as potential benchmarks for what we can accomplish nationwide and in Europe. We believe the business has the potential to scale toward over 1 million new customers annually over time. Combined with our efforts to extend LTV, we believe this can support a 4-year family subscription life cycle, a recurring subscriber base that can scale meaningfully over time.

To capitalize on what we see as a significant opportunity ahead in our core markets, we are consolidating our focus and resources to capture the significant white space available in our current high-value geographies where we have established category leadership. As part of this targeted approach, we have deferred our planned entries into India, Hong Kong and Singapore for the current year and redirected investments to core markets with higher near-term return potential.

This leads into our final strategic priority, a heightened focus on operational efficiency and financial discipline to drive profitable growth. While we continue to invest in operating expenses year-over-year, we've optimized our spending plans to support operating at a higher level of efficiency. Our goal is to drive meaningful operating leverage by prioritizing a disciplined strategy, where we align our cost structure to scale efficiently.

Specifically, we're pausing new global clearances and delaying country launches that carry upfront regulatory app development quality and marketing costs. We've eliminated previously planned headcount additions through leveraging internal technology and AI-driven efficiencies,

allowing us to grow efficiently with fewer resource constraints. We are deferring lower ROI projects outside of our core 0 to 24-month segment.

This disciplined financial profile prioritizing growing profitability is intended to provide flexibility to reinvest strategically, which we believe will support our long-term growth and strengthen our market position.

To fully align with these 3 priorities and a more focused profitable growth strategy, we are proactively updating our full year 2026 outlook. For the full year, we are adjusting our revenue guidance to a range of \$118 million to \$122 million, representing 12% to 15% year-over-year growth compared to our previous guidance of \$126 million to \$130 million. This revised range accounts for our deliberate decision to exit lower-margin, high-burden revenue streams in noncore geographies and new channels. Additionally, this outlook incorporates a more conservative view on sell-through for the remainder of the year. I will provide more specific color on these category trends in our consumer data in a few moments.

By concentrating our resources only on high-impact priorities and eliminating the overhead associated with noncore channels, we've created a much more efficient engine. Consequently, we are raising full year 2026 adjusted EBITDA to be in the range of \$7 million to \$9 million or 250% to 350% growth year-over-year compared to our previous guidance of \$3 million to \$5 million. While this disciplined approach may result in lower near-term revenue, it is a purposeful trade-off designed to improve operating leverage and profitability. We believe this approach will provide greater flexibility to invest in our highest value opportunities and support stronger, more sustainable long-term growth.

I'll now turn to our first quarter business update. I want to give more clarity on where we're gaining momentum and identify specific areas where we need to sharpen our execution. To align with the strategic priorities I just outlined, going forward, we will focus our quarterly updates on the following core growth drivers: First, driving adoption of Dream Sock and Duo in core global markets; and second, expanding the subscription platform with Owlet360 and Owlet OnCall.

In the U.S., our Q1 domestic sell-through units for Sock and Duo grew 10.5% year-over-year, led by a 45% increase in Duo and a 3% increase in Dream Sock. One item of note, Owlet was the only brand in the category to grow during a period of general decline. Excluding Owlet, the baby monitoring category was down 19% in dollars versus prior year Q1, while Owlet dollars grew 11%.

Q1 inherently has low promotional activity following the holidays. We believe customers are delaying purchases in anticipation of key promotional events like Mother's Day and Pride Day, which drive significant volumes at a lower selling price.

We started Q2 optimizing marketing and retail placements to accelerate momentum and take share from our competitors. These efforts are already yielding results. Quarter-to-date in Q2, sell-through has increased to over 30% for both Duo and Dream Sock versus prior year. This performance validates our strategy and is a positive indicator for the rest of the year.

However, we have not yet factored this Q2 performance into our full year outlook, preferring to see additional sell-through data before adjusting our projections.

Brand health remains exceptional, evidenced by a Dream Sock NPS of 77 and a blended product NPS of 71 to [Q1]. Also importantly, for our Dream Sight camera, customer service contact volumes have decreased by 74% versus our second-generation camera as Dream Sight is clearly removing friction points with our customers, including solving core setup and connectivity issues.

Owlet products are maintaining their position as a registry priority. In Q1, year-over-year registry additions increased 31% for Dream Sock and 44% for Duo. Finally, momentum in our current global markets remains robust. In Q1, international revenue grew 22% year-over-year. Sell-through continues to show strength internationally, ending Q1 with 37% year-over-year growth.

We're excited about the progress we're seeing in our current international markets. For example, the Czech Republic already has nearly 9% of all babies born using an Owlet. Other markets like the U.K., Germany, France and Australia are all on a similar trajectory for market penetration as the U.S. on a year-by-year basis. Given that more babies born in Europe than the U.S., our current growth opportunity in Europe is massive if we focus and continue to execute at a high level.

Shifting to our second focus area, expansion of Owlet 360 and Owlet OnCall, our subscription engine is thriving. Having surpassed the 1-year mark since launch, we've validated the value proposition of our subscription model, scaling to over 115,000 paying subscribers in Q1. As a note, we'll begin reporting subscriber count at quarter end to align with the subscription revenue metric we will begin disclosing in our quarterly filings. The underlying subscriber momentum is translating into durable top line growth as monthly recurring revenue, or MRR, was \$1 million at end Q1, highlighting the compounding value of our subscriber base.

Furthermore, subscription achieved a 34% penetration rate for Dream Sock users in the U.S. in the first quarter. This high conversion rate validates our bundled value proposition and demonstrates that parents increasingly view Owlet 360's pediatric health insights as an important extension of Dream Sock. As discussed, we're prioritizing the launch of camera-specific Owlet 360 features to enhance the subscription value proposition and extend LTV across multiple children.

In April, we launched Camera Extended Clips. The Extended Clips feature for Dream Sight enhances the user experience by offering AI-assisted event detection. While Owlet 360 subscribers gain expanded benefits like a 14-day cloud archive and longer 60-second recording.

In addition, in the coming weeks, we are launching built-in white noise, a Dream Sight subscription feature that transforms the camera into a daily sleep essential, eliminating the need for extra hardware. By integrating the product into nightly sleep routines, we can foster consistent platform engagement and support long-term Owlet 360 subscription retention.

Subscription is the cornerstone for our evolution into a data-driven pediatric health platform. The rapid adoption we've seen over the last year validates our decision to prioritize the growth and expansion of our recurring platform features.

And finally, ending on Owlet's OnCall telehealth opportunity. We're excited to report that this week, Owlet OnCall telehealth is officially going live in our app for select participants. That

means that for the first time, Owlet parents can communicate directly with the pediatrician in our app. We will begin scaling access to more and more users over the coming weeks and months to test and learn.

As we further integrate our wellness data with professional pediatric access and oversight, we see an opportunity to provide deeper value to parents, potentially reduce health care costs and extend the customer relationship. Our telehealth launch this year is a pivotal step in this evolution, and we expect the insights gained from this initiative to inform our long-term platform expansion and future revenue opportunities. We believe that combining insights from our platform with access to pediatric consultation will provide greater value to parents, simplify access to care and lengthen the customer relationship. And we believe the learnings from this year's telehealth launch will fuel a significant new revenue stream for the business as we move into next year.

I'll now turn the call over to Amanda to go over Q1 financial highlights. Amanda, take it away.

Amanda Crawford Executive

Thanks, Kurt. Turning to our first quarter 2026 financial performance on Slide 11. Unless noted otherwise, I will be comparing first quarter 2026 results to the first quarter of 2025. Q1 total revenue was \$22.5 million, up 6.4% year-over-year, coming in above our Q1 guidance range of \$20 million to \$21 million.

Q1 results reflect a onetime inventory rightsizing at a large retail partner where they reduced their weeks of supply from 8 to 10 weeks to 4 to 6 weeks, which negatively impacted sell-in revenue. This partner ended Q1 with approximately 5 weeks of inventory. The first quarter is consistently our seasonally lowest revenue quarter due to the lack of promotions, so a meaningful amount of revenue quickly dropping out created a short-term headwind.

Subscription revenue grew sequentially for another quarter to a record of \$2.7 million in Q1. Subscription gross margin also expanded to 67.4% in Q1. Q1 overall gross margin was 54.5%, above our Q1 guidance range of 50% to 52%. Overall, gross margin was up 80 basis points versus prior year, including a 480 basis point impact from the cost of tariffs.

Total operating expenses for the first quarter were \$17.7 million compared to \$14 million in the prior period. This increase was primarily driven by higher compensation costs, including stock-based compensation. The rise in personnel expenses reflects full period impact of headcount additions made throughout 2025, supplemented by strategic new hires in the current quarter. Additionally, stock-based compensation increased due to expanded headcount and the timing of long-term incentive plan grants. As a percentage of revenue, Q1 operating expenses were 79% compared to 66% in Q1 2025.

As Kurt referenced, we are committed to raising our level of operational efficiency and financial discipline for the balance of this year and beyond. Q1 operating loss was \$5.5 million compared to \$2.7 million in the same period last year. Net loss in the current quarter was \$3.3 million. Q1 adjusted EBITDA was negative \$1.5 million at the high end of our Q1 guidance range of negative \$2.5 million to \$1.5 million. Adjusted EBITDA was down versus prior year, primarily a result of tariff cost impacts.

Turning to our balance sheet. Overall financial health remains strong. Cash and cash equivalents, excluding restricted cash as of quarter end March 31, 2026, were \$35.5 million, in line with fourth quarter 2025. We had \$3.9 million of undrawn availability on the line of credit at the end of Q1, increasing our total liquidity to \$39.4 million as of March 31, 2026. The principal balance on our term loan was \$6.3 million at the end of Q1 versus \$7 million at the end of Q4.

Turning to our guidance. Detailing what Kurt outlined for the full year 2026, we expect revenue in the range of \$118 million to \$122 million, representing growth of 12% to 15% over 2025. Revenue is expected to trend upward in Q2 following our historical seasonal patterns. We project Q3 to have a slight sequential decline versus Q2 before reaching an annual high in Q4.

For the full year 2026, we expect gross margins in the range of 50% to 52%. The tariff situation remains dynamic. At this time, we're estimating a 15% tariff rate as a current baseline for the remainder of the year, down from the previous 19% and 20% attributed to Thailand and Vietnam, respectively. We continue to monitor the dynamic trade environment closely.

And finally, we expect adjusted EBITDA in the range of \$7 million to \$9 million, representing growth of 250% to 350% over 2025 as we prioritize operational efficiency and profitable growth.

With that, we will now take your questions.

Operator Operator

[Operator Instructions] Your first question comes from the line of Owen Rickert with Northland Capital.

Owen Rickert Analyst

Gross margin expanded pretty healthy year-over-year despite those continued tariff headwinds. I guess, can you just discuss the operational improvements and mix benefits that helped offset those pressures?

Amanda Crawford Executive

Yes. Primarily, what impacted the quarter was a higher relative proportion of subscription revenue, which was at about 67% for the quarter. In addition, we did see favorable product mix in the current year of Sock versus camera in the prior year.

Owen Rickert Analyst

And then secondly for me, OpEx did increase a bit year-over-year, largely tied to that G&A line. Just as you sharpen the focus on that operating efficiency, I think that was the third strategic focus. Where do you see the biggest opportunities to improve leverage going forward?

Amanda Crawford Executive

Yes, it's multifaceted when it comes to operating leverage. The first priority is we had in the previous guide, a pretty significant amount of headcount investment across the board. And as we looked at our plans and with how fast AI is changing and transforming, we just determined that we would not be adding as many headcount as initially planned, but we believe that we're

going to be able to achieve more with less. So those have been removed from the plan. In addition, we are reprioritizing our focus.

We have deprioritized entering new geographies, which come with upfront costs in regulatory, quality, engineering, marketing, it's a multidepartmental cost that we've taken out of the plan.

And then finally, this year, we're prioritizing 0 to 24 months. So really what the core market that we are in and deferring any other projects that are outside of that scope.

Kurt Workman Executive

And I would just add that by focusing on these higher ROI initiatives that will provide longer -- higher long-term growth, it allows us to actually increase investments in those initiatives while decreasing the overall OpEx throughout the rest of the year.

Owen Rickert Analyst

And then maybe lastly for me. How are you thinking about monetization for OnCall initially? Is the near-term focus more around engagement and retention within Owlet360? Or do you expect it to become more of a direct revenue contributor sooner rather than later?

Kurt Workman Executive

Yes. And it's very similar to kind of how we framed up subscription last year, where we didn't include it in our guide. We were really focused on testing and learning and improving the experience for the customer. That's the same focus for this year for us. This is a transformational opportunity where for the first time, our customers are going to be able to chat with the doctor inside of our app.

That doctor is going to be able to use the Owlet data to empower parents at home to give care to their children without needing to go into the ER or the pediatrician in some instances. And so we're going to really leverage the opportunity this year to learn and to nail that model. And then we expect it to be a meaningful contributor in future years.

Operator Operator

[Operator Instructions] Your next question comes from the line of Jonna Kim with TD Cowen.

Jungwon Kim Analyst

I would love to get additional color just around what changed in your latest guidance versus your prior guide on the top line. Would love to get just additional color there. And then what is assumed in your guidance in terms of the ramp in the subscription growth and that color will be helpful.

And then just lastly, as you think about activating more opportunities in the U.S., does your marketing strategy change at all? How are you sort of envisioning your marketing strategy for the year?

Kurt Workman Executive

Yes. Thanks, Jonna. And keep me honest on making sure I answer all 3 of those questions as I go through this. Feel free to ask a follow-up if I don't cover it all. The 2026 revenue outlook is a reflection of our sharpened focus and strategy toward profitable growth.

We've intentionally removed lower-margin, high-burden revenue kind of previously tied to the noncore geographies and some of the new channels, resulting in kind of that lower top line revenue. It also takes a more conservative outlook for the remainder of the year. I think when we look at the new guidance, it also raises our EBITDA outlook to \$7 million to \$9 million versus the prior year. It's a purposeful trade-off.

And really, the goal is to focus on these bigger opportunities. If we can take our subscriber base to the millions, we can get to 1 million new customers per year, and we hold them for 2 years. This business is transformationally different. And so it's really reflecting of that focus and a little bit more conservative outlook on the remainder of the year.

Jungwon Kim Analyst

And yes, any perspective on subscription growth, how you're thinking about that for the year? And then the marketing piece will be helpful.

Kurt Workman Executive

Yes. Yes. Thanks for following up. Look, when you bring your baby home for the first time, life stops. Like it's -- you're taking time off work.

Everything is focused on -- for that first year on this new member of your family. It's the biggest change we go through in spending, in habits, in sleep. So it's no surprise to us that 360 is resonating. We beat all of our internal goals on 360. The fact that we're already close to 35% of our Dream Sock customer base in the U.S.

is incredible, and we know that, that number can go much higher. And it's just not a normal kind of premium consumer app model. It's a critical health and sleep data set that empowers parents to better care for their children. So who wouldn't want that?

The re-guide, we're still very optimistic on 360. It's growing well. We expect it to continue to grow well for the business. And it just makes life better for baby, better for parent. And we think AI is going to unlock massive growth here over the next few years.

So we're very bullish on 360. It's why it's one of our primary focus areas for the next few years.

Operator Operator

[Operator Instructions] Your next question comes from the line of Ian Arnt with Lake Street Capital Markets.

Ian Arnt Analyst

Filling in for Ben Haynor here. You noted on the last call that you would share some more cohort data going forward. And now that we're kind of just past a year here on the original cohort

retention data, I was wondering if you could give us a sense of where annual retention is shaking out and kind of how that compares to your initial assumptions when you launched the service?

Kurt Workman Executive

Yes, that's a great question. So we're actually -- we're very optimistic on this. When you think about churn and retention, we've had meaningful improvement sequentially since we launched last year. The increase in value in the subscription, I think, has been a big part of that and also just the value in the device and the performance of the devices is increasing usage and retention has been fantastic. We're in -- from a churn perspective, we're in kind of that monthly single-digit range, which has improved sequentially.

And having surpassed that 1-year mark, I would say that subscriptions exceeded our internal benchmarks. And we're going to drive continued efficiency there.

Our goal is that parents use subscription across multiple years across multiple children. So this can become a 4-year LTV opportunity. Our whole product road map is designed to continue to reinforce that for the next several years, including telehealth. The highest rate of health care utilization is in the first years of life. Parents can now with contextualized data chat with the pediatrician in our app.

That should unlock significant continued engagement past the first year, especially for stock users.

Cam is another big unlock for us. Parents use cam for multiple years. They anchor it to the wall and it becomes part of that daily routine. So we're launching a bunch of new camera features as well. We expect that this will continue to go down, and we're really pleased with the performance so far.

Ian Arnt Analyst

And then just one more for me. On the Q4 call, you guys mentioned 4 new hospital partnerships had engaged following the CHKD launch. Could you give us an update on where those stand and the timing of announcements and maybe what the average ramp looks like once hospitals go live in terms of monitors deployed per month?

Kurt Workman Executive

Yes. I think what I want to share is that BabySat was up meaningfully in Q1 over last year. It was nearly 100% in terms of revenue growth. Still a very small number for the business, but the hospital partnerships are growing. It takes a little bit more time to get into those partnerships.

So we're going to let that continue to progress inside of the business. It creates incredible partnerships and brand opportunities. It helps us address the babies with the most vulnerable needs of our population, and we see it as a long-term big opportunity for Owlet. We'll proactively report out on it when it reaches the level of scale that kind of I think, makes sense for earnings calls, but we continue to see good progress in BabySat, and it's just a really important part of making sure we're addressing the entire population of children.

Operator Operator

There are no further questions at this time. We have reached the end of the Q&A session. I will now turn the call back to Kurt for closing remarks.

Kurt Workman Executive

Yes. Thank you. Thanks again, everyone, for joining us and for the continued support. I just want to state again that Owlet's generational AI opportunity is massive. We have a large, unique pediatric data set, and we're contextualizing that data right now.

And that's why we're so focused on the Owlet 360 and telehealth opportunities. They alone represent massive growth potential, and we're excited about our current progress and the long-term opportunity for this platform. Look forward to updating you on this on coming calls.

And I've just never been more confident in Owlet's path. I started this company in a garage. I have been with the company for 12 years, and this is the most exciting period for Owlet. So thank you for your continued support as we build the standard of at-home care for babies.

Operator Operator

This concludes today's call. Thank you for attending. You may now disconnect.