VERISURE MIDHOLDING AB (PUBL)

INTERIM REPORT
JANUARY– SEPTEMBER 2020

Management's Discussion and Analysis of Financial Condition and Results of Operations

Key operating highlights for the third quarter ending September 30, 2020 and 2019

Verisure Midholding Group, hereafter referred to as the Group, is the leading provider of professionally monitored smart alarms for residential households and small businesses in Europe. We offer premium monitored alarm services to our portfolio of over 3.6 million customers and design, sell and install alarms with network connectivity across 16 countries in Europe and Latin America. We have a strong track record of quality growth, primarily delivered organically by our differentiated business model with high share of recurring revenues (c.80%) and industry leading retention.

Since the onset of the COVID-19 pandemic, we have been focused on protecting our employees and families, our customers and our business. While the pandemic has created new challenges for our business, we have adapted rapidly and strongly to the new operating environment and have continued to evolve our approach as the situation develops.

In the third quarter, Verisure Group continued to deliver strong operational and financial performance, especially considering this external environment. Our customer portfolio continued to grow strongly and passed the 3.5 million milestone, to now over 3.6 million customers, corresponding to an annual growth rate of 12.0% compared to Q3 in 2019. Our subscription-based portfolio has demonstrated again its resilience with an attrition rates that have not been materially impacted by the pandemic to date. The performance of our Portfolio Services segment continues to be very strong and consistent with past years development, with Portfolio Services adjusted EBITDA increasing 16% in Q3 2020 compared to Q3 in 2019, and 18% in constant currencies. Total reported adjusted EBITDA in the quarter was also very strong, increasing 14% vs. Q3 in 2019, and 16% accumulated for the first nine months of 2020 vs. 2019 (17% in constant currencies).

Throughout this period, we have continued to provide our services and protect our customers against intrusion, fire, life-threatening emergencies and other hazards without interruption and at performance levels we believe as high or higher than before the onset of the pandemic. In parallel the Group has continued to invest in product innovation to further position us for continued long-term growth.

Summary of third quarter 2020 financials:

- Total reported revenues amounted to EUR 556.6 million for the third quarter 2020, increasing 16.7% from EUR 477.1 million the same period last year. Adjusted for currency effects, total reported revenue grew by 18.4% in the quarter. Portfolio services revenues, representing 79% of total Group revenues in the quarter, grew by 12.0% to EUR 438.9 million. In constant currencies portfolio services revenues grew by 13.7% in the quarter.

  For the first nine months of 2020 total reported revenues increased to EUR 1,556.8 million compared to EUR 1,402.6 million in 2019, which is an increase of 11.0% in actual currencies and 13.0% in constant currencies. Portfolio services revenues, representing 82% of total Group revenues YTD, grew by 12.1% to EUR 1,280.8 million for the first nine months (14.2% in constant currencies).

- Total reported adjusted EBITDA increased 13.8% to EUR 209.0 million in Q3 2020 compared to EUR 183.7 million in Q3 2019. In constant currencies, total reported adjusted EBITDA grew by 14.3%. Total adjusted EBITDA, before SDI, improved to EUR 225.3 million from EUR 196.6 million in Q3 2019, which is an increase of 14.6% in actual currencies and 15.9% in constant currencies for the quarter.

  For the first nine months of 2020 total reported adjusted EBITDA improved to EUR 626.4 million compared to EUR 542.1 million in 2019, which is an increase of 15.6% (and 17.0% in constant currencies). Total adjusted EBITDA, before SDI, improved to EUR 663.0 million for the first nine months of 2020 from EUR 570.2 million in 2019, which is an increase of 16.3% vs. 2019 (and 18.1% adjusted for currency effects).

- Portfolio adjusted EBITDA further improved to EUR 318.8 million from EUR 275.0 million in Q3 2019, corresponding to an increase of 15.9%. Adjusted for currency effects, portfolio adjusted EBITDA improved by 17.6% in the quarter. Portfolio services adjusted EBITDA margin further strengthened to 72.6% from 70.2% in Q3 2019, an increase of 2.4 percentage points. For the first nine months portfolio adjusted EBITDA amounted to EUR 922.5 million compared to EUR 793.5 million in 2019, which is an increase of 16.3% in actual currencies and 18.4% in constant currencies compared to 2019. On an annualized basis our portfolio adjusted EBITDA is now over EUR 1.2 billion.
- ARPU amounted to EUR 41.2 which is an increase of 2.1% adjusted for currency effects vs. prior year. EPC accelerated to EUR 29.9 for the quarter, corresponding to an increase of 5.7% adjusted for currency effects, driven by continued value improvements and good development in operational efficiency and cost control.
- New customer additions were very strong in the third quarter, and at record levels, coming back strongly after the lower Q2 impacted by the pandemic. In the third quarter we added 211,006 new customers, which is the highest increase in a quarter ever for the company, and an increase of 37% compared to Q3 2019. Accumulated for the first nine months, new customer additions were on a similar high level as in 2019 (448k vs. 450k), which was up 18% vs. 2018. CPA (cash cost per

acquisition) was reduced 10% versus Q3 2019 to EUR 1,092. Accumulated for the first nine months, CPA was EUR 1,242 (vs. EUR 1,191 in 2019).

- Net subscriber growth was 155,229 in the quarter compared to 105,416 in Q3 2019, an increase of 47% compared to 2019. The high growth was driven both by the strong additions of new customer and the low cancellations. At the end of the quarter the portfolio had grown to 3,623,024 customers, up almost 400,000 customers or 12.0% in a year. This annual customer portfolio growth rate of 12.0% was all organic portfolio growth.

We consider ourselves fortunate to have a subscription-based portfolio that has shown very strong resilience. We have taken steps to ensure operational and financial performance and flexibility in our Customer Acquisition segment, and the performance in the third quarter supports this. Operating cash flow has been strong in the quarter and throughout the year. In Q3 cash flow from operations increased to EUR 311.2 million, an improvement of 55% vs. Q3 2019, and accumulated for the first nine months of 2020 it amounted to 685.4 million, up 29% vs. 2019. In Q3 2020, as has been commented earlier, we also successfully refinanced EUR 1.6 billion of our debt, and earlier in the year we also issued a EUR 200 million bond to repay our drawn RCF.

We remain optimistic for the business, both medium and long term, even if the external environment is expected to be challenging for a period. We have a successful business model that has shown strong resilience, and the fundamental customer need for security and peace of mind is not expected to reduce. We believe that the need will continue to increase in the future, against the backdrop of low penetration of home security in our geographies.

Key figures

EUR thousand (if not otherwise stated)	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019
Portfolio services segment:				
Unaudited operating data				
Total subscribers (year-end), units	3,623,024	3,236,226	3,623,024	3,236,226
Cancellation, units	55,777	48,245	172,019	144,799
Attrition rate (LTM)	6.5%	6.3%	6.5%	6.3%
Net subscriber growth, units[1]	155,229	105,416	276,312	305,473
Subscriber growth rate, net	12.0%	13.9%	12.0%	13.9%
Average monthly revenue per user (ARPU), (in EUR)	41.2	41.0	41.1	41.2
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)	29.9	28.7	29.6	28.6
Non-IFRS and IFRS financial data				
Portfolio services revenue[2]	438,910	391,992	1,280,798	1,142,907
Portfolio services adjusted EBITDA	318,765	275,041	922,547	793,457
Portfolio services adjusted EBITDA margin	72.6%	70.2%	72.0%	69.4%
Customer acquisition segment:				
Unaudited operating data				
New subscribers added (gross)	211,006	153,661	448,331	450,272
Cash acquisition cost per new subscriber (CPA), (in EUR)	1,092	1,209	1,242	1,191
Non-IFRS and IFRS financial data				
Customer acquisition revenue[2]	99,844	79,795	237,665	243,869
Customer acquisition adjusted EBITDA	(90,974)	(78,820)	(249,736)	(224,474)
Customer acquisition capital expenditures	139,411	106,891	307,023	311,704
Adjacencies segment:				
Non-IFRS and IFRS financial data				
Adjacencies revenue[2]	17,807	5,285	38,290	15,806
Adjacencies adjusted EBITDA	(2,521)	382	(9,801)	1,250
Consolidated:				
Unaudited operating data				
Payback period (in years)	3.0	3.5	3.5	3.5
Non-IFRS and IFRS financial data				
Revenue[2]	556,561	477,072	1,556,753	1,402,583
Organic revenue growth	18.2%	18.8%	13.0%	19.6%
Adjusted EBITDA	225,270	196,603	663,010	570,233
Adjusted EBITDA margin	40.5%	41.2%	42.6%	40.7%
Capital expenditures	177,977	141,849	427,230	419,474
Reported (including SDI)				
Reported revenue[2]	556,561	477,072	1,556,753	1,402,583
Reported adjusted EBITDA	209,015	183,711	626,362	542,089

1) Differences in reconciliation with end of period subscriber data are primary due to acquisition and disposal of contract portfolios.

2) IFRS financial data.

Analysis of Operating Results

The information presented and discussed in this report includes a number of measures that are not defined or recognized under IFRS including CPA, ARPU, EPC and Adjusted EBITDA. These are considered to be key measures of the Group's financial performance and as such have been included here to enhance comparability and usefulness. CPA is the net investment to acquire a new customer. ARPU and EPC reflect the monthly revenues and adjusted EBITDA per customer in the portfolio segment. Adjusted EBITDA, being earnings before interest, tax, write-offs, depreciation and amortization, excluding separately disclosed items (SDI), is considered by management to give a fairer view of the year-on-year comparison of financial performance. SDI´s are costs or income that have been recognized in the income statement which management believes, due to their nature or size, should be disclosed separately to give a more comparable view of the year-on-year financial performance. All SDIs are further explained later in this section.

Three months ending September 30, 2020 and 2019

Results excluding SDI

EUR million	Jul-Sep 2020	Jul-Sep 2019	Percentage change
Revenue	556.6	477.1	16.7%
Operating expenses	(332.6)	(281.6)	18.1%
Other income	1.3	1.1	14.7%
Adjusted EBITDA	**225.3**	**196.6**	**14.6%**
Adjusted EBITDA margin, %	*40.5%*	41.2%	-
Depreciation and amortization	(70.2)	(59.7)	17.5%
Retirement of assets	(22.8)	(18.7)	21.8%
Operating profit	**132.3**	**118.2**	**12.0%**
Operating profit margin, %	*23.8%*	24.8%	-
Interest income and cost	(59.5)	(52.0)	14.5%
Other financial items	(1.1)	(0.8)	30.9%
Result before taxes and SDI	**71.8**	**65.4**	**9.7%**

Revenue

The following tables show the split of our revenue by market segment:

Revenue by segment

EUR million	Jul-Sep 2020	Jul-Sep 2019	Percentage change
Revenue by segment			
Portfolio services	438.9	392.0	12.0%
Customer acquisition	99.8	79.8	25.1%
Adjacencies	17.8	5.3	237.0%
Total	**556.6**	**477.1**	**16.7%**

Total revenue in the third quarter 2020 increased by 16.7%, or EUR 79.5 million, to EUR 556.6 million, up from EUR 477.1 million in the prior period. Organic revenue growth was 18.2%, primarily due to the increasing customer base. The customer base on September 30, 2020 was 3,623,024, an increase of more than 380,000 customers or 12.0% from 3,236,226 on September 30, 2019.

Revenue for portfolio services in the third quarter 2020 increased by 12.0%, or EUR 46.9 million, to EUR 438.9 million, up from EUR 392.0 million in the previous period. The increase was primarily due to the increased number of customers in the portfolio and increased monthly revenue per user (RMR).

Revenue for customer acquisition in the three months ending September 30, 2020, amounted to EUR 99.8 million, which is an increase of 25.1%, or EUR 20.0 million, compared to EUR 79.8 million in the prior period. The increase was due to the higher number of new installations compared to the same period last year.

Operating expenses

Operating expenses in the third quarter 2020, increased by 18.1%, or EUR 51.0 million, to EUR 332.6 million, from EUR 281.6 million in the prior period. The increase was mainly due to higher numbers of new customer additions.

Adjusted EBITDA

Adjusted EBITDA in the three months ending September 30, 2020 increased by 14.6% or EUR 28.7 million to EUR 225.3 million, up from EUR 196.6 million in the prior period. The increase in adjusted EBITDA was driven by both the growth in the customer portfolio and higher earnings per customer, improving the Portfolio services adjusted EBITDA.

Depreciation and amortization

Depreciation and amortization increased to EUR 70.2 million in the three months ending September 30, 2020, up from EUR 59.7 million in the prior period. This is primarily related to the alarm equipment installed at our customers and the capitalized direct cost related to the acquisition of customer contracts. The depreciation and amortization have increased mainly due to the increased number of customers.

Retirement of assets

Retirements of assets increased to EUR 22.8 million in the third quarter of 2020, up from EUR 18.7 million in the prior period. The cost corresponds mainly to the remaining balance for capitalized material and direct costs, when customers are leaving the portfolio or upgrading to our new platform.

Interest income and cost

Interest income amounted to EUR 0.1 million in the three months ending September 30, 2020 compared to EUR 0.1 million in the same period prior year. Interest cost amounted to EUR 59.6 million, compared to EUR 52.0 million in the prior period, mainly driven by an increase in debt.

Other financial items

Other financial items, mainly consisting of commitment fee for the Revolving Credit Facility, amounted to a cost of EUR 1.1 million in Q3 2020, compared to 0.7 million in Q3 2019.

Reported consolidated income statement for the three months ending September 30, 2020 and 2019

	Jul-Sep 2020			Jul-Sep 2019		
EUR million	**Result excluding SDI**	**Separately disclosed items**	**Reported**	**Result excluding SDI**	**Separately disclosed items**	**Reported**
Revenue	556.6	-	**556.6**	477.1	-	**477.1**
Operating expenses	(332.6)	(16.3)	**(348.8)**	(281.6)	(12.9)	**(294.5)**
Other income	1.3	-	**1.3**	1.1	-	**1.1**
Adjusted EBITDA	**225.3**	**(16.3)**	**209.0**	**196.6**	**(12.9)**	**183.7**
Depreciation and amortization	(70.2)	(39.7)	**(109.9)**	(59.7)	(38.3)	**(98.0)**
Retirements of assets	(22.8)	-	**(22.8)**	(18.7)	-	**(18.7)**
Operating profit	**132.3**	**(56.0)**	**76.3**	**118.2**	**(51.2)**	**67.0**
Interest income and cost	(59.5)	0.3	**(59.2)**	(52.0)	-	**(52.0)**
Other financial items	(1.1)	(43.2)	**(44.2)**	(0.8)	(21.5)	**(22.3)**
Result before tax	**71.8**	**(98.9)**	**(27.1)**	**65.4**	**(72.7)**	**(7.2)**
Income tax benefit and expense	-	-	**(5.5)**	-	-	**(9.9)**
Result for the period	**-**	**-**	**(32.6)**	**-**	**-**	**(17.1)**

Separately disclosed items (SDIs)

SDI affecting operating expenses

SDI affecting operating expenses includes one-off costs related to various transition projects within the Group and COVID-19 related exceptional costs. For the third quarter 2020, the total costs for SDI´s amounted to EUR 16.3 million and EUR 12.9 million in the same period last year.

SDI affecting depreciation and amortization

The market value of the acquisition-related intangible assets is amortized over the expected life. The main part of the total cost of EUR 39.7 million in 2020 and EUR 38.3 in 2019 relates to amortization of contract portfolio resulting from the acquisition of the Securitas Direct Group in 2011.

SDI affecting interest income and cost and other financial items

SDI affecting interest income and cost and other financial items totalled a cost of EUR 42.9 million during the third quarter of 2020, compared to a cost of EUR 21.6 million during the same quarter of last year. For the three months ending September 30, 2020, other financial items consisted of a negative non-cash FX revaluation of debt items and hedges of EUR 1.4 million, and a cost related to the amortization and write-off of prepaid financing fees, including an IFRS 9 adjustment regarding modification of loan agreement, of EUR 41.4 million. For the three months ending September 30, 2019, other financial items consisted of a negative non-cash FX revaluation of debt items and hedges of EUR 11.5 million, and a cost related to the amortization and write-off of prepaid financing fees, including an IFRS 9 adjustment regarding modification of loan agreement, of EUR 10.1 million.

Income tax benefit and expense

Total tax cost was EUR 5.5 million in the quarter compared with EUR 9.9 million last year. Current tax expense was EUR 17.8 million in Q3 2020 compared with EUR 18.8 million in 2019. Deferred tax was a benefit of EUR 12.3 million in Q3 2020 compared to a benefit of EUR 8.9 million in 2019.

Cash Flow

The following table shows a summary of our cash flow on a historical basis for the three months ending September 30, 2020 and 2019.

EUR million	Jul-Sep 2020	Jul-Sep 2019
Cash flow from operating activities before change in working capital	198.3	163.4
Change in working capital	112.9	37.1
Cash flow from operating activities[1]	**311.2**	**200.5**
Cash flow from investing activities	(178.0)	(141.8)
Cash flow from financing activities[2]	(41.8)	(46.8)
Cash flow for the period	**91.4**	**11.8**
Cash and cash equivalents at beginning of period	62.1	35.1
Translation differences on cash and cash equivalents	(1)	-
Cash and cash equivalents at end of period	**152.5**	**47.0**

1) Cash flow from operating activities is calculated after giving effect to income tax paid.
2) Cash flow from financing activities includes paid interest.

Cash flow from operating activities

Cash flow from operating activities amounted to EUR 311.2 million and EUR 200.5 million for the three months ending September 30, 2020 and 2019, respectively. The increase is driven by a strong improvement in operating profit together with a decrease in working capital levels, which have partly normalized after the impact experienced in previous months as a consequence of the COVID-19 pandemic.

Cash flow from investing activities

Cash flow from investing activities amounted to an outflow of EUR 178.0 million and EUR 141.8 million for the three months ending September 30, 2020 and 2019 respectively. The increase mainly relates to the higher number of new installations.

Cash flow from financing activities

Cash flow from financing activities totalled an outflow of EUR 41.8 million and EUR 46.8 million for the three months ending September 30, 2020 and 2019, respectively. Key components include net paid interest of EUR 23.1 million for the three months ending September 30, 2020 compared to EUR 34.6 million for the same period last year, and a net decrease in borrowings of EUR 12.2 for the three months ending September 30, 2020, compared to a net decrease of EUR 6.6 million during the same period last year.

Nine months ending September 30, 2020 and 2019

Results excluding SDI

EUR million	Jan-Sep 2020	Jan-Sep 2019	Percentage change
Revenue	1,556.8	1,402.6	11.0%
Operating expenses	(897.5)	(836.6)	7.3%
Other income	3.8	4.2	(10.0)%
Adjusted EBITDA	**663.0**	**570.2**	**16.3%**
Adjusted EBITDA margin, %	*42.6%*	40.7%	-
Depreciation and amortization	(205.0)	(169.3)	21.1%
Retirement of assets	(66.7)	(56.9)	171%
Operating profit	**391.3**	**344.0**	**13.7%**
Operating profit margin, %	*25.1%*	24.5%	-
Interest income and cost	(170.7)	(155.8)	9.5%
Other financial items	(2.3)	(2.0)	16.1%
Result before taxes and SDI	**218.4**	**186.3**	**17.3%**

Revenue

The following tables show the split of our revenue by market segment:

Revenue by segment

EUR million	Jan-Sep 2020	Jan-Sep 2019	Percentage change
Revenue by segment			
Portfolio services	1,280.8	1,142.9	12.1%
Customer acquisition	237.7	243.9	(2.5)%
Adjacencies	38.3	15.8	142.2%
Total	**1,556.8**	**1,402.6**	**11.0%**

Total revenue in the first nine months of 2020 increased by 11.0%, or EUR 154.2 million, to EUR 1,556.8 million, up from EUR 1,402.6 million in the prior period. Organic revenue growth was 13.0%, primarily due to the increasing customer base. The customer base on September 30, 2020 was 3,623,024, an increase of more than 380,000 customers or 12.0% from 3,236,226 on September 30, 2019.

Revenue for portfolio services in the first nine months of 2020 increased by 12.1%, or EUR 137.9 million, to EUR 1,280.8 million, up from EUR 1,142.9 million in the previous period. The increase was primarily due to the increased number of customers.

Revenue for customer acquisition in the nine months ending September 30, 2020, amounted to EUR 237.7 million, which is a decrease of 2.5%, or EUR 6.2 million, compared to EUR 243.9 million in the prior period. The decrease was mainly due to lower number of new installations in Q2 compared to the same period last year, due to COVID-19 impacting many countries from mid-March.

Operating expenses

Operating expenses in the first nine months of 2020, increased by 7.3%, or EUR 61.0 million, to EUR 897.5 million, up from EUR 836.6 million in the prior period. The increase was mainly due to the growth in the portfolio.

Adjusted EBITDA

Adjusted EBITDA in the first nine months ending September 30, 2020, increased by 16.3% or EUR 92.8 million to EUR 663.0 million, up from EUR 570.2 million in the prior period. The increase in adjusted EBITDA was driven by both the growth in the customer portfolio and higher earnings per customer, improving the Portfolio services adjusted EBTDA.

Depreciation and amortization

Depreciation and amortization increased to EUR 205.0 million in the nine months ending September 30, 2020, up from EUR 169.3 million in the prior period. This is primarily related to the alarm equipment installed at our customers and the capitalized direct cost related to the acquisition of customer contracts. The depreciation and amortization have increased mainly due to the increased number of customers.

Retirement of assets

Retirements of assets increased to EUR 66.7 million in the first nine months of 2020, up from EUR 56.9 million in the prior period. The cost corresponds mainly to the remaining balance for capitalized material and direct costs, when customers are leaving the portfolio or upgrading to our new platform.

Interest income and cost

Interest income amounted to EUR 0.2 million in the nine months ending September 30, 2020, compared to EUR 0.2 million in the same period last year. Interest costs amounted to EUR 170.9 million, compared to EUR 156.0 million last year, mainly driven by an increase in debt.

Other financial items

Other financial items, mainly consisting of commitment fee for the Revolving Credit Facility, amounted to a cost of EUR 2.3 million in the nine months ended September 30, 2020, compared to EUR 2.0 million in the same period prior year.

Reported consolidated income statement for the nine months ending September 30, 2020 and 2019

	Jan-Sep 2020			Jan-Sep 2019		
EUR million	**Result excluding SDI**	**Separately disclosed items**	**Reported**	**Result excluding SDI**	**Separately disclosed items**	**Reported**
Revenue	1,556.8	-	**1,556.8**	1,402.6	-	**1,402.6**
Operating expenses	(897.5)	(36.6)	**(934.2)**	(836.6)	(28.1)	**(864.7)**
Other income	3.8	-	**3.8**	4.2	-	**4.2**
Adjusted EBITDA	**663.0**	**(36.6)**	**626.4**	**570.2**	**(28.1)**	**542.1**
Depreciation and amortization	(205.0)	(119.3)	**(324.3)**	(169.3)	(114.8)	**(284.1)**
Retirements of assets	(66.7)	-	**(66.7)**	(56.9)	-	**(56.9)**
Operating profit	**391.3**	**(155.9)**	**235.4**	**344.0**	**(143.0)**	**201.1**
Interest income and cost	(170.7)	0.3	**(170.4)**	(155.8)	-	**(155.8)**
Other financial items	(2.3)	(135.9)	**(138.1)**	(2.0)	(36.7)	**(38.6)**
Result before tax	**218.4**	**(291.5)**	**(73.1)**	**186.3**	**(179.7)**	**6.6**
Income tax benefit and expense	-	-	**(28.9)**	-	-	**(39.1)**
Result for the period	**-**	**-**	**(102.0)**	**-**	**-**	**(32.4)**

Separately disclosed items (SDIs)

SDI affecting operating expenses

SDI affecting operating expenses includes one-off costs related to various transition projects within the Group. It also includes costs related to acquisitions of new businesses, and COVID-19 related exceptional costs. For the first nine months of 2020, the total costs for SDI´s amounted to EUR 36.6 million and EUR 28.1 million in the same period last year.

SDI affecting depreciation and amortization

The market value of the acquisition-related intangible assets is amortized over the expected life. The main part of the total cost of EUR 119.3 million in 2020 and EUR 114.8 in 2019 relates to amortization of contract portfolio resulting from the acquisition of the Securitas Direct Group in 2011.

SDI affecting interest income and cost and other financial items

SDI affecting interest income and cost and other financial items totaled a cost of EUR 135.6 million for the first nine months ending September 30, 2020, compared EUR 36.7 million for the same period last year. For the nine months ending September 30, 2020, other financial items consisted of a negative non-cash FX revaluation of debt items and hedges of EUR 105.0 million and a cost related to the amortization and write-off of prepaid financing fees, including an IFRS 9 adjustment regarding a modification of a loan agreement, of EUR 64.7 million. On the other hand, realized hedges had a positive effect of EUR 33.9 million. For the nine months ending September 30, 2019, other financial items consisted of a positive non-cash FX revaluation of debt items plus a negative market revaluation of hedges, which jointly accounted for a cost of EUR 6.9 million. In addition, the amortization and write-off of prepaid funding fees, including an IFRS 9 adjustment regarding a modification of a loan agreement, amounted to a cost EUR 29.8 million.

Income tax benefit and expense

Total tax cost was EUR 28.9 million in the nine months compared with EUR 39.1 million last year. Current tax expense was EUR 43.9 million in 2020 compared with EUR 46.4 million in 2019. Deferred tax was a benefit of EUR 15.0 million in the first nine months of 2020 compared to EUR 7.3 million in 2019.

Cash Flow

The following table shows a summary of our cash flow on a historical basis for the nine months ending September 30, 2020 and 2019.

EUR million	Jan-Sep 2020	Jan-Sep 2019
Cash flow from operating activities before change in working capital	605.3	505.0
Change in working capital	80.0	27.6
Cash flow from operating activities[1]	**685.4**	**532.6**
Cash flow from investing activities	(429.7)	(464.5)
Cash flow from financing activities[2]	(113.4)	(29.8)
Cash flow for the period	**142.2**	**38.3**
Cash and cash equivalents at beginning of period	12.8	8.6
Translation differences on cash and cash equivalents	(2.5)	0.1
Cash and cash equivalents at end of period	**152.5**	**47.0**

1) Cash flow from operating activities is calculated after giving effect to income tax paid.
2) Cash flow from financing activities includes paid interest.

Cash flow from operating activities

Cash flow from operating activities amounted to EUR 685.4 million and EUR 532.6 million for the nine months ending September 30, 2020 and 2019, respectively. The increase is primarily driven by a strong improvement in operating profit together with a decrease in working capital levels, which have partly normalized after the impact experienced in previous months as a consequence of the COVID-19 pandemic.

Cash flow from investing activities

Cash flow from investing activities amounted to an outflow of EUR 429.7 million and EUR 464.5 million for the nine months ending September 30, 2020 and 2019 respectively. The decrease mainly relates to the acquisition of non-controlling interest of EUR 45 million in Q1 2019.

Cash flow from financing activities

Cash flow from financing activities totalled an outflow of EUR 113.4 million and EUR 29.8 million for the nine months ending September 30, 2020 and 2019, respectively. Key components include net paid interest of EUR 133.9 million for the nine months ending September 30, 2020 compared with EUR 139.3 million for the same period last year, and a net increase in borrowings of EUR 25.4 million for the nine months ending September 30, 2020, compared to a net increase of EUR 118.9 million during the same period last year.

Capital Expenditures

The Group´s capital expenditures primarily consist of (i) customer acquisition capital expenditures, which include purchases of equipment for new customers, direct costs related to the acquisition of customer contracts, (ii) portfolio services capital expenditures which relates to new equipment for existing customers, (iii) adjacencies capital expenditures which includes direct costs related to the acquisition of a new customer contract, and (iv) capital expenditures relating to investments in R&D, IT and premises. In accordance with IFRS, the costs of the alarm equipment installed in connection with newly acquired subscribers are capitalized as tangible fixed assets to the extent we retain ownership of the equipment. The Group also capitalizes direct costs related to the acquisition of customer contracts as intangible fixed assets.

The following table shows a summary of our capital expenditures for the three months ending September 30, 2020 and 2019:

EUR million	Jul-Sep 2020	Jul-Sep 2019
Customer acquisition capital expenditures, material	78.4	58.6
Customer acquisition capital expenditures, direct costs	61.1	48.3
Portfolio capital expenditures	13.6	12.7
Adjacencies capital expenditures	1.5	1.6
Capital expenditures other	23.5	20.7
Total	**178.0**	**141.8**

Capital expenditures were EUR 178.0 million for the three months ending September 30, 2020 and EUR 141.8 million in the prior period. The increase in capital expenditure is mainly due to the growth in acquisition of new customers and development cost.

The following table shows a summary of our capital expenditures for the nine months ending September 30, 2020 and 2019:

EUR million	Jan-Sep 2020	Jan-Sep 2019
Customer acquisition capital expenditures, material	172.3	169.3
Customer acquisition capital expenditures, direct costs	134.7	142.4
Portfolio capital expenditures	35.4	37.5
Adjacencies capital expenditures	4.4	5.6
Capital expenditures other	80.5	64.7
Total	**427.2**	**419.5**

Capital expenditures were EUR 427.2 million for the nine months ending September 30, 2020 and EUR 419.5 million in the prior period. The increase in capital expenditure is mainly due to the growth in acquisition of new customers and development cost.

Liquidity, Liabilities and Financing agreements

The primary source of liquidity for our business is cash flow from operations, while our significant uses of cash and capital funding needs are purchases of new equipment, funding our customer acquisition operations, operating expenses, capital expenditures, taxes and interest due on our debt obligations.

As of September 30, 2020, the Group had a total of EUR 445.8 million of available funds.

EUR million	Sep 2020	Sep 2019	Dec 2019
Revolving Credit Facility	300.0	300.0	300.0
Cash and cash equivalents	152.5	47.0	12.8
Drawn facility amount	-	(17.4)	(127.0)
Utilized letter of credit	(6.7)	(10.3)	(10.9)
Total available funds	**445.8**	**319.2**	**174.9**

The following table summarizes our total financial indebtedness on September 30, 2020 and 2019 and on December 31, 2019.

EUR million	Sep 2020	Sep 2019	Dec 2019
Senior Secured Notes	1,500.0	500.0	500.0
Term Loan B	2,292.0	3,092.0	3,092.0
Revolving Credit Facility	-	17.4	127.0
Senior Unsecured Notes	1,236.1	1,234.3	1,237.9
Other liabilities	31.8	53.1	48.3
Lease liability (IFRS 16)	138.9	127.4	133.9
Total	**5.198.8**	**5,024.2**	**5,139.1**

Risks and uncertainties

As previously reported, the Norwegian Competition Authority in June 2017 launched an investigation involving Verisure Norway. On June 17, 2019, the Norwegian Competition Authority issued a statement of objections to Verisure Norway and Verisure Midholding AB with its preliminary findings. According to the notification, the NCA is considering the imposition of a fine of approx. EUR 80 million (NOK 784 million) on Verisure Norway and Verisure Midholding, for which the two companies would be jointly and severally liable. We disagree with the NCA's preliminary findings and responded in detail to these findings on November 18, 2019. We expect a decision to be issued in the coming months.

In addition to above, a detailed presentation of risks and a sensitivity analysis can be found in the Financial Risk Management section (note 22) and the Risk Factors section of the Verisure Midholding AB's annual report 2019.

Events during the reporting period

On April 16, 2020, the Group raised EUR 200 million of Floating Rate Notes debt to repay outstanding amounts under the Revolver Credit Facility as well as to replenish the Group's cash balance.

In July 2020, we executed a refinancing of EUR 1,600 million for the purpose of extending the maturity profile of our external debt portfolio. We raised EUR 800 million of Senior Secured Notes as well as EUR 800 million of Floating rate Term Loan B both with maturity in July 2026. The proceeds, net of fees and transaction costs, were used to repay in full outstanding amounts under the Term Loan B1F tranche as well as certain amounts under the Term Loan B1E tranche both with maturity in October 2022.

Events after the reporting period

No significant events have occurred after the reporting period.

Key Operating Metrics

The Group management uses a number of key operating metrics, in addition to IFRS financial measures, to evaluate, monitor and manage our business. The non-IFRS operational and statistical information related to the Group´s operations included in this section is unaudited and has been derived from internal reporting systems. Although none of these metrics are measures of financial performance under IFRS, management believes that these metrics provide important insight into the operations and strength of the Group´s business. These metrics may not be comparable to similar terms used by competitors or other companies, and from time to time the Group may change our definitions of these metrics. These metrics include the following:

Adjusted EBITDA
Earnings before interests, taxes, depreciation and amortization, write-offs and separately disclosed items.

Attrition rate
The attrition rate is the number of terminated subscriptions to our monitoring service in the last 12 months, divided by the average number of subscribers for the last 12 months.

Average Revenue per user
Average monthly revenue per user (“ARPU”) is our portfolio services segment revenue, consisting of monthly average subscription fees and sales of additional products and services divided by the monthly average number of subscribers during the relevant period.

Cancellations
Total number of cancelled subscriptions during the period including cancellations on acquired portfolios.

Cash acquisition cost per new subscriber
Cash acquisition cost per new subscriber (“CPA”) is the net investment required to acquire a subscriber, including costs related to the marketing and sales process, installation of the alarm system, costs of alarm system products and overhead expenses for the customer acquisition process. The metric is calculated net of any revenues from installation fees charged to the subscriber and represents the sum of adjusted EBITDA plus capital expenditures in our customer acquisition segment on average for every subscriber acquired.

Monthly adjusted EBITDA per subscriber
Monthly adjusted EBITDA per subscriber (“EPC”) is calculated by dividing the total monthly adjusted EBITDA from managing our existing subscriber portfolio (which is our adjusted EBITDA from portfolio services) by the monthly average number of subscribers.

Net Debt
The sum of financial indebtedness, defined as interest bearing debt from external counterparties, excluding accrued interest less the sum of available cash and financial receivables.

New subscriber added (gross)
Total number of new subscribers added.

Organic revenue growth
Revenue growth not affected by acquisitions or the impact of foreign exchange.

Payback period
Payback period represents the time in years required to recapture the initial capital investment made to acquire a new subscriber and is calculated as CPA divided by EPC, divided by 12.

Retirement of assets
The residual values of an asset that will no longer be used in the operations are recognized as a cost in the income statement.

Subscriber growth rate
Number of subscribers at end of period divided with number of subscribers 12 months ago.

Unaudited Consolidated Financial Statements

Consolidated income statements

EUR thousand	Note	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019
Revenue	3	556,561	477,072	1,556,753	1,402,583
Cost of sales		(287,351)	(249,819)	(793,787)	(730,526)
Gross profit		**269,210**	**227,252**	**762,966**	**672,056**
Selling expenses		(68,872)	(64,615)	(199,283)	(190,551)
Administrative expenses[1]		(125,271)	(96,726)	(332,042)	(284,650)
Other income		1,281	1,117	3,793	4,214
Operating profit		**76,348**	**67,028**	**235,433**	**201,070**
Finance income		346	63	521	189
Finance costs		(103,788)	(74,329)	(309,029)	(194,633)
Result before tax		**(27,093)**	**(7,238)**	**(73,073)**	**6,626**
Income tax expense		(5,481)	(9,880)	(28,924)	(39,064)
Result for the period		**(32,574)**	**(17,119)**	**(101,997)**	**(32,437)**
Whereof attributable to:					
- Parent company		(32,574)	(17,119)	(101,997)	(32,437)
- Non-controlling interest		-	-	-	-

Consolidated statements of comprehensive income

EUR thousand	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019
Result for the period	**(32,574)**	**(17,119)**	**(101,997)**	**(32,437)**
Other comprehensive income				
Items that subsequently may be reclassified to the income statement				
Hedging reserve	(3,685)	442	(3,503)	442
Currency translation differences on foreign operations	783	1,752	14,301	(5,119)
Other comprehensive income	**(2,902)**	**2,194**	**10,798**	**(4,677)**
Total comprehensive income for the period	**(35,476)**	**(14,925)**	**(91,199)**	**(37,114)**
Whereof attributable to:				
- Parent company	(35,476)	(14,925)	(91,199)	(37,114)
- Non-controlling interest	-	-	-	-

Consolidated statements of financial position

EUR thousand	Note	Sep 2020	Sep 2019	Dec 2019
Assets				
Non-current assets				
Property, plant and equipment		940,882	825,051	872,846
Right of use assets		136,730	126,796	132,899
Goodwill		865,084	868,092	884,261
Customer portfolio		968,812	1,014,681	1,016,865
Other intangible assets		250,802	180,570	239,176
Deferred tax assets		26,700	34,840	30,827
Derivatives	4	-	29,239	23,410
Trade and other receivables	4	310,028	320,228	310,179
Total non-current assets		**3,499,038**	**3,399,497**	**3,510,463**
Current assets				
Inventories		156,269	135,654	126,977
Trade receivables	4	147,608	136,583	154,075
Current tax assets		19,420	21,234	17,872
Derivatives	4	527	442	4,758
Prepayments and accrued income		50,182	38,959	62,948
Other current receivables	4	24,331	12,855	15,613
Cash and cash equivalents	4	152,494	46,957	12,770
Total current assets		**550,831**	**392,684**	**395,014**
Total assets		**4,049,869**	**3,792,181**	**3,905,477**

EUR thousand	Note	Sep 2020	Sep 2019	Dec 2019
Equity and liabilities				
Equity				
Share capital		56	56	56
Other paid in capital		625,047	624,517	624,686
Other reserves		43,443	38,963	32,645
Retained earnings		(2,923,170)	(2,793,245)	(2,821,173)
Equity attributable to equity holders of the parent company		**(2,254,624)**	**(2,129,709)**	**(2,163,786)**
Non-controlling interest		-	-	-
Total equity		**(2,254,624)**	**(2,129,709)**	**(2,163,786)**
Non-current liabilities				
Long-term borrowings	4,5	5,064,172	4,823,422	4,948,800
Derivatives	4	31,339	28,583	17,720
Other non-current liabilities	4	102,443	77,634	114,571
Deferred tax liabilities[1]		218,731	251,637	250,295
Other provisions		16,751	3,477	25,141
Total non-current liabilities		**5,433,436**	**5,184,752**	**5,356,527**
Current liabilities				
Trade payables	4	130,703	114,151	139,086
Current tax liabilities		49,245	34,557	25,300
Short-term borrowings	4,5	121,565	111,827	91,726
Derivatives	4	7,218	796	75
Accrued expenses and deferred income		515,789	443,274	426,594
Other current liabilities	4	46,536	32,533	29,955
Total current liabilities		**871,056**	**737,137**	**712,736**
Total equity and liabilities		**4,049,869**	**3,792,181**	**3,905,477**

1) The majority of the deferred tax liabilities relates to the acquisition of Securitas Direct AB in 2011.

Consolidated statement of changes in equity

EUR thousand	Share capital	Other paid in capital	Other reserve	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to equity holders of the parent company and non-controlling interest						
Balance at January 1, 2020	**56**	**624,686**	**32,645**	**(2,821,173)**	**(2,163,786)**	**-**	**(2,163,786)**
Result for the period	-	-		(101,997)	**(101,997)**	-	**(101,997)**
Hedging reserve	-	-	(3,503)	-	**(3,503)**	-	**(3,503)**
Other comprehensive income	-	-	14,301	-	**14,301**	-	**14,301**
Total comprehensive income for the period	-	-	*10,798*	(101,997)	***(91,199)***	-	***(91,199)***
Shareholder´s contribution	-	361	-	-	**361**	-	**361**
Balance at September 30, 2020	**56**	**625,047**	**43,443**	**(2,923,170)**	**(2,254,624)**	**-**	**(2,254,624)**

EUR thousand	Share capital	Other paid in capital	Other reserve	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to equity holders of the parent company and non-controlling interest						
Balance at January 1, 2019	**56**	**624,517**	**43,640**	**(2,714,251)**	**(2,046,038)**	**(2,745)**	**(2,048,783)**
Result for the period	-	-	-	(32,437)	**(32,437)**	-	**(32,437)**
Hedging reserve			442	-	**442**	-	**442**
Other comprehensive income	-	-	(5,119)	-	**(5,119)**	-	**(5,119)**
Total comprehensive income for the period	-	-	*(4,677)*	*(132,437)*	***(37,114)***	-	***(37,114)***
Shareholder´s contribution	-	-	-	109	**109**	-	**109**
Transaction with non-controlling interest	-	-	-	(46,666)	**(46,666)**	2,745	**(43,921)**
Balance at September 30, 2019	**56**	**624,517**	**38,963**	**(2,793,245)**	**(2,129,709)**	**-**	**(2,129,709)**

EUR thousand	Share capital	Other paid in capital	Other reserve	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to equity holders of the parent company and non-controlling interest						
Balance at January 1, 2019	**56**	**624,517**	**43,640**	**(2,714,251)**	**(2,046,038)**	**(2,745)**	**(2,048,783)**
Result for the period	-	-	-	(60,266)	**(60,266)**	-	**(60,266)**
Other comprehensive income	-	-	(10,995)	-	**(10,995)**	-	**(10,995)**
Total comprehensive income for the period	-	-	*(10,995)*	(60,266)	***(71,261)***	-	***(71,261)***
Shareholder´s contribution	-	169	-	-	**169**	-	**169**
Group contribution	-	-	-	10	**10**	-	**10**
Transaction with non-controlling interest	-	-	-	(46,666)	**(46,666)**	2,745	**(43,921)**
Balance at December 31, 2019	**56**	**624,686**	**32,645**	**(2,821,173)**	**(2,163,786)**	**-**	**(2,163,786)**

Consolidated statements of cash flows

EUR thousand	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019
Operating activities				
Operating profit	76,348	67,028	235,433	201,070
Reversal of depreciation and amortization	109,896	97,998	324,256	284,082
Other non-cash items	22,768	18,815	66,669	56,877
Paid taxes	(10,688)	(20,482)	(21,032)	(37,013)
Cash flow from operating activities before change in working capital	**198,324**	**163,359**	**605,326**	**505,016**
Change in working capital				
Change in inventories	7,866	(10,313)	(34,214)	(33,938)
Change in trade receivables	4,709	15,727	6,064	(1,818)
Change in other receivables	12,750	4,179	14,184	(17,620)
Change in trade payables	24,722	2,535	(5,185)	(9,924)
Change in other payables	62,803	25,007	99,175	90,871
Cash flow from change in working capital	*112,851*	*37,135*	*80,025*	*27,571*
Cash flow from operating activities	**311,175**	**200,494**	**685,351**	**532,587**
Investing activities				
Purchase of intangible assets	(86,949)	(68,810)	(216,216)	(207,610)
Purchase of property, plant and equipment	(91,028)	(73,039)	(211,887)	(211,864)
Settlement of deferred consideration	-	-	(1,630)	-
Acquisition of non-controlling interest	-	-	-	(45,000)
Cash flow from investing activities	**(177,977)**	**(141,849)**	**(429,733)**	**(464,474)**
Financing activities				
Paid bank and advisory fees	(17,267)	(1,211)	(20,738)	(6,397)
New financing	1,600,000	-	1,800,000	200,000
Repayment of old term debt	(1,600,000)		(1,600,000)	
Other changes in borrowings	(12,218)	(6,577)	(174,603)	(81,082)
Premium from new financing	-	-	-	4,651
Loan to group companies	-	-	(15,059)	-
Net interest paid	(23,139)	(34,627)	(133,939)	(139,348)
Other financial items	10,836	(4,410)	30,952	(7,606)
Cash flow from financing activities	**(41,789)**	**(46,825)**	**(113,388)**	**(29,782)**
Cash flow for the period	**91,409**	**11,820**	**142,230**	**38,331**
Cash and cash equivalents at start of period	62,085	35,129	12,770	8,613
Exchange difference on translating cash and cash equivalents	(999)	8	(2,505)	13
Cash and cash equivalents at end of period	**152,494**	**46,957**	**152,494**	**46,957**

Notes to the Unaudited Consolidated Financial Statements

Note 1 Accounting Policies

Basis of presentation and accounting periods
This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting. The report includes both the financial statements of the Group and separate financial statements for the parent company.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. The most important accounting principles under IFRS, which is the basis for the preparation of this interim report, can be found in note 1 in the annual report for 2019. The accounting policies are unchanged compared with those applied in 2019.

These consolidated financial statements should be read in conjunction with the annual report 2019. The consolidated interim financial statements have not been audited.

Note 2 Critical Accounting Estimates and Judgments

When applying the Group's accounting policies, management must make assumptions and estimates concerning the future that affect the carrying amounts of assets and liabilities at the balance sheet date, the disclosure of contingencies that existed at the balance sheet date and the amounts of revenue and expenses recognised during the accounting period. Such assumptions and estimates are based on factors such as historical experience, the observance of trends in the industries in which the Group operates and information available from the Group's customers and other outside sources.

Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes could differ from those assumptions and estimates. An analysis of key areas of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year is discussed below.

Testing for impairment of goodwill and other assets
IFRS requires management to undertake an annual test for impairment of indefinite lived assets and, for finite lived assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When testing for impairment of goodwill and other assets, the carrying amount should be compared with the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use.
Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flow derived from such assets using cash flow projections which have been discounted at an appropriate rate. Since there are normally no quoted prices available to estimate the fair value less costs to sell an asset, the asset's value-in-use is usually the value against which the carrying amount is compared for impairment testing purposes and is measured on the basis of assumptions and estimates. In calculating the net present value of the future cash flow, certain assumptions are required to be made in respect of highly uncertain matters, including management's expectations of:

- long-term sales growth rates
- growth in adjusted EBITDA
- timing and quantum of future capital expenditures
- change in working capital
- the selection of discount rates to reflect the risks involved.

The Group prepares and approves formal long-term management plans for operations, which are used in value-in-use calculations. For the purposes of the calculation, a long-term growth rate into perpetuity has been determined as:

- an assumed 3% growth rate for the mature markets
- a projected long-term compound annual growth rate for adjusted EBITDA in 5-10 years, estimated by management for developing countries.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect our impairment evaluation and hence results. The yearly impairment test of goodwill is performed on the closing of the second quarter each year.

Measurement of deferred income tax assets and deferred income tax liabilities

The Group is liable to pay income taxes in various countries. The calculation of the Group’s total tax charge necessarily involves a degree of estimation and judgment in respect of certain tax positions, the resolution for which is uncertain until an agreement has been reached with the relevant tax authority or, as appropriate, through a formal legal process. The final resolution of some of these items may give rise to material profits, losses and/or cash flows.

The complexity of our structure following our geographic expansion makes the degree of estimation and judgment more challenging. The resolution of issues is not always within the control of the company and it is often dependent on the efficiency of the legal processes in the relevant taxing jurisdictions in which we operate.

Issues can, and often do, take many years to resolve. Payments in respect of tax liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result, there can be substantial differences between the tax charge in the consolidated income statement and tax payments. We also have exercised significant accounting judgment regarding net operating loss utilisation.

The Group also has exercised significant accounting judgment regarding the recognition of deferred tax assets. The recognition of deferred tax assets is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future against which the reversal of deductible temporary differences can be realised. Where the temporary differences related to losses, the availability of the losses to offset against forecast taxable profits is also considered. Recognition therefore involves judgment regarding the future financial performance of the particular legal entity or tax group in which the deferred tax assets have been recognised.

The amounts recognised in the consolidated financial statements in respect of each matter are derived from the company’s best estimation and judgment as described above. However, the inherent uncertainty regarding the outcome of these items means eventual resolution could differ from the accounting estimates and therefore impact the company’s results and cash flow.

Measurement of provisions and allocation for accrued expenses

The Group exercises judgment in connection with significant estimates in relation to staff-related costs and in measuring and recognising provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

Depreciation period for alarm equipment

The charge in respect of periodic depreciation for alarm equipment is derived after determining an estimate of expected useful life of alarm equipment and the expected residual value at the end of its life. Increasing expected life of an asset or its residual value results in a reduced depreciation charge recording in the consolidated income statement.
The useful lives and residual values of our assets are determined by management at the time of acquisition and reviewed annually for appropriateness. The lives are based primarily on historical experience with regards to the lifecycle of subscribers as well as anticipation of future events which may impact their life, such as changes in technology and macroeconomic factors.

Estimate regarding leases

The Group performs several estimates when applying IFRS 16 in the accounting for leases. These mainly relates to:
Discount rate. The discount rate used in the present value calculation of all future cash flows regarding leases is the incremental borrowing rate. The incremental borrowing rate depends on a number of factors including length of lease period and asset type and are specific for each country.

Extension options and end options. When the entity has the option to extend a lease, or end the lease before the contract end date, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term. The extension period has only been included in the present value calculation of future lease payments if it is deemed reasonably certain that the contract will be extended, and if it is deemed reasonably certain that an end option will be exercised this period have been excluded from the calculation.

Note 3 Segment Reporting

The Group's operating segments are identified by grouping together the business by revenue stream, as this is the basis on which information is provided to the chief operating decision maker (CODM) for the purposes of allocating resources within the Group and assessing the performance of the Group's businesses. The Group has identified the management team as its CODM. The segments identified based on the Group's operating activities are customer acquisition, portfolio services and adjacencies. The customer acquisition segment develops, sources, purchases, provides and installs alarm systems for new customers in return for an installation fee. The portfolio services segment provides monitoring services to existing customers for a monthly subscription fee. The adjacency segment captures the sale of remote monitoring and assistance devices and services for senior citizens and, starting 2020, selling internet connected cameras under the Arlo brand.

	Jul-Sep 2020					
EUR thousands	**Customer acquisition**	**Portfolio services**	**Adjacencies**	**Total Group – Excl SDI**	**SDI**	**Group Total**
Revenue	**99,844**	**438,910**	**17,807**	**556,561**	**-**	**556,561**
Adjusted EBITDA	**(90,974)**	**318,765**	**(2,521)**	**225,270**	**(16,255)**	**209,015**
Depreciation and amortization	-	-	-	**(70,163)**	(39,736)	**(109,899)**
Retirements of assets	-	-	-	**(22,769)**	-	**(22,769)**
Financial items	-	-	-	**(60,561)**	(42,880)	**(103,441)**
Result before tax	-	-	-	**71,778**	**(98,871)**	**(27,093)**

	Jul-Sep 2019					
EUR thousands	**Customer acquisition**	**Portfolio services**	**Adjacencies**	**Total Group – Excl SDI**	**SDI**	**Group Total**
Revenue	**79,795**	**391,992**	**5,285**	**477,072**	**-**	**477,072**
Adjusted EBITDA	**(78,820)**	**275,041**	**382**	**196,603**	**(12,892)**	**183,711**
Depreciation and amortization	-	-	-	**(59,736)**	(38,262)	**(97,998)**
Retirements of assets	-	-	-	**(18,686)**	-	**(18,686)**
Financial items	-	-	-	**(52,764)**	(21,502)	**(74,266)**
Result before tax	-	-	-	**65,418**	**(72,656)**	**(7,238)**

	Jan-Sep 2020					
EUR thousands	**Customer acquisition**	**Portfolio services**	**Adjacencies**	**Total Group – Excl SDI**	**SDI**	**Group Total**
Revenue	**237,665**	**1,280,798**	**38,290**	**1,556,753**	**-**	**1,556,753**
Adjusted EBITDA	**(249,736)**	**922,547**	**(9,801)**	**663,010**	**(36,648)**	**626,362**
Depreciation and amortization	-	-	-	**(204,990)**	(119,268)	**(324,259)**
Retirements of assets	-	-	-	**(66,670)**	-	**(66,670)**
Financial items	-	-	-	**(172,951)**	(135,556)	**(308,507)**
Result before tax	-	-	-	**218,399**	**(291,472)**	**(73,073)**

	Jan-Sep 2019					
EUR thousands	**Customer acquisition**	**Portfolio services**	**Adjacencies**	**Total Group – Excl SDI**	**SDI**	**Group Total**
Revenue	**243,869**	**1,142,907**	**15,806**	**1,402,583**	**-**	**1,402,853**
Adjusted EBITDA	**(224,474)**	**793,457**	**1,250**	**570,233**	**(28,144)**	**542,089**
Depreciation and amortization	**-**	**-**	**-**	**(169,251)**	(114,831)	**(284,082)**
Retirements of assets	**-**	**-**	**-**	**(56,937)**	-	**(56,937)**
Financial items	**-**	**-**	**-**	**(157,781)**	(36,663)	**(194,444)**
Result before tax	**-**	**-**	**-**	**186,264**	**(179,638)**	**6,626**

Note 4 Financial Risk Management

Financial instruments by category and valuation level

EUR thousand	Sep 2020	Sep 2019	Dec 2019
Financial assets at fair value through profit or loss[1]			
Derivatives			
Currency	527	29,681	28,168
Total	**527**	**29,681**	**28,168**
Financial liabilities at fair value through profit or loss[1]			
Derivatives			
Currency	18,794	796	75
Interest rate	19,763	28,583	17,720
Total	**38,557**	**29,379**	**17,795**
Loans and receivables at amortized cost			
Trade and other receivables	310,028	320,228	310,179
Trade receivables[2]	147,608	136,583	154,075
Other current receivables[2]	24,331	12,855	15,613
Cash and cash equivalent	152,494	46,957	12,770
Other financial liabilities at amortized cost			
Long-term borrowings[3]	5,064,172	4,823,422	4,948,800
Other non-current liabilities	102,443	77,634	114,571
Trade payables[2]	130,703	114,151	139,086
Short-term borrowings[2,3]	121,565	111,827	91,726
Other current liabilities[2]	46,536	32,533	29,955

1) Part of the Group´s valuation techniques using observable market data.
2) Due to the short-term nature of trade receivables, current receivables, trade payables, short-term borrowings and other current liabilities, their carrying amount is assumed to be the same as their fair value.
3) Details of borrowings are presented in note 5.

Note 5 Borrowings

EUR thousand	Sep 2020 Principal amount	Sep 2020 Adjustment amortized costs	Sep 2020 Carrying amount	Sep 2019 Principal amount	Sep 2019 Adjustment amortized costs	Sep 2019 Carrying amount	Dec 2019 Principal amount	Dec 2019 Adjustment amortised costs	Dec 2019 Carrying amount
Non-current liabilities									
Secured									
Senior Secured Notes	1,500,000	(11,221)	**1,488,779**	500,000	(1,827)	**498,173**	500,000	(1,709)	**498,291**
Term Loan B[1]	2,292,000	(54,708)	**2,237,292**	3,092,000	(115,125)	**2,976,875**	3,092,000	(106,035)	**2,985,965**
Revolver Credit Facility	-	-	**-**	17,439	(3,182)	**14,256**	126,954	(2,815)	**124,139**
Unsecured									
Senior Unsecured Notes	1,236,083	(7,526)	**1,228,557**	1,234,266	(9,680)	**1,224,586**	1,237,942	(9,153)	**1,228,789**
Liabilities to other creditors	10,392	-	**10,392**	17,259	-	**17,259**	14,565	-	**14,565**
Lease liability	99,152	-	**99,152**	92,271	-	**92,271**	97,051	-	**97,051**
Long-term borrowings	**5,137,627**	**(73,455)**	**5,064,172**	**4,953,236**	**(129,814)**	**4,823,422**	**5,068,511**	**(119,711)**	**4,948,800**
Current liabilities									
Accrued interest expenses	60,407	-	**60,407**	40,882	-	**40,882**	21,159	-	**21,159**
Other liabilities	21,370	-	**21,370**	35,813	-	**35,813**	33,708	-	**33,708**
Lease liability	39,788	-	**39,788**	35,132		**35,132**	36,859	-	**36,685**
Short-term borrowings	**121,565**	**-**	**121,565**	**111,827**	**-**	**111,827**	**91,726**	**-**	**91,726**
Total	**5,259,192**	**(73,455)**	**5,185,737**	**5,065,063**	**(129,814)**	**4,935,249**	**5,160,237**	**(119,711)**	**5,040,526**

1) Of the total amount regarding adjustment amortized costs 2020, EUR (31,815) thousands ((77,557) in September 30, 2019 and (70,717) in December 31, 2019) relates to an adjustment derived from the modification of loan terms during the loans contract period calculated according to IFRS 9.

Net Debt Bridge

EUR thousand	Sep 2020	Sep 2019	Dec 2019
Total principal amount (as above)	5,259,192	5,065,063	5,160,237
Less accrued interest	(60,407)	(40,882)	(21,159)
Indebtedness	**5,198,785**	**5,024,181**	**5,139,078**
Less financial receivable, current	(8)	(8)	(8)
Less cash and cash equivalents	(152,494)	(46,957)	(12,770)
Net debt including IFRS 16	**5,046,284**	**4,977,217**	**5,126,300**
Less lease liability	(138,940)	(127,403)	(133,910)
Net debt per SFA lender documentation	**4,907,344**	**4,849,814**	**4,992,391**

Note 6 Pledged Assets and Contingent Liabilities

Pledged assets

EUR thousand	Sep 2020	Sep 2019	Dec 2019
Endowment insurance	684	687	658
Shares in subsidiaries	2,160,215	1,461,737	2,100,193
Bank accounts	128,962	26,279	696
Trademark	44,583	49,583	48,333
Accounts receivables	73,705	79,637	93,684
Inventories	339	78,246	67,088
Motor vehicles	9	20	18

Contingent liabilities

EUR thousand	Sep 2020	Sep 2019	Dec 2019
Guarantees	24,027	27,288	29,645

The Group has pledged shares in subsidiaries, certain bank accounts, trade receivables, IP-rights, inventory assets, intra-group loans, certain intra-group loans, intra-group equity certificates, rights under certain insurances, certain rights under the acquisition agreements regarding the purchase of the Group and certain rights under reports in relation to the acquisition of the Group as collateral for bank borrowings. Guarantees relate primarily to guarantees provided to suppliers.

Unaudited Parent Company Financial Statements

Parent company income statements

EUR thousand	Note	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019
Administrative expenses		(4)	(10)	(12)	(14)
Operating result		**(4)**	**(10)**	**(12)**	**(14)**
Finance income	2	12,254	12,167	36,321	36,190
Finance costs	2	(19,380)	(19,131)	(57,156)	(56,451)
Result before tax		**(7,130)**	**(6,974)**	**(20,846)**	**(20,275)**
Income tax expense and benefit		-	-	-	-
Result for the period		**(7,130)**	**(6,974)**	**(20,846)**	**(20,275)**

Parent Company Statements of Financial Position

EUR thousand	Note	Sep 2020	Sep 2019	Dec 2019
Assets				
Non-current assets				
Long-term investments				
Investments in subsidiaries		1,190,482	1,189,952	1,190,122
Receivables from Group companies		698,133	692,847	700,444
Total non-current assets		**1,888,615**	**1,882,799**	**1,890,565**
Current assets				
Prepayments		-	1	-
Accrued income interest from Group companies		13,640	16,747	3,039
Cash and cash equivalents		590	262	119
Total current assets		**14,230**	**17,010**	**3,158**
Total assets		**1,902,845**	**1,899,809**	**1,893,723**
Equity and liabilities				
Equity				
Share capital		56	56	56
Other paid in capital		569,170	569,170	569,170
Retained earnings		(1,585)	21,263	18,901
Total equity		**567,641**	**590,490**	**588,127**
Non-current liabilities				
Long-term borrowings	3	1,228,556	1,224,586	1,228,788
Liabilities to Group companies		85,349	62,390	71,052
Deferred tax liabilities		-	109	-
Total non-current liabilities		**1,313,905**	**1,287,085**	**1,299,841**
Current liabilities				
Accrued expenses and prepaid income	3	21,299	21,204	5,749
Accrued expense and prepaid income to Group companies		-	1,030	5
Total current liabilities		**21,299**	**22,234**	**5,754**
Total equity and liabilities		**1,902,845**	**1,899,809**	**1,893,723**

Parent Company Statements of Changes in Equity

EUR thousand	Share capital	Other paid in capital	Retained earnings	Total
	Attributable to equity holders of the parent company			
Balance at January 1, 2020	**56**	**569,170**	**18,901**	**588,127**
Result for the period	-	-	(20,846)	**(20,846)**
Shareholders contribution	-	-	360	**360**
Balance at September 30, 2020	**56**	**569,170**	**(1,585)**	**567,641**

EUR thousand	Share capital	Other paid in capital	Retained earnings	Total
	Attributable to equity holders of the parent company			
Balance at January 1, 2019	**56**	**569,170**	**41,538**	**610,764**
Result for the period	-	-	(20,275)	**(20,275)**
Balance at September 30, 2019	**56**	**569,170**	**21,263**	**590,489**

EUR thousand	Share capital	Other paid in capital	Retained earnings	Total
	Attributable to equity holders of the parent company			
Balance at January 1, 2019	**56**	**569,170**	**41,538**	**610,764**
Result for the period	-	-	(22,806)	**(22,806)**
Shareholders contribution			169	**169**
Balance at December 31, 2019	**56**	**569,170**	**18,901**	**588,127**

Parent Company Statements of Cash Flows

EUR thousand	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019
Operating activities				
Operating result	(4)	(10)	(12)	(14)
Cash flow from operating activities before change in working capital	**(4)**	**(10)**	**(12)**	**(14)**
Change in working capital				
Cash flow from change in working capital	8	4	8	(3,247)
Cash flow from operating activities	**4**	**(6)**	**(4)**	**(3,261)**
Investing activities				
Cash flow from investing activities	-	-	**-**	**-**
Financing activities				
New loans from Group companies	-	2,600	12,791	18,121
Paid bank and advisory fees	(8)	(340)	(8)	(385)
Net interest received or paid	(77)	(2,069)	(12,308)	(14,465)
Cash flow from financing activities	**(85)**	**191**	**475**	**3,271**
Cash flow for the period	**(81)**	**185**	**471**	**10**
Cash and cash equivalents at start of period	671	77	119	252
Exchange difference on translating cash and cash equivalents	-	**-**	-	-
Cash and cash equivalents at end of period	**590**	**262**	**590**	**262**

Note to the Unaudited Parent Company Financial Statements

Note 1 Accounting Policies

The parent company Verisure Midholding AB (publ) applies the Swedish Financial Reporting Board's recommendation "RFR 2". The accounting policies are unchanged compared with those applied in 2019.

These financial statements should be read in conjunction with the Annual Report 2019.

Note 2 Financial income and cost

EUR thousand	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019
Interest income from Group companies	12,254	12,167	36,321	36190
Other financial income	-	-	-	-
Finance income	**12,254**	**12,167**	**36,321**	**36,190**
Interest expense	(17,952)	(17,596)	(53,566)	(53,384)
Interest expense to Group companies	(590)	(348)	(1,501)	(802)
Other financial cost	(838)	(1,187)	(2,089)	(2,265)
Finance costs	**(19,380)**	**(19,131**	**(57,156)**	**(56,451)**

Note 3 Borrowings

	Sep 2020			Sep 2019		
EUR thousand	**Current liabilities**	**Non-current liabilities**	**Total**	**Current liabilities**	**Non-current liabilities**	**Total**
Unsecured						
Senior Unsecured Notes	21,273	1,228,556	1,249,829	21,194	1,224,586	**1,245,780**
Total (carrying amount)	**21,273**	**1,228,556**	**1,249,829**	**21,194**	**1,224,586**	**1,245,780**

	Dec 2019		
EUR thousand	**Current liabilities**	**Non-current liabilities**	**Total**
Senior Unsecured Notes	5,735	1,228,788	**1,234,523**
Total (carrying amount)	**5,735**	**1,228,788**	**1,234,523**

Quarterly summary

Key figures

EUR thousand (if not otherwise stated)	Jul-Sep 2020	Apr-Jun 2020	Jan-Mar 2019	Oct-Dec 2019	Jul-Sep 2019
Portfolio services segment:					
Unaudited operating data					
Total subscribers (end of period), units	3,623,024	3,467,795	3,430,058	3,346,712	3,236,226
Cancellation, units	55,777	57,707	58,535	50,563	48,245
Attrition rate (LTM)	6.5%	6.5%	6.4%	6.2%	6.3%
Net subscriber growth, units[1]	155,229	37,737	83,346	110,486	105,416
Subscriber growth rate, net	12.0%	10.8%	13.3%	14.2%	13.9%
Average monthly revenue per user (ARPU), (in EUR)	41.2	40.9	41.4	41.1	41.0
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)	29.9	30.0	29.0	28.5	28.7
Non-IFRS and IFRS financial data					
Portfolio services revenue	438,910	420,803	421,085	406,029	391,992
Portfolio services adjusted EBITDA	318,765	308,760	295,022	281,891	275,041
Portfolio services adjusted EBITDA margin	72.6%	73.4%	70.1%	69.4%	70.2%
Customer acquisition segment:					
Unaudited operating data					
New subscribers added (gross)	211,006	95,444	141,881	161,049	153,661
Cash acquisition cost per new subscriber (CPA), (in EUR)	1,092	1,329	1,406	1,258	1,209
Non-IFRS and IFRS financial data					
Customer acquisition revenue	99,844	58,733	79,087	85,229	79,795
Customer acquisition adjusted EBITDA	(90,974)	(61,537)	(97,226)	(91,823)	(78,820)
Customer acquisition capital expenditures	139,411	65,339	102,273	110,741	106,891
Adjacencies segment:					
Non-IFRS and IFRS financial data					
Adjacencies revenue	17,807	9,693	10,790	6,889	5,285
Adjacencies adjusted EBITDA	(2,521)	(2,854)	(4,427)	785	382
Consolidated:					
Unaudited operating data					
Payback period (in years)	3.0	3.7	4.0	3.7	3.5
Non-IFRS and IFRS financial data					
Revenue	556,561	489,229	510,962	498,147	477,072
Organic revenue growth	18.2%	6.8%	13.1%	16.1%	18.8%
Adjusted EBITDA	225,270	244,369	193,370	190,852	196,603
Adjusted EBITDA margin	40.5%	49.9%	37.8%	38.3%	41.2%
Capital expenditures	177,977	105,130	144,124	173,436	141,849
Reported (including SDI)					
Revenue	556,561	489,229	510,962	498,147	477,072
Reported adjusted EBITDA	209,015	231,855	185,491	160,780	183,711

1) Differences in reconciliation with end of period subscriber data are primary due to acquisition and disposal of contract portfolios.

All amounts are before SDI, unless otherwise stated.

Non-IFRS measures

The Group uses some financial measures to assess the business which are not defined by IFRS. These measures are included in this report, not to be considered a substitute of the Groups financial statements but instead important complementary measures of operating performance.

Adjusted EBITDA

Earnings before interests, taxes, depreciation and amortization, write-offs and separately disclosed items.

EUR thousands	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019
Operating profit according to consolidated income statement	76,348	67,028	235,433	201,070
Less depreciation and amortization	109,899	97,998	324,259	284,082
Less retirement of assets	22,769	18,686	66,670	56,937
Less separately disclosed items	16,255	12,892	36,648	28,144
Adjusted EBITDA	**225,270**	**196,603**	**663,010**	**570,233**
Whereof adjusted EBITDA customer acquisition	*(90,974)*	*(78,820)*	*(249,736)*	*(224,474)*
Whereof adjusted EBITDA portfolio services	*318,765*	*275,041*	*922,547*	*793,457*
Whereof adjusted EBITDA adjacencies	*(2,521)*	*382*	*(9,801)*	*1,250*

Average Revenue per user

Average monthly revenue per user ("ARPU") is our portfolio services segment revenue, consisting of monthly average subscription fees and sales of additional products and services divided by the monthly average number of subscribers during the relevant period.

Calculation of ARPU

EUR thousands	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019
Portfolio services segment revenue	438,910	391,992	1,280,798	1,142,907
Monthly average portfolio services segment revenue	146,303	130,664	142,311	126,990
Average monthly number of subscribers during the period	3,549,897	3,189,566	3,459,078	3,080,255
Monthly average portfolio services segment revenue (in EUR) divided with average monthly number of subscribers during the period – ARPU (In EUR)	41.2	41.0	41.1	41.2

Monthly adjusted EBITDA per subscriber

Monthly adjusted EBITDA per subscriber ("EPC") is calculated by dividing the total monthly adjusted EBITDA from managing our existing subscriber portfolio (which is our adjusted EBITDA from portfolio services) by the monthly average number of subscribers.

Calculation of EPC

EUR thousands	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019
Portfolio services segment adjusted EBITDA	318,765	275,041	922,547	793,457
Monthly average portfolio services segment adjusted EBITDA	106,255	91,680	102,505	88,162
Average monthly number of subscribers during the period	3,549,897	3,189,566	3,459,078	3,080,255
Monthly average portfolio services segment adjusted EBITDA (in EUR) divided with average monthly number of subscribers during the period – EPC (In EUR)	29.9	28.7	29.6	28.6

Cash acquisition cost per new subscriber

Cash acquisition cost per new subscriber ("CPA") is the net investment required to acquire a subscriber, including costs related to the marketing and sales process, installation of the alarm system, costs of alarm system products and overhead expenses for the customer acquisition process. The metric is calculated net of any revenues from installation fees charged to the subscriber and represents the sum of adjusted EBITDA plus capital expenditures in our customer acquisition segment on average for every subscriber acquired.

Calculation of CPA

EUR thousands	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019
Customer acquisition Adjusted EBITDA	(90,974)	(78,820)	(249,736)	(224,474)
Customer acquisition capital expenditure	(139,411)	(106,891)	(307,023)	(311,704)
Customer acquisition cost	**(230,385)**	**(185,711)**	**(556,759)**	**(536,178)**
New subscribers added (gross)	211,006	153,661	448,331	450,272
Customer acquisition cost (in EUR) divided by new subscribers added (gross) - CPA (In EUR)	1,092	1,209	1,242	1,191

Payback period

Payback period represents the time in years required to recapture the initial capital investment made to acquire a new subscriber and is calculated as CPA divided by EPC, divided by 12.

Calculation of Payback period

EUR thousands	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019
Cash acquisition cost per new subscriber ("CPA")	1,092	1,209	1,242	1,191
Monthly adjusted EBITDA per subscriber ("EPC")	29.9	28.7	29.6	28.6
CPA divided by EPC divided by 12	3.0	3.5	3.5	3.5

Malmö, November 3, 2020

Austin Lally CEO	Stefan Götz	Adrien Motte
Cecilia Hultén Chairman	Fredrik Östman	