

Transcription

Verisure Group Q1 2023 Results

17 May 2023

PRESENTATION

Operator:

Welcome to Verisure Q1 Report 2023. Today I am pleased to present CEO, Austin Lally, and CFO, Vincent Litrico. For the first part of the conference call, the participants will be in a listen-only mode. During the questions and answer session, participants are able to ask questions by dialing star five on their telephone keypad. Now I will hand the conference over to the speakers. Please go ahead.

Vincent Litrico:

Good afternoon and welcome to our Q1 2023 results presentation. As always, participants on this call are our CEO, Austin Lally, and me, Vincent Litrico, the Group CFO. As always, you can find our Q1 2023 earnings report and presentation in our corporate website.

Before we start, let's have a quick look at the agenda on page 4.

As in previous calls, Austin will share an overview of the key performance highlights of the quarter. Then, I will provide an update on our financial performance. And finally, we will close the session with the usual Q&A session.

And with that, I hand over to Austin.

Austin Lally:

Thank you, Vincent, and thank you all for participating in this call today. And more importantly, for the continued interest and support in our company.

Today we will present the results for Q1 2023 for the Verisure Group.

I am very glad to share that we started the year well, both operationally and financially. We continue to navigate successfully through the challenging external environment, with continued high inflation, further interest rate increases and the inevitable knock-on impact on consumer confidence. In this reality, every day, we demonstrate the resilience of our business model including the high quality of our portfolio. We are very pleased with this continued strong performance. And proud of our team right across the Company.

So, let's start with our Q1 performance highlights on slide #5.

We had 201 thousand new installations in the quarter. We are now proud to protect more than 4.8 million customers. We have added over 455k customers to our portfolio in the last twelve months. Our portfolio grew by over +10% in the quarter year on year.

Our total revenues were up +11%. Our portfolio EBITDA was up +12%, reaching just under 460 million EUR. Quarter after quarter, we continue to reach all-time highs. And we continue to grow double digits. Annualized, our portfolio EBITDA is now over to 1.8 billion EUR. Total adjusted EBITDA was up +18% in the quarter. And we did this while continuing to deliver stronger unit economics, despite inflation pressures. Objectively, this is very strong and robust financial delivery.

As you know, with the support of many of you, we successfully issued 450 million EUR of Senior Secured Debt in January to fully refinance our RCF drawings. As of the end of the quarter we had close to 700 million EUR of available liquidity.

In addition, in April, we redeemed our 200 million EUR Floating Rate Notes due in 2025, drawing on our RCF. All our debt now matures in 2026 or beyond, and is 70% fixed.

Finally, I am glad to share that we recently got a credit rating upgrade from S&P and Moody's. We are now a B+ credit, with stable outlook, in the eyes of S&P. And a B1 credit, with stable outlook, in the eyes of Moody's. I believe this is a good testament of our market leadership, our continued and resilient growth, our best-in-class customer loyalty, and our deleveraging capacity. Vincent will cover this in more depth later.

Let's now move to slide #6. Our customer portfolio has 458 thousand more customers than a year ago. We now have a portfolio above 4.8 million customers. This corresponds to a net portfolio annualized growth rate of +10.4%.

Let's now move to slide #7. As mentioned earlier, it was another robust quarter for new sales. We added 201 thousand new customers to our portfolio. This is our second strongest Q1 ever on new sales, and our third strongest quarter ever. It is basically in line with the new sales in Q1 last year. And remember, last year, our Q1 performance was not yet majorly impacted by rising inflation concerns and the war in Ukraine. And we could have done more sales in the quarter, but we balanced consciously efficiency, control of CPA and the quality of the intake give the environment. You will see that in the CPA section in a moment.

Anyhow, looking back across 2 years, we have added around 200 thousand new sales to our portfolio every single quarter, like clockwork, despite the environment.

Now turning to the strong CPA work. In Q1, our CPA was 1,390 EUR. This is basically flat, only 1% change versus last year, and obviously an extremely good outcome given the external inflation picture. It shows our focus on efficient marketing spending is having a positive impact and overhead control. Overall the picture remains broadly the same as in previous calls. We continue to create attractive customers with a very high lifetime value and good paybacks. We believe investing in these valuable new customers is a very good way to deploy our capital.

You know we never give formal forward-looking guidance. But we remain optimistic about our future growth. We still see good demand for new sales. Penetration remains low and levels of latent demand remain high. Remember our portfolio was more than +10% bigger than year ago.

Let's move to attrition performance on slide #8. Obviously, controlling attrition remains a key priority for Verisure.

We saw in '22 that households were reassessing their spending choices more frequently than before, not just a couple of times per year, for example after New Year and in September after the Summer holidays as in the past. And so cancellation requests in 2022 did not trend down as much as normal through the year.

Where are we now? Well, in Q1 2023, we saw another small uptick, as our 2023 price increases landed in most markets. You will see in a few minutes that our ARPU is up +2.5% year on year in Q1, quite significant. Our total LTM attrition is now at 7.4%. These are still absolute levels we are comfortable with, and well below well below historical highs. I think the other important point is we now clearly see stabilization. We would not expect to see attrition at 8% for example, and our internal conversations now are actually about what, how and when we bring the attrition levels back down towards previous war levels.

Overall on attrition, we believe this performance still not only leads our industry, but likely subscriber-based consumer services overall. It shows that the professional and differentiated security we provide, built on unique technology that delivers against key promises, remains a high priority for our customers even when they have to make other tough family budget choices. Our solidity also reflects the high-quality customer intake and the focus on a superior customer experience.

Value creation is not just about the total portfolio. We also pay strict attention to the profitability of individual customers. So, we are now going to look at Earnings per customer, EPC, on slide #9.

Let me start with pricing. As I mentioned earlier, average revenue per user, ARPU, increased to 44.7 EUR per customer per month in Q1, up +2.5% versus the same period last year. We've obviously acted on pricing given the inflationary environment to protect our unit economics. This, together with the portfolio growth discussed before, translated into incremental total portfolio revenue of 77 million EUR in the quarter compared to the same period last year, representing a year-on-year growth of +14%.

The pricing played directly into our EPC. In Q1, we continued to enjoy excellent Earnings per Customer. We reached 31.8 EUR per customer per month, +0.9% versus last year and our strongest Q1 performance ever. In an inflationary environment and with us facing other transitional costs, our pricing allowed us to defend our unit economics.

You will also have seen in our report this morning that we have announced that Vincent our CFO will be stepping down from his role at Verisure at the end of July, after 7 very successful years here. It has been a world class run, incredibly intense every single day. He leaves the Company with our portfolio, sales, profitability at all time highs, having built an incredibly strong Finance function, with our debt maturing well into the future and on the back of two ratings upgrades too. I want to thank him for his incredible leadership and his many contributions here on our value creation journey, and wish him all the very, very best as he passes on the baton. We will continue to build on his legacy here, and he will be cheering on the team I know, as he will continue to be an investor here of course.

We have also already announced the arrival of Vincent's successor. Colin Smith will join us as Group CFO. He is a seasoned finance leader with > 25 years of experience, most recently as CFO for SKY UK and Ireland for the past 5 years. He will arrive on June 1st. We are all focused on a world class, brilliantly executed leadership transition. I look forward to introducing you to Colin in future quarterly calls.

With this, I now would like to hand back to Vincent, who will take you through the financial performance in more detail. I will come back later for the usual Q&A and some final closing remarks. So, Vincent, over to you.

Vincent Litrico:

Thank you, Austin. Let's move to slide #10, to discuss our Key Financial Metrics for the quarter.

Verisure Group delivered another strong quarter of financial results.

Revenues increased to 758 million EUR in the quarter, up +11% versus last year.

Portfolio Services EBITDA, our key cash generation measure, reached a new record-high of 457 million EUR in the quarter. This is an improvement of +12% vs. last year. Our Annualized Portfolio EBITDA is now over 1.8 billion EUR.

We continue to enjoy sustained high profitability levels in our Portfolio. Portfolio EBITDA Margin was 71% in the quarter. Despite a small contraction in the last couple of years, if you look at it over time, we have improved our Q1 Portfolio EBITDA Margins by almost 1 percentage point per year on average during the last 5 years.

Total Adjusted EBITDA reached 328 million EUR in the quarter, up +19% vs. the same period last year.

Cash Flow from Operating Activities increased +32% in the quarter to 328 million EUR. This is the result of stronger underlying cash flow generation in addition to stronger cash flow from working capital items.

Total Capital Expenditures increased +10% vs. last year, reaching 205 million EUR in the quarter.

Net Debt closed the quarter at 7,423 million EUR, an increase of +3% vs. last year.

Finally, we have 694 million EUR of financial headroom as of the end of the quarter, from a combination of cash on balance and available funds under our Credit Facilities. Pro forma for the redemption of the 200 million EUR Floating Rate Notes conducted in April, our financial headroom is close to 500 million EUR.

In summary, we have delivered another quarter of strong financial performance.

Turning now to slide #11, we show a detailed view of our Income Statement in the quarter.

Looking first to items excluding SDIs, Revenues stood at 758 million EUR and total EBITDA at 328 million EUR, what translates into a total EBITDA margin of 42.6%. Strong double-digit growth while improving margins.

Depreciation and Amortization reached 129 million EUR in the quarter, and Retirements of assets reached 29 million EUR.

Operating Profit closed at 171 million EUR, what translates into an operating profit margin of 23%.

Net Interest Expense increased to 104 million EUR in the quarter up from 74 million EUR last year, driven by higher cost of debt. Other Financial Items reached almost 7 million EUR.

In total, Result Before Taxes reached 59 million EUR in the quarter.

Now, looking to Separately Disclosed Items, and starting at the top, we incurred into 5 million EUR of operating SDI expenses during the first quarter of the year. These are mainly related to ongoing transformational projects.

Furthermore, we recorded 14 million EUR of amortization of acquisition related intangibles. Most of it relates to the amortization of the contract portfolio acquired in 2011 from the Securitas Direct Group. This amount is obviously non-cash.

Separately disclosed Other Financial Items reached -21 million EUR in the quarter. This is the result mainly of negative non-cash FX revaluation of debt items of -17 million EUR and the amortization of prepaid financing fees of -4 million EUR, in addition to some other minor items.

Finally, if we now look to total numbers, we see that Income Tax for the quarter was -11 million EUR.

All in all, this results in a reported Net Profit in the quarter of 9 million EUR.

Let's now turn to slide #12, where we show an overview of Cash Flow Generation and Change in Net Debt.

Our main source of cash flow generation is the recurring cash flows from our customer portfolio, which grows month after month, and which currently stands at over 4.8 million customers. In Q1 2023, we generated 457 million EUR of Portfolio EBITDA.

As you know, we deliberately chose to invest a significant part of the cash generated from our growing subscriber base to continue the growth cycle. We invest to acquire new high-quality customers that will remain with us for about 15 years on average.

This is what we call Customer Acquisition Investment. Part of that investment goes to replace attrition, and part to fund the portfolio growth. In total, we invested 280 million EUR in acquiring new customers.

Despite having posted negative net cash flow of 31 million in Q1 2023, you can easily run the math of how much cash we would have generated if we had not invested in additional growth. However, we believe that the best usage of cash is to continue bringing high quality customers to our portfolio with high lifetime value. We achieve ROIs of around 20% on each new customer we bring, which is well above our cost of capital.

Portfolio and Other Capex further contributed to a 55 million EUR outflow. Portfolio Capex of 29 million EUR mostly relates to new equipment for existing customers. Other Capex of 26 million EUR includes capex related to R&D, IT and premises.

Change in Working Capital has positively contributed 9 million EUR in the quarter.

Paid Taxes accounted for 5 million EUR and Paid Interests and Financial Items accounted for 143 million EUR in the quarter.

SDIs and Other contributed with an additional 14 million EUR outflow.

All in all, we recorded negative net cash flow of 31 million EUR, what translates into a negative net debt variation of 40 million EUR, considering lease debt increased by 9 million EUR.

Let's now turn to slide #13 to cover leverage. As you know, we have delevered and levered up on several occasions in the last years.

In Q1 2023, we have continued our deleveraging trajectory, and Senior Secured Net Leverage and Total Net Leverage closed at 4.6x and 5.8x, respectively. We have delevered 0.2x in the quarter.

Now, as we always do, I will close the presentation with a quick review of the development of our key metrics over the past years.

In slide #14 we illustrate an overview of our resilient track record of successfully delivering strong, high-quality growth, both top and bottom line.

Starting with the sales engine at the top left-hand side, we have had very strong growth in new customer intake over the years. During the last 6 full years, New Installations have grown at a CAGR of over 14%. As talked, this quarter we have delivered a bit over 200 thousand New Installations. This translates into 805 thousand New Installations on an annualizes basis.

In parallel, we have a continued focus on improving customer experience and keeping best-in-class attrition levels. Although we have recorded a small uptick in the last 12 months, our customer loyalty has remained strong.

Strong customer intake and low attrition leads to strong Portfolio growth. We have enjoyed double digit growth rates in our Customer Portfolio for several years and we now have over 4.8 million customers. It is remarkable that during the last twelve months we have increased our portfolio by almost 0.5 million customers.

At the same time, this volume growth is complemented by a continuous improvement in unit economics and profitability by customer, EPC.

Improved EPC is the result of both our ability to earn higher pricing, historically above local inflation, and driven by strong product and service innovation, as well as improved efficiency and cost to serve, supported by operating leverage.

EPC has grown at a CAGR of 4.1% between 2016 and 2022. In Q1 2023, we have increased EPC by +0.9%. As discussed in previous calls, growth deceleration is mainly driven by some inflationary pressures.

Overall, strong portfolio growth and continued improvement in unit economics has led to consistent double-digit growth in our key profit and cash flow measure, portfolio EBITDA. Portfolio EBITDA is now over 1.8 billion EUR on an annualized basis.

With this, we conclude this part of the presentation. I would now like to hand it over to the operator for the Q&A session.

Q&A

Operator:

If you wish to ask a question, please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial star five again on your telephone keypad. The next question comes from Jainesh Mehta from Permira. Please go ahead.

Jainesh Mehta:

Hi guys. Thank you for the presentation. Just with regards to the churn rate, during your opening remarks, you said that you don't expect this to reach the eight percent level. I just wanted to get a bit of color from you on what gives you the confidence and how you're thinking about churn over time.

You also mentioned that you may enact some measures to bring that down. Would that involve potentially bringing your prices down or increasing promotional activity? Good to hear your thoughts. Thanks.

Austin Lally:

Yes. If I give you a broad answer, when you go through the report, one of the things you can obviously see is the quarterly attrition performance and the LTM. The 7.4% that I mentioned was the last 12-month number. Obviously, the Q1 level is higher because that's really a pricing period. But the level is well below 8%.

Then, when I think about the future. [And I have to be careful here because I'm not giving you formal, forward-looking guidance.] But when I look, for example, at the volumes of cancellation requests that come in and how those volumes are trending. There's a lag effect in most countries between when you get a cancellation request and when the actual cancellation gets booked. I obviously therefore have some visibility a few months in advance on where the attrition is going to end up because I see how the cancellation request volumes are coming in. That's why I made the statement around stabilization, and why I'm confident about where the number is going to peak. Then when it comes to bringing it down, it's not about rolling back pricing. I can reassure you we have absolutely no plans to do that.

When I think about the way that you bring attrition down, over time. First of all, part of it is the economic headwinds for the customer receding. Part of it is the inflation picture for the customer improving. Part of it is macro. How consumer confidence changes and improves. Then some of it is going to be in our hands, around the quality of our customer service and the quality of the experience, and some of the new innovation that we bring to the market. This is not something that's going to be a two-month topic. This is something that we're going to work on month-on-month, quarter and quarter, to continue to make sequential improvement.

As a CEO, my vision for the company is not that we have now gravitated to a “new normal” on attrition. Certainly not. I think 2022 was a special year where you had an unprecedented coming together of a war, massive inflation, and a very volatile situation that had a very punitive effect on consumer confidence. Actually, given the backdrop in 2022, I think the increase in attrition that we saw was pretty modest. The fact that we are now stabilizing it and looking to bring it down over time, I think is also very reassuring. Hopefully that gives you the colour that would help you there.

Jainesh Mehta:

It does. Thank you.

Operator:

The next question comes from Ryan McElvenny from Man GLG. Please go ahead.

Ryan McElvenny:

Hi, good afternoon. Congratulations on the results and thank you for taking my questions. Just a couple quick ones. Perhaps in terms of the net subscriber growth that you are seeing for the future, I believe one of the rating agencies anticipated 10 percent net subscriber growth. Is that in line with what you were predicting? I assume that was done or those numbers came with some guidance or input from your side. I was wondering first if you could comment on that.

Vincent Litrico:

Well, as you know, unfortunately, I cannot give you forward-looking guidance. Of course, you can imagine that we have a very close relationship with the rating agencies, but ultimately their publications reflect their view on the business performance. I prefer not really to comment or affirm their perspective.

We're very pleased, of course, with the rating outcome, which we believe is well merited given the trajectory of the company and the resilience of the business model we have.

Austin Lally:

I fully endorse what Vincent says, of course. And as I mentioned in my remarks, we never aim as a company [and I've been here now nine years] to max out potential new sales in a quarter or a month or even a week. Because one of the things that makes our company special is the quality of the customer intake, the high customer lifetime value. Because of the high profitability of the customer, and also the low attrition.

It's actually possible to push new sales too aggressively. It's possible to bring in customers of poorer quality, because you don't do the credit checking well enough, because you end up selling things too cheaply. Or, and this is the other problem you can have, you spend too much. You end up spending too much marketing money chasing the last marginal sale. The 201,000 sales that you saw in the quarter, were a reflection of us solving for a combination of volume, marketing efficiency, and customer quality.

I think that when we talk to Moody's and S&P, they understand that we don't just chase volume, that we always look for the right quantity of high-value customers

acquired at the right cost. When you look at our performance in the quarter, the fact that we controlled CPA year on year despite very high external inflation, that was obviously a conscious intervention that we made.

Ryan McElvenny:

Yes, that's fantastic. Just one question maybe on that point of the high-quality new customers, I'm just curious, do you have a sense of how many of these new customers that you're acquiring, how many of them are new customers to the alarm market, that under penetration of these European countries versus a changing share from another alarm company provider, do you have a rough sense of what that split might be?

Austin Lally:

Yes, the vast majority. I mean, if I just maybe illustrate the question in another way, like roughly speaking. If you had seven points of attrition in your business. On average, plus or minus, maybe one point of the seven, right across the whole footprint of the company, would be to competition. Now, that number can go up from time to time if there's more intense pressure. But the reason we talk about attrition rather than churn, is that this is not an industry like mobile telephony where you switch providers regularly, where you just churn from one company to another.

We talk about attrition because in general, when people leave, they leave. They leave because their business closes. Or they leave because their economic situation has changed dramatically. Maybe they leave because an older family decides to downsize from a villa to an apartment, and they decide to live on the third floor of an apartment building in the city centre and they feel they do not need security anymore. In fact, I was discussing this with the Scandinavian team this week. When we see moves, for example, in Scandinavia, quite a number of them actually are more senior customers who are downsizing.

We believe that we've still got a great security offering for customers like that. But that often is a reason why people just decide not to have an alarm system. It's really all about how we fill out the white space that we have in Europe. The low penetration that we have in Europe. I mean, there's so much white space available, it's not going to be a zero-sum game where we have to basically attack competitive portfolios to grow. Now, if somebody wants to leave another European alarm provider and come, because we've got a better proposition, better technology, then obviously I'm delighted to see that.

Ryan McElvenny:

One last one, if I may, and then I'll jump back in the queue. Just in terms of the installation costs for new customers, have you been considering, or have you changed at all the commission structure for your salespeople and your employees upwards or downwards?

Austin Lally:

When there's inflation out there, there's obviously pressure from salespeople to stay competitive and to try and earn more. We generally manage that by helping the salespeople with the right tools, the right methodology to convert better, so that they end up developing and delivering a better sales per person number. We're not seeing significant inflationary impact on the unit cost of salespeople.

Ryan McElvenny:

Thank you very much, guys.

Operator:

The next question comes from Koenraad Struijk from Apollo. Please go ahead.

Koenraad Struijk:

Hey, thank you for taking the time today. Two questions from my side. One, you talked about the white space and being prudent about customers that you acquire. I mean, I guess there is still competition in that white space for these customers that are new to these types of services. Are you seeing any shifts in the competitive landscape?

Second, could you give us an update on some of your newer markets such as Ireland, which we touched upon briefly on the Q4 call? I'll be keen to hear how that's going for you.

Austin Lally:

I think this has always been a market across Europe and Latin America which has been characterized by pretty intense competition. We've got great respect for the other players who are in the marketplace here. Sector Alarm primarily in Scandinavia, obviously Prosegur, with their historic roots in Latin America and then latterly Spain and Portugal, EPS in France, and others. Vibrant competition actually stimulates demand and makes the market bigger. And we think that, as the number one brand in Europe, the most trusted brand, we actually benefit from that stimulation. I would even say, the heavy investment and push in Spain behind Movistar Prosegur Alarmas in recent years, they've obviously grown their portfolio, but we've built our market share, we believe, over that period.

There continues to be competition from established security players. We believe that we are obviously number one by portfolio, but also number one on new sales. Now, beyond established players, we obviously always look with interest at new segments like do-it-yourself. We look with interest at segments like camera-based solutions. What's pretty clear, for example, is that do-it-yourself solutions just really haven't gained traction in the European market the way that maybe they have, to some extent, in the US. Where they probably filled a vacuum that some of the larger incumbents maybe could have filled with stronger innovation and marketing intensity.

When it comes to, for example, the camera segment in Europe, we certainly see volumes growing there, but at relatively low-price points, not associated with high levels of subscription. Therefore, not a particularly large profit pool. What we also see is it's really an adjacency, it's a different use case. It doesn't really substitute what we do, which is professionally monitored, core security. We're never complacent about the competitive environment. I mean, I think we wake up every day a bit paranoid, fighting to build and strengthen our position. But I think if I'm objective, I don't think our competitive position has ever been stronger as a company.

On the new markets, there's not much to say apart from the fact I'm very happy with the developments. Ireland is obviously a small country, with five or six million potential consumers. It's a relatively small market. We entered it a few months ago. Actually, I had a review with the managing director of Ireland this week. Very happy with the progress we're making. It's obviously early days.

Also, very happy with the progress we're making in Germany. Obviously, that's a much more relevant, if you like, significant topic for the company given the size of the German economy. The intake that's coming in Germany, and this is a market where effectively monitored alarms for residential homes just didn't exist. We're basically creating the market there. What we're finding is that the customers we are bringing

in Germany are very high value. They're choosing quite large installations. Their homes are very well protected, therefore paying, in an associated way, a very good monthly fee. I think Germany is a market where we're going to have decades of growth ahead, and that's very pleasing.

The last market we opened before Germany was Argentina. Argentina is growing very quickly. I mean, it was a market we were confident about, but the traction that we've had in the Argentinian market has been remarkable. I'm really proud of Raul and the team on the ground in Argentina. I had the chance to visit that market in November, during the World Cup, and it was great for the morale of the team and hopefully, it had something to do with Argentina winning the World Cup a few weeks later.

Koenraad Struijk:

Perfect. Thank you. I guess the growth in these younger or younger for you or in general younger markets, does it mean the mix of those new subscribers that you're adding is shifting towards these? I would think it is, but maybe if you could comment on that.

Austin Lally:

Well, obviously over time you're going to see mix effects, right? Because expansion countries will be growing, In the early days, they'll be doubling every year in size. If I look over the past few years, for example, Latin America has been clearly a strong growth rocket for the company. A few years ago, I was saying the same thing about Italy, in percentage terms.

The other important thing to remember, of course, is growth is about percentages and about absolute volumes. A small country that's doubling every year, it's impressive on a percentage basis. But the large growth in volumes that we can bring out of established geographies, like Italy or France, for example, that's obviously hugely important. I guess our point is, the plan of the company is to grow everywhere because there is not a single market today that we would regard as mature, or we would regard penetration as capped.

Koenraad Struijk:

Understood. Thank you very much.

Operator:

The next question comes from Ryan McElvenny from Man GLG. Please go ahead.

Ryan McElvenny:

Hello again. Thank you for taking the second round. Just had a quick question on perhaps installation revenue. I was curious if you guys have been discounting anything there and that upfront amount that the customer has to pay. It'd be helpful maybe just for me to get a sense of how important that payment is or a discount that payment would be to driving customer growth. We'd be curious if you can comment on that.

Vincent Litrico:

Sure. Yes. Let me take this. You can do the math if you take the customer acquisition revenue divided by the installations. You will land at about 560 euro per installation on average. First, our business model is quite differentiated. Unlike other players in the industry, we do require an upfront skin in the game from the customer, because we think that it contributes tremendously to increase retention, to increase stickiness. Having put almost €600 upfront, obviously makes a difference.

That's a way to sort out, frankly, the committed customers that do need and really are willing and able to afford the ongoing cycle commitment for the service versus the ones that maybe are tempted short term and not really ultimately want to stay long with us. As you know, the battle is one over the long run. We pride ourselves with probably the longest customer longevity in the industry, with 15 years on average.

For us, that element in the mix is very important and I believe quite differentiated versus other offers that you may see around. Now, if you unpack this, call it €560 in terms of where it comes from. Indeed, it varies by market. We have markets where actually the upfront is even north of €1,000, and some markets where we adjust it and it's tailored. The lion's share of the €560 is actually hard cash from the customer, but we do also have in some geographies support from, for instance, the company itself or external bank institutions to spread a bit of the upfront over time.

In no way this would be compromising the quality of the customer intake. We do have credit scorings on all these customers. But for the customers that do pass the scoring test, but for which the €600 roughly might be too much of an upfront cash investment, we then allow some of them to spread it over time, and in some cases, we invite banks to step in and take their share of the financing.

Austin Lally:

If I look across the last five or six quarters, what I'm recognizing from the customer as upfront is actually pretty stable over that time. Just so you're clear. I mean, it would be inconsistent for me to say that I could sell more, but I'm quite focused on the efficiency of the marketing and the CPA, but then suddenly give away the systems for free, right? It's obviously not how we operate.

Vincent's making another important point, I'm just going to double down on. For us, the revenue from the customer at the time of the sale, it's not actually fundamentally about CPA. It's about qualifying the customer. "Skin in the game" so that the customer is invested, so that the customer stays for a long time. We view this not so much as a revenue topic, but actually as a customer qualification topic. For example, if I had a customer where I sold it for 199 on a promotion, but the customer had an incredibly strong credit score, no problem. On the other hand, some customers were actually charged €1,000 for the installation. If the customer is prepared to spend that because they get a very big installation, again, it's great the customer is better protected.

Ryan McElvenny:

Got it. That's very helpful. Then maybe just a bit of a philosophical question, perhaps, because I know you can't give guidance, but what does the world need to look like or what are the key drivers for CPA to trend down towards maybe the more historic levels?

Austin Lally:

I think this is an ongoing piece of work, somehow a challenge that we tackle every day. There's clearly been, over the past couple of years, quite an inflationary environment. As people surged out of the pandemic. There has been significant pressure on unit marketing costs. Significant pressure, for example, on consumer electronics. Pressure on supply chains around components and materials. I guess adverse FX too. A number of headwinds there, some of which will just unwind, and some of which we obviously have to manage.

There are key priorities around CPA, which Vincent and I have worked carefully. The first one is maximizing the marketing efficiency. New channels, better advertising, don't chase the last Facebook lead on a very high marginal cost that makes no sense, and we know there's a lot more that we can do there. The second topic is around go-to-market. We have, and it's a great asset, we've got this great field sales model. Many

thousands of salesmen and women in the field across our footprint. It makes a major difference, for example, if the sales per person (SPP) increases, let's say by plus one per month or by plus two per month.

There was a question earlier around paying salespeople more. I want salespeople to earn more because I want them to be happy here. I want them to stay for the long term, but I want them to pay for themselves. I want salespeople to earn more by selling more. We have a big focus on what we call SPP. When you then get into SPP again, there are some important parts of our model that are quite important. One of the first ones is the percentage of booked appointments that we are able to generate for the salesperson and their conversion effect. We look every day at what we call BPP, bookings per person, and we look at booking-to-sale conversion.

The final topic we look at around the sales process is actually the number of self-generated sales that we create that don't require marketing investment. The mixture of those is quite a financial lever.

Then the final topic is overhead control. Again, that's something that we pay careful attention to. How many teams in a sales branch? How many sales representatives working for a team leader? What's the supervisory cost in your sales structure between supervising and selling? If you have a team leader on a Verisure team, are they selling four alarms per month themselves or zero? Getting the right level of productivity from salespeople at each level in the structure, again is a big financial lever.

We're pulling all those levers, one by one, first of all, to control CPA, which is what you've seen year on year, but then obviously over time with an aim to bring it down.

Then looking to the future, maybe the longer-term question, as new channels start to appear like digital, like new modern telesales, the ability to communicate with people not just by telephone or face to face, but, through chat and other channels. The ability also to bring customers to the business through external alliances, which we have a great track record of. We think that these alternative go-to-market channels can actually bring structurally lower CPA.

Ryan McElvenny:

That's very helpful, guys. Thank you very much, and Vincent, congratulations on a great run.

Vincent Litrico:

Thank you very much. Thanks, Ryan.

Operator:

As a reminder, if you wish to ask a question, please dial star five on your telephone keypad. The following question comes from an unregistered number. Please clearly state name and organization before asking the question to management. Please state your name and company. Please go ahead.

Alfredo:

Hi, this is Alfredo from Argon Asset Management. I wanted to ask if there have been any updates on the Norwegian class action and the data privacy issue in Sweden since the last quarterly call. Thank you.

Austin Lally:

Yes. This is Austin. I mean, simple answer. No. Specifically on Norway, I guess we do have some stuff in progress, but nothing to report. The Supreme Court in Norway, the week before last, actually heard the appeal case on the ability of the litigant to bring this externally funded opt-out class action, whether that was going to be allowed to continue or was going to remain effectively blocked, thrown out. That case has been heard. I don't want to prejudge the outcome. We're quite confident of our case, but I guess we'll know in four or five weeks what happens there, but apart from that, nothing to report.

Alfredo:

Okay. Thank you.

Operator:

There are no more questions at this time. I hand the conference back to CEO Austin Lally for any closing comments.

Austin Lally:

Again, thank you all for participating today and, more importantly, for the continued support in our company.

These remain serious times for many families. Although we expect to see certain economic indicators starting to improve, there remains uncertainty.

Yet, even against this backdrop, we continue to deliver on our mission of protecting what matters most. And, we have demonstrated once again the resilience of our business model and the quality of our portfolio. We have delivered another quarter of strong operating and financial performance, and we have once again achieved new highs for portfolio and performance metrics.

I have never been prouder of our team, and grateful for the trust so many families and small businesses have placed in us.

I look ahead to the future with optimism. We continue to provide an important service, valued by our customers. Latent demand remains strong for our proposition, even in an environment where some households have chosen to delay discretionary purchases, and penetration remains low. We will leverage our expertise and leadership position to protect more families and small businesses. And we will continue to innovate and enrich our proposition.

And of course, I want to repeat our thanks to Vincent today for his service and his major leadership contribution to our value creation journey as our CFO over the past 7 years. And again, to welcome Colin Smith on board as his successor.

Finally, again, many thanks for your interest and support and for the questions. We look forward to talking to you again next quarter.