

Transcription

Verisure Group Q1 2024 Results

16 May 2024

Operator:

Welcome to the Verisure Group Q1 results presentation. Today I am pleased to introduce CEO Austin Lally, and CFO Colin Smith. For the first part of the conference call, participants will be in listen-only mode. During the questions and answer session, participants can ask questions by dialing star five on their telephone keypad. Now I will hand the conference over to the speakers. Please go ahead.

Colin Smith:

Thank you, operator. Good afternoon and welcome to our Q1 results presentation. You're joined today from Geneva by our CEO, Austin Lally, and myself, Colin Smith.

In terms of materials, as always, you can find our presentation and quarterly report on our corporate website.

Before we start, let's take a quick look at the agenda on Slide 3.

First, Austin will share an overview of the key developments in the quarter. Then, I'll provide a more detailed financial review. And finally, we'll close the session with time for Q&A and closing remarks.

And with that, let me hand over to Austin.

Austin Lally:

Thank you, Colin, and thank you all for participating in this call today. And more importantly, for your continued interest and support in our company. Today we will present our results for Q1 2024.

I am happy to share that we had another very strong quarter, both operationally and financially. Verisure's trading has continued to demonstrate the high-quality, resilient nature of our customer base, our ability to deliver excellent economics from our customers, and of course continued strong demand for our services from new customers.

We are very pleased with this continued strong performance. And proud of our talented, highly engaged team right across the Company.

So, let's start with our Q1 performance highlights on Slide 4. Total revenues were up +10% in the quarter, +11% in constant currency. Adjusted Group EBITDA, which is Group EBITDA excluding SDIs, was up +14% in the quarter, +15% in constant currency. And Portfolio EBITDA was up +13% in the quarter, +14% in constant currency, reaching

519 million EUR. Quarter after quarter we continue to reach all-time highs. Our financial performance across our key metrics continues to be strong and robust.

In terms of volume, we delivered 210 thousand new installations in the quarter, up over 4% year over year. We are pleased with this increase in Q1, and importantly we remain disciplined and very focused on high-quality customer intake. In what remains a somewhat difficult and volatile external context, our start to the year again underscores the special growth profile of our business.

Net, we added 109k customers to our portfolio in Q1. We now have a portfolio close to 5.3 million customers, up +9% year on year.

LTM attrition remained low relative to other subscription businesses at 7.6%. After a lot of hard work from our teams across our markets, focusing on topics like customer experience, care, service, and retention best practices including root cause specialization, attrition levels have stabilized and are now reducing.

We have further deleveraged the business by 0.2x in the quarter. Total adjusted net leverage is now 5.1x. We have decreased leverage by 1.5x over the past two years because of our profitable growth, despite the challenging external environment. This deleveraging from growth is another positive facet of our business model for investors.

As you know, and with the support of many of you, we successfully issued 1,050 million EUR in late April through a combination of Bonds and Loans to refinance our existing 800 million EUR Term Loan B due in 2026, and fully refinance our RCF drawings. Pro forma for this transaction, we have over 700 million EUR of available liquidity as of the end of Q1.

Finally, I am happy to share that we recently received a credit rating outlook improvement from Moody's. They now have us as a B1 credit, with a positive outlook. I believe this is a good testament of our market leadership, our continued high-quality growth, our best-in-class customer loyalty, and our proven deleveraging capacity from growth.

Let's now move to Slide 5. Our customer portfolio has 422 thousand more customers than a year ago. We now have a portfolio close to 5.3 million customers. This corresponds to a net portfolio annualized growth rate of +8.7%.

You know we never give formal forward-looking guidance. But we remain optimistic about the future. Our growth prospects remain strong as penetration of monitored

security in our geographies still has significant room to grow. We are well established as the leading provider of professionally monitored alarms for residential and small business customers in Europe. In 13 of our 17 geographies, we lead the category in terms of customers served. And in other newer markets we are often the leader in new sales, and as a premium player we generally get to leadership in revenue share even ahead of customer count. And we continue to gain market share.

Let's move to attrition performance on Slide 6. Controlling attrition remains a key priority for us. As discussed in previous calls and driven by a significant decline in consumer confidence and cost of living pressures, we saw in 2022 and 2023 that households were reassessing spending choices more frequently. And consequently, cancellation calls from customers in 2022 and 2023 remained slightly elevated over that period.

But we now see the attrition trend turning. Our customer base is very stable and quarterly attrition has decreased 7 bps during the first quarter of 2024. Total Last twelve months attrition remains at 7.6%.

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

Value creation is not just about the size of the total portfolio. We also focus heavily on maintaining excellent unit economics, both in our customer acquisition segment and portfolio segment. So, we are now going to look at unit economics, on Slide 7.

Starting with our customer acquisition segment, our CPA was 1,404 EUR in Q1. This is 1.4% higher than last year, in constant currency. Overall, the picture remains broadly consistent with previous calls. We continue to acquire attractive customers with a very high lifetime value and good paybacks. We believe investing in these valuable new customers is the best way to deploy our capital.

Moving to our portfolio segment and revenues per customer, we're pleased with progress here on both revenue and costs. ARPU increased to 45.8 EUR per customer per month in Q1. This is up +3.0% in constant currency versus prior year. This increase has come from a well-executed price increase in Q1, our continued focus on upsell

activity into our existing customer portfolio as well as optimizing discount levels in all of our markets.

We made great progress on cost in Q1, which helped generate excellent growth in Earnings per Customer. We reached 33.1 EUR per customer per month, +4.9% in constant currency versus last year, and our strongest Q1 performance ever. We are particularly pleased with this outcome given the macro environment in which we've been operating. This represents very valuable, predictable growth.

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

Colin Smith:

Thanks, Austin. Let's turn to Slide 8, to review our Key Financial Headlines for the first quarter of 2024. Note that I will talk to financial figures always in constant currency, where applicable.

We delivered a strong financial performance in the first quarter. Total Group Revenues were €834m, up 11% year over year. Group Adjusted EBITDA was €375m, up 15% year over year. And Portfolio Services EBITDA reached a new record-high of €519m, an increase of 14% year over year. Our Portfolio EBITDA continues to grow at pace and is now over €2.0bn on an annualized basis for the first time.

Cash Flow from Operating Activities was €380m, up 16% year over year. Total Capital Expenditures in the first quarter were €219m, up 7% year over year, supporting growth in new customer installations in Q1 2024 as well as increased investment in portfolio upselling and technology development.

Net Debt was flat over the past twelve months, closing March at €7.4bn.

And lastly, we had €494m of financial liquidity at the end of the first quarter, from a combination of cash on balance and available funds under our Credit Facilities. As mentioned by Austin in his opening remarks, pro forma for the recent refinancing, our liquidity is now over €700m.

Looking at the chart on the right-hand of the slide, we're pleased with the significant margin expansion we've delivered in our portfolio over the past 12 months. This has been the result of excellent ARPU development as well as valuable progress with our

cost transformation programme. We have increased Portfolio EBITDA Margin to 72.4% in the first quarter, 130 basis points up year over year despite persistent headwinds from high inflation. We're very pleased with progress here, and we remain focused on portfolio margin expansion going forwards.

Turning now to Slide 9, we unpack a more detailed view of our Income Statement.

As noted, group revenue was €834m, up 11% year over year. Reported Group EBITDA was €369m. This includes €6m of Separately Disclosed Items during the first quarter. These are related to ongoing transformational projects and restructuring costs. Adjusted Group EBITDA, which excludes SDI's, was €375m, representing a growth rate of +15%. EBITDA margin progression was again encouraging, increasing from 44.1% in the first quarter of 2023 to 44.9% this year.

Depreciation and Amortization was €152m in the first quarter. This includes €10m of Separately Disclosed Items, related primarily to the amortization of the customer portfolio acquired in 2011 from Securitas Direct Group. This amount is non-cash. Adjusted Depreciation and Amortization was €141m.

Retirement of assets in Q1 was €29m. Adjusted Operating Profit, again excluding Separately Disclosed Items, was €204m in the quarter. This translates to an Operating Profit margin of 24.4%, which is up 190 basis points vs. quarter one last year. Adjusted Operating Profit was up 20% year over year.

Net Interest Expenses were €117m in the quarter, up from €104m last year, driven by the higher cost of debt.

Other Financial Items totaled €22m, of which €17m were Separately Disclosed Items. FX revaluation of debt items and mark-to-market adjustments in unrealized derivatives made up €22m. These were offset by negative €4m related to the amortization of prepaid financing fees and negative €1m related to the modification of loan agreements. These are entirely non-cash.

Adjusted Profit Before Tax was €92m in Q1, representing an increase of 60% year over year in constant currency.

And finally, our tax charge for the quarter was €28m, leading to Reported Net Income of €64m in Quarter one.

Turning next to Slide 10, we show an overview of Cash Flow Generation and Change in Net Debt in the first quarter of the year.

Our YTD cash flow generation is anchored on €519m of Portfolio EBITDA. These are recurring high-quality cash flows from our customer portfolio, which closed Q1 at almost 5.3 million customers.

As you know, we deliberately allocate capital to finance continued growth. We invest to acquire new high-quality customers that will remain with us for around 15 years on average.

This is what we refer to as Customer Acquisition Investment. Part of that investment goes to replace attrition, and part to fund portfolio growth. In total, we invested €295m in acquiring new customers in Q1. We firmly believe that our best use of capital is continuing to add quality customers to our portfolio with high lifetime values.

Portfolio and Other Capex made up a €68m outflow in Q1. Portfolio Capex of €35m relates to new equipment for existing customers, as we upsell and upgrade our customer portfolio. Always innovating for our customers is a core priority, and Other Capex of €33m includes investments in R&D, product and service innovation, and software engineering.

Change in Working Capital has contributed €16m in Q1, driven by improvements in payables.

We paid €5m in Taxes in Q1, and Interest and Financial Items was €149m.

Finally, SDIs and Other, which includes adjacencies, M&A, and IFRS adjustments, makes up an additional €16m.

All in all, our free cash flow was €2m positive in Q1, with a Net Debt increase of €17m, including lease debt effects of €19m.

Turning next to Slide 11 we update on our net leverage position. We have reduced leverage consistently over the past two years. Verisure has a very predictable profile driven by highly consistent EBITDA growth.

As mentioned by Austin in his opening remarks, in the first quarter we continued our deleveraging trajectory. Total Net Leverage closed at 5.1 times, representing a 0.2 times reduction in the quarter. This means that we have reduced our net leverage ratio by 1.5 times in the last 24 months.

Finally, and before turning to Slide 12, I wanted to remind you of our new financial policy, disclosed for the first-time last quarter and which we explained in detail to many of you during our latest refinancing some weeks ago.

We plan to continue to consistently reduce our reported net leverage to levels below 4.5 times. Once this target is achieved, we will update our leverage ratio guidance further. This policy will progressively move Verisure towards public market leverage levels.

Finally, moving to Slide 12, and a summary we regularly share to unpack the business model we operate at Verisure. This sets out our track record of delivering strong, high-quality operational and financial growth.

Starting top left with the sales engine, we have delivered good growth in new customer installations over the years. And we are always disciplined and focused on high-quality customer intake with high upfront customer commitments and entry RMR in line with our base. We were pleased to see new installations growing 4.4% year over year in the first quarter of 2024.

In parallel, we continue to focus on improving customer experience and delivering best-in-class attrition levels. Although we've experienced a small increase in the last couple of years, our customer loyalty and base stability remain very strong by all comparable standards. And we are encouraged that attrition in Q1 is now reducing year over year.

Strong customer intake and sustained low attrition leads to consistent Portfolio growth. We have driven stable growth rates in our Customer Portfolio for several years. We are now proud to protect close to 5.3 million families and small businesses.

Our volume growth is complemented by consistent improvement in customer profitability. As we noted earlier, we are pleased to report a significant increase in our Earnings per Customer in Quarter One, to 33 EUE 10 Cents. This drives significant operating leverage and delivers strong and predictable growth.

We can see this manifest on the right-hand chart, with consistent double-digit growth in our key profit and cash flow measure, portfolio EBITDA, which is now over €2bn on an annualized basis.

So, that closes our update today. With that, let's move next to questions. Operator, over to you.

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 Konstantin, from Lukic. Please go ahead.

Konstantin:

Thank you for the update and congrats on the results. I have one question regarding the capital structure. You have recently taken care of your 2026 loan maturity. Can you give us a bit of color on your thoughts regarding addressing 2026 bonds, considering they are callable at par. Thank you.

Colin Smith:

Konstantin let me take that one, it's Colin. I think a core part of the financial policy that we published is that we intend to stay very engaged with the market and opportunistic in terms of taking advantage of windows to refinance as and when they're are attractive for the business.

You're right. We don't have to do anything until the summer of 2026. We feel comfortable that we've got plenty of time. However, just as you saw us over the course of the last month, when we think there is a window there, we will move into the market.

I won't give you any guidance. However, just to say we're well focused on those maturities and making sure that we've got appropriate time before they fall due to go back to the marketplace.

Konstantin:

Thank you a lot for the update.

Operator:

As a reminder, if you wish to ask a question, please dial star five on your telephone keypad. The next question comes from Laura Homsy from MFS. Please go ahead.

Laura Homsy:

Great. Thank you. Just to follow up regarding the refinancing that you've recently done. Some of the proceeds were obviously used to repay RCF drawings. You said RCF increased quarter on quarter from year-end 2023 to the end of March to 230 million, so an extra 30 million. Can you just comment on what the extra 30 million were used for?

Because cash flow generation was broadly flat, from what I can see from your financial statements. And also to confirm that the additional 30 million drawings have then been redeemed with the proceeds from the new issue. Thank you.

Colin Smith:

It's Colin again. The additional drawings were held as cash, and the full RCF drawings have been replenished.

If you look at our Q1 results, you'll see that we increased our installation volumes 4.4% year over year. That was an increase in capital investment that we made in the first quarter to support new sales. That was an investment that we continue to be very happy to make. We acquired customers with their usual high-quality characteristics, both in terms of the amount the customer pays us upfront as well as their entry RMR, which is broadly in line with the base. We're very pleased with that.

Going forward, we see our cash flows are broadly neutral. I think we're always going to have quarter-on-quarter vagaries up or down 50 million, here or there, depending on the normal course of business events.

Laura Homsy:

Okay. Thank you.

Operator:

The next question comes from Jonathan Tam from Partners Group. Please go ahead.

Jonathan Tam:

Just one question for me. Do you have an update on the investigation of the privacy breach in Sweden?

Austin Lally:

No, it's still under review at the regulator. We put forward a very robust explanation on our position and explaining our processes and systems. I'm looking forward to having this resolved.

Jonathan Tam:

Okay, so there's no update yet?

Austin Lally:

No.

Jonathan Tam:

Thanks.

Operator:

The next question comes from Miguel Medina from Mirabaud. Please go ahead.

Miguel Medina:

Thank you. Another question on supervision. Regarding this footnote in the report on this investigation in Italy regarding some commercial practices. These commercial practices were related exclusively to Italy? Or is there any risk of other consumer authorities looking into these practices in other of the jurisdictions in which you operate?

Austin Lally:

The Italian regulator has made some judgments that we don't agree with.

They related to whether there was enough clarity, for example, during the sales process on things like ownership of the equipment. And some comments around cancellation processes.

Just to be clear, this is not an antitrust case or a reputational case. It's really a set of commercial judgments. We're disappointed with the calibration that the regulator made here, fining us 4 million EUR. Again, we do not agree with the judgment.

We made it clear the same day, that we will appeal the case. I had the opportunity yesterday to review our legal strategy and the readiness of the company's response with our General Counsel. And it will be a robust response.

Miguel Medina:

Okay. Perfect. Thank you very much.

Operator:

The next question comes from Sebastian Tallis from HSBC. Please go ahead.

Sebastian Tallis:

Good afternoon. Could you give any update on Ireland and whether you're being investigated? I believe one of your competitors, Sector Alarm, is being investigated over the competition.

Austin Lally:

I think it's in the public domain that it's more than one of our competitors in scope. I'm happy to confirm that we are not part of this at all. We're not under investigation. We're not part of the process. We were not part of any dawn raid or any discovery.

I can't comment, of course, on the conduct of other people. Obviously, that's up to the relevant authorities to do a proper investigation.

In Ireland, we're just focused on building a business there. Of course, it's not the largest market for us. However, it's a logical synergy given the proximity to the successful business that we've been building in the UK. A lot of the servicing of Ireland is coming out of our UK operations for example.

Sebastian Tallis:

Thank you.

Operator:

There are no more questions, so I hand the conference back to the speakers for any closing comments.

Austin Lally:

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

To recap, against the backdrop of a difficult global economy, Verisure has started 2024 very well with another quarter of quality growth. And we posted new highs for our portfolio and financial performance metrics.

We achieved this despite households and small businesses continuing to be under pressure from inflation (although abating) and high mortgage payments (although again interest rates have been improving too).

We are very proud of the trust our customers continue to place in our service, and we work hard every day to earn their loyalty.

Every Verisure teammate looks ahead to the future with optimism. Even in a more difficult external economic environment, we still see strong continued demand and we operate in relatively low penetration markets with a long runway ahead. And we are determined to make the most of that opportunity.

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