

Transcription

Verisure Group Q1 2025 Results

20 May 2025

Operator:

Welcome to 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, all participants will be in listen-only mode. If you wish to participate in the questions and answer session after the prepared remarks, then you need to dial into the telephone conference and press star five on your telephone keypad to enter the queue. Please note that you will not be able to ask questions if you have joined using the audio cast link. 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.

Now, in terms of materials, as usual you can find our results presentation and quarterly report on our Investor Relations website. We've also updated our 10-year trending schedules, which set out key operating and financial data for the Group. You can also find both our 2024 Annual Report and Sustainability Report, which we published two weeks ago.

To get us started, let's take a quick look at the agenda on Slide 4.

First, Austin will share an overview of key performance highlights in Q1. Then, I'll provide a more detailed financial review. And finally, we'll close the session as usual 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 the results for Q1 2025 for the Verisure Group. Overall, we were pleased with our results in the first quarter. Our performance continued to demonstrate the high-quality, resilient nature of our business model, our ability to deliver consistently excellent portfolio economics and of course continued strong demand for our services from new customers.

We delivered another quarter of year over year growth in installation volumes, acquiring high quality customers at attractive economics. Remember our business model is not only about maximizing installation volume. We aim to solve for three things: Volume AND high-quality intake AND controlled acquisition cost. We delivered well against those factors again in the quarter.

Our EBITDA per customer reached a new high, up +4% year on year. We delivered strong ARPU growth, alongside further progress on reducing costs. Customer attrition was down year on year, as our thoughtful, sophisticated and road-tested approach to both high quality customer creation and then customer portfolio management continues to work very well. And we are reporting today again strong, broad-based financial performance with valuable growth in absolute profitability year on year.

We believe one of our key differentiating factors is our significant investment in Technology and Innovation. We prioritise investment in R&D, product and service innovation. This underpins many elements of our model; from driving new customer demand, differentiation that contributes to us building market share, to supporting ARPU growth and lower costs, as well as globally low attrition rates.

We talked last quarter about how we had launched our WiFiVision product in France, using WiFi sensing technology for improved verification. Recall we took a stake in Origin Wireless in late 2023, helping develop WiFi sensing for use in our markets. In Q1, we extended our Wi-Fi sensing into Norway, Germany, Netherlands, and Finland.

We also continue to see excellent demand for our LockGuard product. This monitored, connected smart lock is driving considerable demand from both existing and new customers. Indeed, we see an increased demand coming from apartment owners, with LockGuard delivering against objectives for both increased security and convenience.

We also launched our new GuardVision outdoor camera, which has Computer Vision AI built in. This product will roll out across our countries over the coming months, boosting both our Detection and Verification capabilities.

Building on the employer recognition awards earned last year, which we discussed in detail last quarter, I am delighted to share that our colleagues in Sweden, Belgium, and Argentina are now also proud to be recognised as Best Workplace™ 2025. This prestigious recognition is awarded to Great Place to Work certified companies that have excelled in creating outstanding workplace cultures and employee experiences. We also just got confirmation that our Brazil operation has been recognized as a certified Great Place to Work® company for the 7th consecutive year.

As a reminder, our group strategy is focused on four pillars. First, as talked before, category defining innovation investment to further develop our own technology and hardware stack. Always Innovating to support broad-based growth, through developing and enhancing our growing range of products and services.

Second, make the market with high impact media and marketing. Drive demand for the category, across multiple touchpoints. Stimulate interest. Educate. Broaden reach and therefore penetration.

Third, grow and maintain a large, high performing sales team. We have over 12,000 Security Experts across our footprint. These teams are highly trained and trusted with customer security and peace of mind key objectives.

Fourth, we aim for a first-class customer experience. Our service is based on the principles of Deter, Detect, Verify & Intervene. We are a 24/7 rapid response, always-on support to families and small businesses, protecting against fire, theft, intrusion and providing personal protection including dealing with medical emergencies.

Let's get into our Q1 performance highlights on Slide 5. Total revenues were up +10% in the quarter, +11% in constant currency. Adjusted EBITDA was up +12% in the quarter. Portfolio EBITDA was up +13% in the quarter, reaching 584 million EUR. And Adjusted EBIT was up +13% in the quarter.

In terms of new customers, our commercial teams delivered 217 thousand new installations in the quarter, that's up over +3% year on year. This was our highest ever quarter of new installations. I would like to thank all our 12,000 dedicated security experts and also our demand creating marketing community across the Group for this strong performance through Q1.

We are happy with this increase in Q1, and as I mentioned earlier, importantly we ensured this continued to be a high-quality customer intake and it was achieved with well controlled acquisition investments. We're not buying volume through discounting. Our Entry ARPU continues to be in line with our portfolio, which is a highly valuable element of our model. This performance again emphasises not only the significant growth runway we have ahead of us but also the importance of maintaining operating discipline. This discipline in customer intake ensures a high-quality portfolio of customers which ultimately supports our low attrition rates and 15-year average customer lifetimes.

We added 111 thousand customers to our portfolio in Q1. We now have a portfolio of over 5.7 million customers, up +8.3% year over year.

Last Twelve-Month attrition remains very low relative to other subscription businesses. We are now at 7.4%, from 7.6% last year. This remains a big focus for us, and one of our strengths. Our teams continue to focus on providing a consistently

excellent customer experience, first-class customer care, retention best practices including root cause specialization and the close management of customer moves.

We have reduced leverage by 0.1x in the quarter. Total adjusted net leverage is now 4.7x. We remain on track towards the 4.5x leverage target that you will remember we communicated one year ago. Over the past two years, driven by consistent growth in our profitability, we have decreased leverage by 1.1 turns.

Finally, at hand, we have approximately 415 million EUR of available liquidity.

Moving to Slide 6. Our customer portfolio has 440 thousand more customers than a year ago. We now protect well over 5.7 million families and small businesses. This represents a net portfolio annualized growth rate of +8.3%.

As you know, in these bondholder calls we've never given formal forward-looking guidance and will not do so this time either. But as ever we remain very optimistic about the future. Our growth prospects remain strong as penetration of monitored security in our existing geographies is still low. We see a lot of attractive, high-quality runway ahead, and we are well set up to continue to drive valuable growth into the future.

We are established as the leading provider of professionally monitored alarms for residential and small business customers across Europe and LATAM. In fact, I am proud to share that we have just been recognized by Kantar as the number 1 Top of Mind brand of Home Alarms in Europe and LATAM. We have significant scale; we estimate we are over 5 times larger than the number 2 professionally monitored alarm segment player across our footprint. In 13 of our 17 geographies, we are market leaders in terms of the number of customers served. And in other newer markets that we have entered more recently, we often already lead on new sales. And of course, as a premium priced player we generally take leadership in revenue before customer count.

Moving to Slide 7. Lowering attrition remains a key priority for us.

We discussed in previous calls that cost-of-living pressures on household incomes meant that in 2022 and 2023 some customers revisited household budgets and spending choices more frequently. We are primarily a consumer business, and we have never claimed to be immune from the macro pressure that families and small businesses face. But we have a highly resilient model; we limited the increase in attrition to only a very modest uptick. We estimate that other consumer facing subscription businesses will have been hit harder.

The attrition reduction trend delivered in 2024 continued in Q1. Our customer base continues to grow, and quarterly attrition in the most recent quarter decreased 23 basis points year over year. As a result, our last twelve months attrition has decreased to 7.4%, down from 7.6% last year. And we are working to reduce further from these levels. We feel confident here of more progress given our ongoing innovation to delight our customer through ever higher quality services, the high levels of customer satisfaction we are able to deliver through deep customer understanding and the commitment to our service shown by our customers over time.

Overall, we believe this attrition performance not only leads our industry, but we believe that it is one of the lowest rates for subscriber-based consumer services overall.

Value creation is not just about the size of the total portfolio. We also focus on delivering strong unit economics, in both our customer acquisition and portfolio segments. In the fourth quarter we continued to see good progress here. Let's turn to Slide 8.

Starting with our customer acquisition segment, our CPA was 1,469 EUR in Q1. This is +5.1% in constant currency versus prior year, mainly driven by higher marketing investments, supporting product launches in some of our larger markets.

We continue to acquire customers with a very high expected lifetime value and very good paybacks. We firmly believe that investing in these valuable new customers is an excellent way to allocate our capital.

Moving to our portfolio segment and revenues per customer, we've delivered an excellent Q1 in terms of both revenue and costs. ARPU increased to 47.0 EUR per customer per month in Q1. This is up +2.8% in constant currency versus prior year. This has come from a well-executed innovation-backed price increase in Q1, plus our continued focus on upselling of new products and services into our existing customer portfolio, as well as discipline on discount levels.

Operating cost efficiency continues to be a priority across all markets. Our progress on cost also contributed to the excellent growth in EBITDA per Customer. We reached 34.4 EUR per customer per month, +4.1% in constant currency versus last year, and our strongest quarterly performance ever. This represents highly valuable, recurring profit growth.

With that, let me pause there and pass to Colin to provide a summary of financial performance.

Colin Smith:

Thank you, Austin. Let's turn to Slide 9 where we summarise our Q1 financial results. Note that I'll always refer to growth rates in constant currency, where applicable.

Overall, we delivered another strong financial performance in Q1. Total Group Revenues were €920m, up 11% year over year. Our Annualised Recurring Revenue was €3.225bn, also up 11% year over year. ARR is a measure of high quality, recurring revenues from our growing customer portfolio.

Group Adjusted EBITDA was €419m, up 12% year over year, with margins climbing to 45.5%. This growth continues to demonstrate valuable operating leverage particularly in the context of increased volumes of new customer installations.

Portfolio EBITDA was €584m, an increase of 13% year over year. Portfolio EBITDA is our engine of profitability and cash flow and continues to grow at pace. Portfolio EBITDA is now over €2.3bn on an annualised basis.

Our Q1 Group Adjusted EBIT was €230m, up 13% year over year, with margins at 25.1% in the first quarter. That's an increase in margins of over 60 bps compared to Q1 2024.

Cash Flow from Operating Activities was €334m in Q1, down 11% year over year. We again invested in working capital in Q1 to build inventory to support new product launches across our markets. Excluding working capital movements, Cash Flow from Operating Activities increased 8% year over year.

Q1 Capital Expenditures were €239m, up 9% year over year. We invested in higher volumes of installations; driving organic, high-quality growth, and increased portfolio upselling and technology development.

Net Debt increased 3% over the past twelve months, closing March at €7.68bn.

And lastly, we had €414m of available liquidity at the end of the first quarter, from a combination of cash on hand and available funds under our Credit Facilities.

Looking to the chart on the right-hand side of the slide, we're particularly pleased with the significant portfolio margin expansion over the past 12 months. This has been driven by another quarter of excellent ARPU development together with valuable progress on our cost transformation programmes.

Portfolio EBITDA Margins increased to 73.3% in the first quarter, 90 basis points up year over year. This represents our highest Q1 portfolio profitability ever and builds on our longstanding track record of portfolio margin expansion.

Moving to Slide 10, we set out an overview of Cash Flow Generation and Change in Net Debt for the first quarter of the year.

Cash flow generation is anchored on €584m of Portfolio EBITDA. These are recurring highly predictable cash flows from our portfolio, which closed Q1 at over 5.7 million families and small businesses.

Our investment in customer acquisition was €319m in the quarter. This investment is made up of two elements. First, replacing attrition, and second, funding portfolio growth. Our capital allocation priorities remain consistent: We will continue to deploy capital to high quality organic growth given the significant penetration opportunity across our markets.

Portfolio and Other Capex made up a €90m outflow in Q1. Portfolio Capex of €48m relates to new equipment for existing customers, as we upsell and upgrade our customer portfolio. This is becoming a more significant growth vector for us, and we see further opportunities here. Continuing to innovate for our customers is a core priority, and Other Capex of €43m includes investments in R&D, product & service innovation, software engineering and cyber security resilience.

Change in Working Capital was negative €58m in the quarter. This trend is partly explained by intentional stock build to support our growth. By way of example, we have now launched our Lock Guard product in the majority of our key markets.

Also, during the same period, we paid €18m in Taxes, with Interest and Financial Items of €135m. Of course, as many of you are well aware, our debt complex is primarily fixed, however we are benefitting from reducing EURIBOR on the variable rate element of our debt. These charges are €14m lower than in Q1 2024.

SDIs and Other, which includes adjacencies and IFRS adjustments, made up an additional €28m.

So, in total, free cash flow was €65m negative in the quarter, with a Net Debt increase of €67m, including lease debt effects under IFRS16 of €3m.

Turning next to Slide 11 we share an update on our net leverage position. As Austin mentioned in his remarks, in the first quarter we reduced leverage by 0.1 of a TURN,

down to 4.7 TIMES. This means we have reduced our leverage ratio by 1.1 TURNS in the past two years.

As discussed in previous quarters, we intend to continue to reduce our net leverage to below 4.5 times, before updating our financial policy once again.

Finally, on Slide 12, we present a high-level summary of our business model. This sets out our long track record of delivering predictable, high-quality growth across our key performance metrics.

Starting top left with new installations, we've delivered excellent growth in new customers over the years. We have a relentless focus on high-quality customer intake with meaningful customer commitments and entry pricing in line with our base. We saw new installations increase 3% year over year in the first quarter of 2025.

In parallel, we continue to focus on delivering best-in-class attrition levels. After a modest increase in 2022 and 2023, driven by the challenging macro and consequent pressure on household disposable incomes, we are now reducing attrition once again.

Strong customer intake and sustained low attrition leads to consistent Portfolio growth. We've driven stable growth rates in our Customer Portfolio for several years. We are now proud to protect well over 5.7 million families and small businesses across our 17 markets.

This volume growth is complemented by consistent increases in customer profitability. As noted earlier, today we are reporting a significant increase in the first quarter, increasing monthly EBITDA per Customer to 34 EUR 41 Cents, up 1 EUR 28 cents, or 4.1%, year over year.

Taken together we can see the impacts manifest on the right-hand chart, with consistent double-digit growth in our key profit and cash flow measure, portfolio EBITDA, to over €2.3bn on an annualized basis.

Overall, and as Austin noted in his opening remarks, we're very pleased with our Q1. Our clear strategy is bearing fruit, with innovation continuing to deliver, marketing investments driving demand and our large and growing sales force executing very well and onboarding increasing volumes of high-quality customers. We focus on providing an excellent customer experience across the entirety of our average 15-year customer lifetime, driving strong customer profitability and returns, and supporting low and reducing levels of attrition.

So, that concludes 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 Jean-Baptiste Teissier from Amundi Asset Management. Please go ahead.

Jean-Baptiste Teissier:

Hi. Good afternoon. Thank you for taking my questions. I have two questions. The first one is the leverage target. You mentioned four and a half times. It remains unchanged. Do you have an idea about the timing you expect to reach it? Once again, have you had a vision about what's next after having reached that four and a half seal, the IPO route, or something else? Thank you. That's my first question.

My second question is more on a day-to-day basis. Do you expect to use drones as a step-up in technology to improve your performances? Thank you.

Austin Lally:

Let me take the innovation first. We've obviously got a really strong innovation pipeline ahead. However, I generally don't disclose it in advance because it just helps my competition. I'll not comment on it, but I'm glad you're interested in innovation because it's really one of our key differentiating factors. I'll pass to Colin on the specific leverage topic that you asked.

Colin Smith:

Thanks, Austin. As we've talked, we announced our financial policy back in February 2024. I think we're making good progress against delivering those targets. I think if you look at our model, one thing that you will note is that we're very predictable in terms of our profit growth and also in terms of our leverage reduction.

I won't give you exact specifics on when we expect to meet that 4.5 target, but it's fair to say that, given our current performance, we would expect that to happen later this year. Now, what happens at that point in time, we will need to agree with our board. Obviously, we would expect to be able to disclose and target a further reduction of that 4.5 times. However, we will talk about that when the time is right.

Jean-Baptiste Teissier

Okay. That's great. The financial policy is aimed towards a lower leverage rather than going back to the dividend route? Just to have the direction.

Colin Smith:

Yes, absolutely. We've always said that the 4.5 target is a waypoint on the way to public market leverage levels, and we stand by that. That's still the case.

Jean-Baptiste Teissier

Great. That's very clear. Thank you very much.

Colin Smith:

Thank you.

Operator:

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

Ryan Jones

Congratulations on the results. I only have a few questions here. Firstly, on a comment you made during the presentation on building inventory. That's why working capital was an outflow. Could you just provide more details on that? Thank you.

Colin Smith:

Let me take this one. This all basically tracks back to the innovation pipeline that Austin talked about. We were pleased to bring LockGuard into our major markets over the past six months or so. Then it talks to the fact that we have a reasonably complex supply chain. We're serving 17 markets across two continents. What we always aim to do is to have sufficient stock in place to meet the new demand from new product launches. What we've been doing over the past three to six months is we've been building inventory levels to support those launches. I would not expect that inventory build to continue going forward.

As and when we decide to bring a new product to the market, we will tend to build inventory at that point, but generally speaking, we would expect inventory balance to be broadly stable going forward.

Ryan Jones

Great. That makes sense. Then, just another question here on the gross profit margins. I have the margin down marginally, but that is recovered by the EBITDA margin. Could you speak a bit more about why your gross profit margin was slightly soft this quarter?

Colin Smith:

Let me take that one. I talk to a couple of things. It links to the CPA increase that Austin mentioned earlier on, where we were up 5% year over year in constant currency.

That was, in many ways, a conscious and deliberate choice that we made. And again, it ties back to making sure that we were able to get behind those new product launches that we put in across the group. Primarily marketing driven and basically making sure that we drove awareness of existing and new customers to the fact that our product and service set had broadened.

Now, clearly, we also had an increase in volume. We were up around 7,000 installations year-over-year, Q1 to Q1, which again has an impact on profitability because we expense just over half of our acquisition cost. So, marketing led increase in CPA, and also the higher volume are the reasons why the gross margin was impacted in the way that you described.

Ryan Jones

Okay. Great. That makes sense. Then, just a broader question, maybe a relatively straightforward question here. You mentioned that this is obviously the highest quarter of new installations. Your growth is volume-driven, which is obviously a positive. What would you say is the core driver of that? You speak of low penetration. Seems there's runway there. Is this more of like a market move, or is this going into new geographies, for example?

Austin Lally:

We make the market. We are the leading brand. We're the leading advertiser. In many markets we are the only advertiser. In some markets we face competition, but we still have the leading share of voice. I think if you look between 2018 and 2023, in our footprint, we basically took 66% of the market growth. That's quite important.

The number one topic for us is obviously to grow penetration, bring new customers to the category, and make sure that is high quality. That's really the first part of our growth algorithm. Building penetration in existing geographies, for example, we don't have a single geography today that's mature. Existing geographies and building

densities are the number one source of growth. The second source of growth is this ability to grow ARPU over time, to continue to monetize not only new customers but existing customers. If I take this example of Lockguard, bringing in innovation that not only attracts new customers but can actually appeal to existing customers who want to upgrade the service that they get from us.

Geographic expansion is important, and we progressively add markets over time with discipline. However, that tends to be something that doesn't have an immediate, big impact in the short term. I don't want you to think about this volume story as being about geography. You should be thinking about us building a European security market where we stand.

Ryan Jones

Great. That makes sense. Then I'd be remiss if I didn't ask one more question on the IPO. I'm wondering if you have any comments on whether anything has changed on that front? Is there anything you can comment on that?

Austin Lally:

Nothing that would be particularly interesting for you. We haven't concluded the review of strategic options that we announced on February 27th. We are continuing to work on internal readiness to ensure that we are well set, should our board decide to list the company's shares on a public market. But we do not intend to make any further comments until we've got something meaningful to say.

Ryan Jones

Great. Understandable. Thanks again.

Austin Lally:

Thank you.

Operator:

The next question comes from Miquel Llesma from Bain Capital. Please go ahead.

Miquel Llesma

I wanted to check on the working capital movement. What's the change in other receivables? Is it also linked to the inventory buildup, or is it something different?

Colin Smith:

It's something different. I don't know if you recall our update on the 27th of February, where we talked about a factoring agreement that we had in place. It's basically connected with that.

We are now recognizing that on the balance sheet. And although we've restated, so the comps are like-for-like, we're showing some growth in receivables from that agreement.

Again, that working capital outflow is not something that I would look at in terms of Q1 being steady and at the level we would expect to continue. I think it was driven by those two very specific things. The inventory build, as I say, I think, will settle down. Likewise, I think the increase in receivables will also settle back down in Q2 and beyond.

Miquel Llesma

That was helpful. Thank you. On the ARPU growth of three percent, you mentioned that the like-for-like price increase was five percent? Is that correct, or did I misunderstand what you said?

Austin Lally:

No, I think what we said was it was a well-taken price increase, and that ARPU I think we said it was 2.8 in constant currency versus the prior year.

Colin Smith:

The one thing I would add is that when you look at our price rise in January 2024 compared to the one that we've taken this year, unsurprisingly it is lower, given the fact that CPI rates have come down year-over-year. We've taken around one percentage point lower pricing year-over-year. So that's just worth bearing in mind. Again, talking back to one of the earlier questions, we were talking a little bit about gross margin evolution. That has a slight impact as well on ARPU growth, which therefore impacts profitability, so about 1% lower than last year would be my colour.

Miquel Llesma

Okay. Thank you.

Operator:

If you wish to ask a question, please dial star five on your telephone keypad.

There are no more questions at this time. I hand the conference back to the 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. To recap:

Verisure has started 2025 very well with another quarter of quality growth and new record highs for our portfolio and financial performance metrics. We are proud that more than 5.7 million families and small businesses place their trust in us. It is our responsibility, and we take it extremely seriously.

But we are humbled by these results. We never take the trust placed in us by our customers for granted. We work very hard to earn their loyalty. We aim to learn from each customer interaction and to improve. We know that we can always do better.

Everyone of our teammates looks ahead with optimism. We are well established as the leading provider of professionally installed and monitored security services for residential and small business customers in both Europe and Latin America. Our growth prospects remain strong as penetration of monitored security in our existing geographies still has significant room to grow. We see a lot of attractive, high-quality runway ahead. We also demonstrate resilience because we provide an important service that is highly valued by our customers. And, we will continue to innovate and enrich our proposition to protect our customers better. The best is yet to come.

So again, many thanks for your interest and support and for your questions. Colin and I both look forward to talking to you again next quarter.