Transcription

Verisure Group Earnings Call - Q2 2021

{EV00125882} - {00:57:04}

25 August 2021

PRESENTATION

Operator

Welcome to the Verisure Group Q2 conference call. For the first part of this call, all participants will be in a listen-only mode and afterwards there will be a question and answer session. I will now hand you over to the company. Please go ahead.

Vincent Litrico

Thank you, operator. Good afternoon and welcome everybody to this presentation of the second quarter 2021. Participants on this call are our CEO, Austin Lally, and me, the CFO, Vincent Litrico. The report and the presentation we use on this call, as usual, can be found on our corporate website in the Investors section.

Before we start, let's have a quick look at the agenda on page four. Austin will share a review of our operating performance and main KPI developments for the business. Then I will walk you through our financial performance, which will be followed by the usual Q&A session.

And with that, I hand over the word to our CEO, Austin.

Austin Lally

Thank you, Vincent, and good afternoon to all of you joining us today. Thanks for taking the time again to engage with our business.

First, I hope you and your families are as safe and well as can be, given the continuing situation globally with the pandemic. And that even in these circumstances, you've been able to have some downtime to recharge over the summer period.

Today we will present the Q2 2021 results for the Verisure Group. Our first semester. We're now midway through our financial year.

Our company has delivered another very good quarter, both operationally and financially. We performed very well despite the continued restrictions that we faced in part of our geographic footprint during the quarter. I'll comment in detail on the numbers later.

But let me start with an update on the pandemic, as I have done in previous quarters.

We continue to manage the situation carefully. To minimise the impact of the pandemic on the health and safety of our people, whilst ensuring business continuity for our existing customers and continuing to grow new sales.

We keep protecting our people with remote working, PPE and good safety protocols. We pay as much attention to the day-to-day management now, as we have done all through the past 18 months. We will not let our guard down.

We continue to provide our service 24/7, even with remote working. We keep protecting our customers. Our alarm monitoring, response and customer care have continued to operate at high service levels, all through the past 18 months.

We are glad that during the early period of the crisis we made it a priority to protect our sales structures for the recovery that we believed would come. That decision enabled the resurgence in our new sales in the second semester of 2020. And our continuing strong new sales performance in the first semester of 2021 too.

So, let's start on slide five with our Q2 top line results. We did almost 200,000 new installations in the quarter. That took us to a new milestone in our journey to protect what matters most. We are now proud to protect more than 4 million customers.

Our total revenues were up +28% in the quarter as reported, and +22% for the first six months. Our portfolio EBITDA was up +19% in the quarter, and up +17% in constant currencies. It reached 367 million euros in the quarter, as quarter after quarter we reach new all-time high records. Annualised, our portfolio EBITDA is now more than 1.45 billion euros. Total adjusted EBITDA was up +11% in the quarter and up +23% year to date, given the strong customer acquisition in Q2 and the impact of COVID lockdowns in Q2 last year, which obviously affects the year-on-year indices.

I'm also proud to announce that during the second quarter we joined the United Nations Global Compact, the world's largest corporate sustainability initiative. This is a significant milestone in our sustainability journey as we continue to build on the work already done across our countries and functions, and as we continue to shape a sustainable future.

So let's move to slide number six. The portfolio has 552,000 more customers than a year ago. In absolute subscriber numbers, this is the highest organic growth during a 12-month period ever for the company, adding more than half a million customers on a net basis in a year. It was just over two years ago, in March 2019, when we passed the 3 million customer mark.

This corresponds to a net portfolio annualised growth rate of almost +16%. It's obviously a big acceleration of the growth rate compared to the first semester of 2020. But that's a bit misleading given the impact of COVID in Q2 last year. I prefer to look versus 2019, and you see the growth rate is +31% versus the same period in 2019. I also want to reconfirm, as in previous calls, that the growth continues to be geographically broad-based.

Moving to slide seven. As mentioned in my opening remarks, it was another very strong quarter on new sales. We added 198,000 new customers to our portfolio, just a day shy of 200,000. This was our strongest Q2 ever on new sales, and it was ahead of our own internal going-in targets. It was up +108% versus last year, but more relevantly up +31% versus Q2 2019 pre-pandemic. And these new sales happened while many of our geographies were in a second or third wave of infections and facing often severe social mobility restrictions again. I'm very proud of the efforts of our commercial teams against that backdrop.

As you know, we never give formal forward-looking guidance, but I can say that we continue to be optimistic about the future despite the continuing COVID situation. We see continued demand and customers continue to feel comfortable receiving our security experts in their homes for sales and installations and our technicians for maintenance and service.

I will also comment on CPA, which is the cost of acquiring new customers. In Q2, CPA was 1,201 euros, very slightly lower than Q1. This is also -10% lower than a year ago, and a reduction of over 100 euros. This trend follows the development we had in Q1 this year and also Q4 and Q3 last year, where CPA was down 14%, 13%, and 10% respectively, versus the same quarter in the prior year. This decrease in CPA is partly driven, of course by the higher volume of new customer additions, which meant we spread our fixed costs across a higher number of customers. But, we also saw in CPA the very positive impact of the cost interventions we made through 2020, and which we continue to do during 2021. Remember we had the objective, including with our Funding Our Growth programme, to come out of the pandemic leaner and stronger.

Let's move to attrition performance one slide eight. We maintained our strong attrition performance. In Q2 21, attrition continued at a low level, 6.45%. This is slightly lower than the 6.54% we had in the previous quarter. It's almost exactly in line with the 6.46% one year ago in Q2 2020. We have been below 7% annualised attrition in every quarter since the middle of 2015. We believe this performance leads not only our industry, but subscriber-based consumer services overall. It's also broad based geographically. We keep leveraging the know-how accumulated in the company and we continually share best practise across all our markets, including through the present situation.

We obviously monitor the attrition performance extremely carefully. And we will always act to protect our customer base. Our customers are so valuable and so important to us. The most important point is that we have been able to continue to deliver our recognised very high service level. Also, we have continued to focus on a high-quality customer intake. As I said in previous quarterly calls, we have learned again and again that the emotional need to feel safe and secure, to be connected and protected for both families and small business owners didn't diminish, even in the middle of a serious public health emergency. Indeed, perhaps the uncertainty reinforced the importance of the service even with so many family members working from home or staying at home during lockdowns.

Value creation is not just about the total portfolio, all aggregated and blended. We also pay strict attention to the profitability of individual customers. These are the foundations. So, we are now going to look at earnings per customer – EPC – on slide number nine.

We reached 31 euros per customer per month, an all-time high record in a quarter. That's up 1 euro versus last year, up +3.3% as reported, and +2.2% in constant currencies.

Average revenue per user – ARPU – increased to 42.5 euros per customer per month in the quarter. That's up +4.1% versus 2020 as reported and is up +2.9% in constant currencies. This ARPU level was also another all-time high record.

You see from the EPC and the ARPU that the EPC growth in Q2 slightly trailed the quarterly ARPU development this time. The simple explanation is the normalisation of our service workloads compared to Q2 2020, when the ability to perform maintenances in particular was hampered by the lockdowns. When you look at the whole semester, EPC is up almost another entire percentage point, up +4% versus the first semester last year as reported. And remember, with a longer view, over the past five years, we have grown EPC by almost 7 euros per month. Again, I want to reinforce that this was broad-based. Unit customer profitability improved in all of our main geographies.

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

Vincent Litrico

Thank you, Austin. So, let's turn to slide number 10 and let me first start with a summary of our key financial metrics for the second quarter in 2021.

As you heard from Austin, Verisure Group delivered strong operational and financial performance in the quarter, especially considering the exceptional external environment.

Starting with revenues. We generated 626 million euros for the quarter, which is an increase of +28% compared to 2020. In constant currency, total revenue growth was +27%.

Our key cash generation measure, portfolio services EBITDA, continued to increase and reached 367 million euros in the quarter. This is an improvement of +19% versus 2020. In constant currencies the increase was +17%. This was on a very strong year last year as well, which grew +17%. Overall, a very strong performance across the Group in our portfolio segment.

Portfolio EBITDA margin came in at 72.8% for the quarter, same as that reported last quarter and slightly down versus last year, driven by the normalisation of the abnormally low levels of service workload that we enjoyed in Q2 2020 when we performed less maintenances primarily due to the COVID-associated lockdown situation. Compared to Q2 2019 however, the portfolio margin has increased by more than three full percentage points. The increase is mainly the result of portfolio growth, which drives scale benefits, good development in operations, and overall good cost control.

Total adjusted EBITDA excluding SDIs increased to 263 million euros in the quarter, which is an increase of +8% versus Q2 2020. Compared to Q2 2019, it is an increase of +40%. This is a strong increase, especially considering the very high growth in new customer additions we had in the quarter, up more than +100% versus 2020 and +31% versus 2019. As you know, new customer additions negatively impact EBITDA in the short term. They then quickly turn into positive recurring revenues and profit. We've posted a 3.2-year payback period in Q2 2021, compared to 3.7 euros in the same period last year.

Cash flow from operating activities amounted to 187 million euros for the quarter. This is almost the same amount as last year and as Q1 this year, which was 190 million euros. Underlying cash flow generation from operating activities before working capital changes was up +9% in the quarter and +23% year to date. Negative variations in working capital, mainly driven by inventory build-up and increases in trade receivables, offset most of the growth.

Total capital expenditures came in at 185 million euros in the quarter. This is a 76% increase versus last year. This increase is primarily related to the higher volume of new customer additions.

As of the 30th of June 2021, our total net debt amounted to 7.029 billion euros. The increase versus 2020 is primarily driven by the refinancing exercise which conducted in January this year.

Finally, worth highlighting that we have significant financial headroom from a combination of cash on balance and our 700 million euros revolver credit facility. At the end of the quarter, we had 627 million euros in unutilised credit facilities and cash. The increase versus last year is explained by the upsizing of our RCF, which we sized up from 300 million to 700 million as part of January's refinancing exercise.

So, in summary, we've had continued strong operating and financial performance in the quarter, especially considering again the environment we are in.

Let's now turn to page number 11, where we show a more detailed income statement for the second quarter.

So, let´s start by looking at the numbers excluding separately disclosed items on the left-hand side of the table. As I showed you earlier, revenues amounted to see 626 billion euros and total EBITDA to 263 million euros, generating a total EBITDA margin of 42%.

Depreciation and the amortization amounted to 84 million euros. This primarily relates to the depreciation of the alarm equipment installed at our customers' premises, as well as the capitalised variable sales costs. The increase versus last year is mainly due to the increased portfolio.

Operating profit came in at 144 million euros for the quarter, generating an operating margin of 23%.

Net interest expense amounted to 76 million euros. This is up versus last year's level of 56 million euros, mainly driven by the increase in gross debt.

So, in total, this gives us a Result Before Taxes of 66 million euros, excluding SDIs, for the period.

Let me now quickly explain the separately disclosed items during the quarter.

Starting at the top, we incurred 5 million euros of operating SDI expenses during the second quarter of this year, mainly related to various transition projects within the Group. This is lower than the 12 million euros posted last year, which was impacted by some COVID-related exceptional charges.

Furthermore, we have recorded 40 million euros of amortization of acquisition related intangibles, which is in line with previous periods. Most of it relates to the amortization of the contract portfolio resulting from the acquisition of the Securitas Direct Group back in 2011. This amount is obviously non-cash.

Separately Disclosed Other Financial Items amounted to -6 million euros. This is primarily composed a non-cash FX revaluation of debt items and unrealised hedges of negative -2 million euros, and amortization of prepaid financing fees of about -3.5 million euros.

Finally, if we move through the reported numbers on the right-hand side of the table, we see that Income Tax for the quarter was -14 million euros, compared to -17 million euros last year. The decrease is mainly related to lower results before taxes in 2021, linked again to the higher level of the new customer additions we enjoyed in the quarter versus same quarter a year ago.

All in all, this results in a reported net profit for the quarter of +2 billion euros compared to +17 million euros last year.

As explained in several occasions, the relatively low net profit is driven by non-cash amortizations and one-off transaction or financing related costs, and is a consequence of our capital structure and prior years´ transactions.

Let's now turn to the next slide, number 12, where we show an overview of our operating cash flow for the first six months of 2021.

As you can see in the bridge, we've had a solid underlying operating cash flow generation during the first two quarters of 376 million euros. This is +1% versus 2020. Excluding changes in working capital, operating cash flow generation was almost 499 million euros, so up +23% versus 2020.

Our main source of cash inflow is the recurring cash flow from our customer portfolio, which is growing month by month and which generated 720 million euros of portfolio EBITDA in the first semester.

As you know, we do not fully capitalise on the balance sheet all our upfront investment costs to acquire new customers. Part of the upfront investment is expensed directly and accounted for in EBITDA. Such effect was 191 million euros in the first half of the year.

Changing in working capital negatively impacted cash flow by 123 million euros this quarter. The main reason behind it is increases in inventory build-up due to the anticipated growth in the business, as well as decreases in trade payables for selected suppliers in the context of a very tense electronics environment.

Working capital can fluctuate somewhat between the quarters, but as you know and as you have seen in the past years, we've demonstrated that we are able to bring down working capital over time from a structurally negative position, in tandem with growing the business, which is quite unusual. This dynamic has been consistently demonstrated. In 2020, we reduced working capital by almost 100 million euros, and in 2019, by 47 million euros.

Finally, tax payments and one-off and SDI items further contributed to a total cash flow generation from operating activities of 376 million euros in the first six months.

Turning to the next page, number 13, we show our net debt bridge as of June 2021. Starting from the left-hand side. you see the 376 million euros operating cash flow generation we just commented about in the previous slide. Of that, we have re-invested 363 million euros in additional growth for the company. This mainly includes capital expenditures to acquire new customers as well as investments in product development upgrades and IT infrastructure.

Net interest payments amounted to 105 million euros.

Furthermore, we had an increase in net debt of 1.7 billion euros related to the refinancing and the paid distribution to our shareholders which occurred last quarter in Q1. In addition, we have paid 95 million euros of bank, advisory fees and call costs for our old SUN debt, all of which mostly related to January's refinancing, as well as other financial items.

Finally, we've also had other negative cash flow items, totalling -31 million euros, mainly related to an increase in IFRS 16 lease liabilities.

All in all, Net Debt increased to 7.029 billion euros as of June close, including an IFRS 16 lease impact of 149 million euros.

As a reminder, on the back of January's refinancing, both Moody's and S&P affirmed our ratings at B2/B with a stable outlook.

Let's look at the next page, number 14, where we have a summary of the quarterly leverage evolution since the end of 2015. Please note that all numbers presented are post-IFRS. As we explained last quarter, starting in Q1 2021 we disclose leverage on a post-IFRS basis, so excluding IFRS 15 and 16, in compliance with our new SFA documentation.

Part of our financial strategy is about deleveraging by growing our customer portfolio and increasing EBITDA, which is mostly recurring. We've done this in the past and we trust we will continue to do it going forward.

As you can see, from the end of 2015 through 2017, before the refinancing conducted back in November 2017, we reduced total leverage by almost two turns. Since then, we've delevered and levered up on several occasions. By late 2020, on the back of strong EBITDA and cash generation performance, we accelerated our deleveraging to 1.4 turns in 12 months, down to 5.1x at the end of December 2020, with the corresponding Senior Secured Net Leverage of 3.7x.

In 2021 and on the back of January's refinancing and subsequent paid distribution conducted in Q1, our Total Net Leverage increased to 6.6x with the corresponding Senior Secured Net Leverage of 5.2x. Leverage is flat in Q2 21 versus Q1 as a consequence of strong growth during the quarter, which negatively affects EBITDA, combined with the increase of IFRS lease debt and a negative working capital swing, which I commented earlier.

Finally, and before moving into the Q&A session, I'd like to quickly show some perspective on the development of our key metrics over the past years, which reflect our ability to continuously grow sales, recurring profit and cash for the business at a sustained rate.

Slide number 15 gives you an overview of our resilient track record of successfully delivering strong, high quality growth, both top and bottom line, every year, irrespective of the external environment. It is about growing the company at a high pace and at the same time improving the unit economics over time.

So, starting with the sales engine, we have had a very strong growth in new customer intake over the years, at high double-digit rates for many years, which you can see at the top left-hand side of the slide. During the last five years, new installations have grown at a 16% CAGR, including 2020, which was a very challenging year. In 2021, customer intake is even growing faster than that. And please note this is of course growth on growth.

In parallel, we have a continued focus on improving customer experience and brining attrition down to between 6% and 7% from an already low industry leading level.

Strong sales growth combined with low attrition leads to strong total portfolio growth. We've enjoyed double-digit growth rates in our customer portfolio for several years and have now crossed the 4 million customer mark. You can see this in the top graph in the middle of the page. It is remarkable that during the last 2.5 years, our customer base has increased by over 1 million customers.

At the same time, this volume growth is complemented by strong improvements in unit economics and profitability by customer. or EPC, year in, year out. Improved EPC, which you can see in the bottom graph in the middle of the page, is the result of both our ability to earn higher pricing, above local inflation, and our ability to drive strong efficiency and customer service improvements, supported by leverage and scale benefits.

So, EPC has grown at a CAGR of 6.2% over the last five years. The key reason why EPC growth in 2021 is slightly lower than that in the previous years is the normalisation of the abnormally low service workload we enjoyed in 2020, as the COVID-associated lockdown situation impacted our ability to perform maintenances mainly.

Overall, and as you can see on the right-hand side of the page, strong portfolio growth and continued improvement in customer profitability have led to consistent high double-digit growth in our key profit and cash flow measure, portfolio services EBITDA, which has consistently grown between +17% and +20% per year, in constant currencies, and some years even more. Portfolio EBITDA is now over 1,450 million euros on an annualised basis and has almost doubled since 2017.

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

PRESENTATION

Operator

Thank you. If you would like to ask a question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel. That is 01 if you would like to ask a question.

Our first question is from Brian Rothenberg from Imperial Capital. Please go ahead.

Brian Rothenberg

Yes, thank you very much. First of all, great performance, but a couple of questions. First of all, on the supply chain issues. You mentioned shortages of electronic components. Can you talk about what you're seeing and what you're having to do in order to get those needed electronic components, given you’re growing so fast?

Vincent Litrico

Sure, this is a situation that is not new. I think we commented on this already in Q4 last year when we reported Q1 results. We have taken very swift actions to move to a much more agile supply chain setup. We also anticipated some of this by beefing up safety stocks, to ensure that this situation would not get in the way of us delivering against the promise to customers of selling alarms and meeting customers´ demand, which as you’ve seen has been very strong over the quarter.

However, the situation is challenging. There were several events, if you may recall from last year, including fires and some issues with microchip suppliers in Asia. This was compounded in some places by the COVID situation, which forced some manufacturing lines to operate at up to 60% capacity. We anticipated all of this. We've been working really hard. We have a very resilient and predictable business model and so we prefer the most cost-effective way of bringing the goods from where they are produced to where we're going to sell them in the market.

We've dialled up the use of air freight to make sure we could offset some of the supply challenges we’ve faced. That’s one. We’ve also had to increase the visibility given to suppliers, so the lead times are expanding. We've been willing to support our key suppliers. This is partly also shown in our working capital development slide that I commented before. We have also increased our inventory levels to make sure we have all the products we need. I can confirm that we have not had out of stock. We didn't have to relinquish any demand.

And I commented also on trade payable forms where in some cases however having to extend the commitment horizon means also that more trapped cash would be occurring upstream in the supply chain, and we’ve also supported this by payment facilitation that is also impacting our working capital levels short term. We think however this is the right call to make to service the business.

In the greater scheme of things, as you know in our business, the key is getting the product installed at our customer´s premises to then open the door for long, resilient, stable, predictable cash flows from our customers. In the greater scheme of things, the cost of the material is not that meaningful. Of course, we need to have the product in stock to be able to install it at the customer´s premises. And again, we've been able to do this very successfully without any interruptions to the business so far. It's a tough situation but it is not unique to our business. The car industry is facing the same challenges. It's, as you know, quite a severe problem. Although we start to see some light in terms of normalisation and increasing supply capacity.

Brian Rothenberg

Perfect, no, that's great. Then I have two other brief questions. First of all, what are you seeing on the labour side in terms of rising costs or shortages across your geographic footprint across Europe? So, I want to understand what you're seeing in terms of labour, trying to get out there and do maintenance because that's on the rise, and are you having any labour issues?

Austin Lally

Yeah, I would say so far not. We continue to grow. We continue to recruit. I think we offer people actually quite attractive career paths in a company that has an attractive mission that people want to be part of. Obviously, we're going to keep a careful eye through the end of 21 and end of 22 on whether that is wage pressure. We're obviously very vigilant on that topic.

One thing I would say though is we've got a very good track record in keeping our costs under control. We've got a good track record for example on things like automation as we scale up. I mean some of our Funding Our Growth initiatives that we've worked on have been about putting more efficiency into our systems so that we reduce our exposure to some of those inflationary pressures.

Brian Rothenberg

Great. Last question. Thank you very much for those two. In terms of the 3G sunset coming up and you're obviously in the US too, what are you guys seeing in terms of impact to your business? You have been performing no problem, but the sunset is coming at the end of this year. And are you seeing any panic movements or quick movements, if you will, as we approach that deadline and how does that impact you guys?

Austin Lally

Yeah, Vincent, do you want to go first one this one?

Vincent Litrico

Yes, absolutely. So Brian, this is obviously something we've been looking at. Actually, if you look at our footprint, the drop dead date by which telco providers have said they would sunset 3G or 2G varies a lot. Actually, in most countries there hasn't been a clear deadline established. There are exceptions of course, and it differs by geography. In some geographies, 3G will sunset before 2G. If you look at 2G in the majority of footprints, we've got at least five years ahead of us. So, it's quite fluid. We're not resting on our laurels, of course—

Austin Lally

The point is in our footprint, it's going to be sort of more of a drawn-out topic than, for example, for the US, right? And that obviously gives us more planning time. We're also confident that we will have technology work arounds that'll enable us to handle this quite efficiently.

Brian Rothenberg

Great, thank you very much.

Operator

And just as a reminder if you do wish to ask a question, please press 01 on your telephone keypad now.

Our next question is from Andreas Jenssen from Capital Four. Please go ahead.

Andreas Jenssen

Hi, thanks for taking my question. So, first I would just like to ask if you could please give a detailed update on the competitive landscape and what you're seeing from DIY competitors and more disruptive business models like, for example, SimpliSafe in the UK, and then if that has changed over the course of the pandemic.

And then secondly how do you think about any potential IPO over the near to medium term?

Austin Lally

Maybe I take the second question first. I think you will have noted that towards the end of 2020 we went into a new investment phase with our majority shareholder, Hellman & Friedman, and our other minority shareholders. Effectively, that new ownership period is less than twelve months ago. So, I think that without talking about future plans, that's obviously something that's just not on the agenda today. We're at the beginning of a new investment cycle with our existing shareholders.

On the competitive landscape. I think it remains very interesting, very fluid, and full of opportunity for us. If I pick a few key points to make. Starting with the segment that we operate in, which we would describe as professional monitored security. We continue to post extremely strong growth there, right across the footprint, and penetration levels remain low, so the future growth potential for us in the segment in which we operate today we are convinced remains extremely attractive and leaves us feeling quite confident and bullish. Now, we also see—

Operator

Okay, just one moment while we dial Austin back in. Okay, please go ahead.

Austin Lally

Yes, hi. As I was mentioning before the line went down. I think if you then look at some of the other segments in the broader security and peace of mind space, obviously we look at this as much as an opportunity for our company as a challenge. It's one of the reasons that we made the acquisition at the end of 2019 of the Arlo business in Europe. We're seeing strong traction on camera services, for example, connected cameras services, either as a standalone security solution or as part of a combined security plus camera installation, and we will continue to work on that area.

Now, what I will say, if you look at players like SimpliSafe or some fair others, the growth that they're posting today isn't having any material effect on our growth rates, and we continue to power ahead and frankly, if anything, accelerate. And I think what we've got to do in the future is continuing to bring innovation, continue to differentiate our proposition from the other players that are out there, making sure that we differentiate ourselves on important things like the accuracy of the verification.

This is not about having a couple of simple sensors in a home. We need to be able to be really sure that we are providing a full service. That not only do we not miss a real incident, but that we have a very, very high accuracy of verification of real incidents. That we filter out 99.5% or 99.7% of all those false alarms that are out there. And obviously that's just a very different level of service than you would get from a simpler, much smaller, Do-It-Yourself installed system.

Andreas Jenssen

All right, thank you.

Operator

And our next question is from Brian Berry from Insight Investment. Please go ahead.

Brian Berry

Hi, thank you for the presentation. Obviously, you've outlined the moving parts of the working capital outflow for H1. I'm just wondering what we should expect for H2.

Vincent Litrico

Brian, yeah, let me take this one. So, as you know, we don't really provide forward looking guidance. But as I mentioned before, we believe we have a sufficient level of inventory to meet the projected demand we anticipate in the second half of the year. And so, we're hopeful that this situation at some point will, towards the end of the year, or maybe beginning of 2022, ease a bit on the overall electronics and microchip semiconductors front.

But yeah, I'm not going to give you specific numbers on this one. I think the point to call out is that overall, though, as I mentioned in my comments, versus the year before, working capital improved around 100 million euros. So, this year or year to date, we are giving it back for those reasons, those two points I mentioned before. Structurally though, working capital continues to be favourable for us, and we expect such dynamic to continue to play in our favour in the foreseeable future.

Brian Berry

Perfect, understood, thank you.

Operator

And just as a final reminder, if you do wish to ask a question, please press 01 on your telephone keypad.

Our next question is from Vivek Khanna from Deutsche Bank. Please go ahead.

Vivek Khanna

Hi, good afternoon everyone and thank you very much for your presentation. I had a couple of questions on working capital, but actually most of them have been asked and answered. I had a follow-up question with regards to subscriber and acquisition costs. Could you maybe just give us an idea – remind me again of the notional number. How much of that is fixed? How much of that is variable? And I guess related to that, is it fair to say that unless we see a slowdown in subscriber growth, that there should not be any upward pressure on the cumulative subscriber acquisition costs and impact if we see acceleration of growth? Or we might actually see further reductions?

Austin Lally

Yeah, so basically, I think you understand the mathematics of it well.

Vivek Khanna

Okay, that's great, but can you just tell me what the split between fixed and variable is.

Vincent Litrico

So, yeah, the notion of fixed versus variable depends on the time horizon you look at. Over the mid to long term, CPA is essentially variable. If you would have to adjust to very significant changing demands like those faced in Q2 last year, you have seen that we can act relatively quickly. But it could take up to a quarter or so to fall back on our feet and adjust the marketing pressure, the sales structure recreation, etc. But for the main part, it's largely variable as you've seen.

Austin Lally

Yeah, I think 2020 was a good case study of this. If you think about our major spend items, number one sales commissions, and number two marketing investment to create demand. Obviously if you saw demand really, really shrinking, which of course we never saw, the demand never went away. But if you saw demand shrinking, you would always have the choice to make your sales organisation smaller.

Now, what we did in 2020 is we were convinced that demand would recover. We didn't know how long we'd be constrained. We stood down a significant proportion of our commercial teams in Q2. But we continued to take a chunk of the fixed costs because we wanted to protect the organisation for the recovery.

Of course, in the short term we could have cut deeper, actually; we could have made the CPA number lower. It would have been a really bad mistake because we wouldn't have been able to recover as fast as we did. So, it's not something you flick a switch on in 24 hours, but as Vincent says, in a, call it three months plus like horizon, you're able to do a lot.

Vivek Khanna

Okay, thank you very much. Very clear.

Operator

And our next question is from Miguel Marina from Armanext. Please go ahead.

Miguel Marina

Yeah, thank you. Good afternoon. Two questions. The first one is a follow-up on the competition subject. Some of your more traditional competitors in the security area have made some recent acquisitions in the alarms space. Some of them with a significant residential component. So, just to see if you have looked at these acquisition opportunities or basically because of the growth potential and how well you are doing organically, you're just not interested in M&A opportunities.

Austin Lally

I would say we are primarily an organic growth machine. You can see that in our numbers, but it's also not – wouldn't be right to say that we've never considered acquiring businesses or portfolios. I mean we have done so in the past. We had a successful acquisition, for example, of the Falck portfolio in Scandinavia. We've made acquisitions even in very key markets for us, like for example Spain, where we acquired the Segur Control business. Or in Sweden. We've made a number of acquisitions in Brazil too.

But the one thing I would say that you take into account when we look through this lens is what's the quality of the portfolio. I mean, we take a look at the pricing level, and we take a look at the attrition profile because not all portfolios in the security industry are treated equal. And I think that will continue to be an important strategy for us, which is when opportunities emerge, you need to be very selective. You've got to really do your diligence.

I think the other thing I'd say is that there have been for example, some recent developments, but actually we've often been more focused on the commercial sector or on medium-sized business customers rather than the blue chip residential customers that we focus on.

Miguel Marina

Okay. And the second question: I'm sure that during the presentation you said that the growth was well balanced across all regions, so I take from that that you have not noticed any impact on the Latin American operations from a worse than expected COVID development and a good mix of the currencies that might make the product more expensive for potential customers in Latin America. You have not noticed any negative impact from that?

Austin Lally

In fact, I would say it's almost a bit surprising since the start of the pandemic. It's obviously been from a health perspective, Latin America, somehow – if I take Brazil as an example, but there are others too – it's not like they are on their second wave or the third wave; it's like they're still on the first wave. There has never really been a respite in those countries, and we've obviously – it's been a very, very difficult situation for families and for communities. We've actually lost employees, for example, in Brazil, to the pandemic.

And yet throughout that entire period, we've basically been beating our sales budgets in the countries. And I think the same dynamic exists that you see in Europe, which is demand is still there and when we visit a customer to install an alarm, it is a safe process. The customer and the installer are well separated. The sales installer is wearing personal protective equipment. We're doing everything we can to make sure that we keep our salespeople safe and our customers safe, so the feedback that we get from customers is they're comfortable having the sales person come to their home. I think they probably feel less safe in the supermarket than they feel meeting the Verisure sales person. So, I'm really, really proud of the team in LATAM. I mean, they've been delivering great performance against the most difficult backdrop that we could face.

Miguel Marina

Okay, thank you very much.

Operator

And at the moment there seems to be no further audio questions, so I will hand the work back to the speakers.

Austin Lally

Well, thank you very much, Operator. Again, I want to thank everyone for participating on the call today and especially for the continued interest in our company and for the support that you have given us as credit investors, including the refinancing event earlier in the year that Vincent referenced.

We remain fully aware that these are serious times. We know that we have a responsibility to our employees, our customers, our investors, and other stakeholders, like police and fire services, to continue to perform with excellence during this period.

We continue to do everything we can to protect our people and our customers. Our service levels remain very high. Our portfolio is robust. Our new sales performance is strong. Our financial delivery is very strong. We've delivered strong overall performance in both Q1 and Q2 21. We've achieved new records for portfolio and performance metrics, and we've done that basically through three semesters of a pandemic.

We continue to believe the future is bright. The opportunities are there because the penetration in our geographies remains low. We believe that the fundamental customer needs that we serve – peace of mind – will only increase in the future, not decrease.

Our intention as a company remains the same, which is to serve more customers, to serve them better, to continue to innovate, to continue to grow our talent, to reinforce our culture, to be an effective contributor to a more sustainable future, to become stronger, leaner and more effective. That's our intention.

So, in closing, again, thanks for your interest and your support and for the questions. Please continue to do everything you can to keep you and your families and your colleagues and your friends healthy and safe. And Vincent and I look forward to talking to you again in a few months when we present our third quarter 2021 results.