Transcription

Verisure Group Q2 2024 Results

29 September 2024

Operator:

Welcome to the Verisure Group Q2 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 Q2 results presentation. Today you're joined from Geneva by our CEO, Austin Lally, and myself, Colin Smith.

In terms of materials, as always, you can find our results presentation and quarterly report on our corporate website. To get us started, let's take a quick look at the agenda on Slide 3.

First, Austin will share an overview of 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 it 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 Q2 2024.

Overall, we were very pleased with our results in the second quarter. Our performance reflected strong progress against a number of key themes for Verisure. We delivered excellent year over year growth in installation volumes, acquiring high quality customers at a lower cost than in Q2 2023. Remember our strategy is not about maximizing installation growth. We aim to solve for volume and customer quality and controlled acquisition costs as we demonstrated this quarter. Customer profitability hit new highs, up over 5% year over year, as we delivered strong ARPU growth alongside excellent progress managing our cost base. Customer attrition was again slightly down year over year as we emerge from a tough macro backdrop. And we reported an excellent, broad-based financial performance with strong growth in profitability and margins year over year.

We are proud of the contribution made by each and every one of our talented, highly engaged team right across the Company.

So, let’s start with our Q2 performance highlights on Slide 4.

Total revenues were up +11% in the quarter. Adjusted Group EBITDA, which is Group EBITDA excluding SDIs, was up +15% in the quarter, +16% in constant currency. And Portfolio EBITDA was up +14% in the quarter, +15% in constant currency, reaching 531 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 214 thousand new installations in the quarter, up 7% year over year. We are pleased with this increase in Q2, and as I mentioned earlier, importantly we remained focused on high-quality customer intake. Our performance again underscores the significant growth profile of our business.

Net, we added 113k customers to our portfolio in Q2. We now have a portfolio close to 5.4 million customers, up +9% year over year.

LTM attrition remains very low relative to other subscription businesses, at 7.6%. Year over year attrition reduced 7bps for the second consecutive quarter. Our teams continue to work hard on topics like customer experience, care, service, and retention best practices including root cause specialization.

We have further deleveraged by 0.2x in the quarter. Total adjusted net leverage is now 4.9x. This is the lowest level we´ve had since 2011. And we are making good progress towards the 4.5x target we disclosed earlier this year in our financial policy. We have decreased leverage by 1.5x over the past two years, driven by growth in profitability, despite the challenging external environment.

As you know, and with the support of many of you, we successfully issued 1,050 million EUR in April through a combination of Bonds and Loans to amend and extend our existing 800 million EUR Term Loan B due in 2026, and fully refinance our RCF drawings. This process has increased our available liquidity to over 710 million EUR as at the end of Q2.

Let’s move to Slide 5. Our customer portfolio has 429 thousand more customers than a year ago. We now have a portfolio close to 5.4 million customers. This corresponds to a net portfolio annualized growth rate of +8.6%.

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.

Let's move to attrition performance on Slide 6. Controlling attrition remains a key priority for Verisure.

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.

We are encouraged that we are seeing the attrition trend starting to turn. Our customer base is stable and quarterly attrition has decreased 7 bps during the second quarter of 2024. This builds on the quarterly attrition decrease we saw during the first quarter. Our last twelve months attrition remains at 7.6%, but we are working to leverage our high levels of customer satisfaction to reduce from these levels. We are confident we can and will.

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 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, coming from category creating marketing and our expertise, and the focus on a superior experience at all the moments of truth once customers arrive in our portfolio.

Value creation is not just about the size of the total portfolio. We also focus heavily on delivering excellent unit economics, both in our customer acquisition and portfolio segment. In the second quarter we are seeing significant progress here. Let's turn to Slide 7.

Starting with our customer acquisition segment, our CPA was 1,392 EUR in Q2. This is 1.0% lower than last year. 0.4% lower in constant currency. This has been driven by delivering excellent efficiencies through our Supply Chain, and harvesting the efficiency benefits from higher installation volumes. This is the second consecutive year we have reduced our CPA in Q2. We continue to acquire customers with a very high lifetime value and good paybacks. We believe investing in valuable new customers is the best way to deploy our capital.

Moving to our portfolio segment and revenues per customer, we're very pleased with progress here on both revenue and costs. ARPU increased to 45.8 EUR per customer per month in Q2. This is up +3.5% 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 optimising discount levels in all of our markets.

Operating cost efficiency continues to be a priority across all markets. Our progress on cost, despite the lingering impacts of higher inflation, helped generate excellent growth in Earnings per Customer. We reached 33.2 EUR per customer per month, +5.4% in constant currency versus last year, and our strongest Q2 performance ever. This represents highly valuable, recurring 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 start by turning to Slide 8, to review our Key Financial Headlines for the second quarter of 2024. Note that I will always talk to growth rates in constant currency, where applicable.

Overall, we delivered a strong financial performance in the second quarter. Total Group Revenues were €849m, up 11% year over year. Group EBITDA was €381m, up 16% year over year, demonstrating strong operating leverage even in the context of increased volumes of new customer installations. And Portfolio Services EBITDA reached a new record-high of €531m, an increase of 15% year over year. Portfolio EBITDA continues to grow at pace and is now close to €2.1bn on an annualised basis.

Cash Flow from Operating Activities was €303m, down 9% year over year. This reduction was driven by two things. First the higher installation volumes in the second quarter, and second a normalisation of working capital movements, as per the guidance we've shared over the past three quarters. Our Cash Flow from Operating Activities excluding Working Capital, increased 15% year over year.

Total Capital Expenditures in the second quarter were €223m, up 1% year over year, supporting growth in new customer installations as well as increased investment in portfolio upselling and technology development.

Net Debt increased 1% over the past twelve months, closing June at 7.464 bn euros.

And lastly, following our April refinancing, we had €710m of available liquidity at the end of the second 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 pleased with the significant margin expansion we've delivered in our portfolio over the past 12 months. This was driven by both excellent ARPU development as well as valuable progress on our cost transformation programme. We have increased Portfolio EBITDA Margin to 72.5% in the second quarter, 60 basis points up year over year. We're very pleased with progress here, and will continue to identify and execute on opportunities for sustained, good quality cost reduction going forward.

On Slide 9, we unpack a more detailed view of our Income Statement.

As noted, group revenue was €849m, up 11% year over year. Reported Group EBITDA was €374m. This includes €8m of Separately Disclosed Items during the second quarter. These are related to ongoing transformational projects and restructuring costs. Adjusted Group EBITDA, which excludes SDI's, was €381m, representing a growth rate of +16%. EBITDA margin progression was strong, increasing from 43.2% last year to 44.9% in the second quarter of 2024.

Depreciation and Amortization was €155m in the second 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 entirely non-cash. Adjusted Depreciation and Amortization was €145m.

Retirement of assets in Q2 was €33m, including €4m of Separately Disclosed Items.

Adjusted Operating Profit was €207m in the quarter. This translates to an Operating Profit margin of 24.4%, up 230 basis points vs. quarter two last year. Adjusted Operating Profit was up 23% year over year.

Net Interest Expenses were €120m in the quarter, up from €113m last year, driven by the higher cost of debt. Our weighted average cost of debt is now at 5.8% with the fixed element of our debt complex at around 75%.

Other Financial Items were negative €7m. We recorded Separately Disclosed Items of negative €13m, driven by the amortization and write-off of prepaid financing fees of €8m, and negative IFRS adjustments related to a modification of a loan agreement of

€9m. Both these items resulted from our refinancing in April, and are non-cash. These were partly offset by positive FX revaluation of debt items and mark-to-market adjustments in unrealized derivatives of €3m in the quarter.

Adjusted Profit Before Tax was €93m in Q2, representing an increase of 79% year over year.

And finally, our tax charge for the quarter was €39m, leading to Reported Net Income of €20m in Quarter Two.

On the right-hand side of the slide we breakdown our revenue growth by type. As previously talked, we have a large proportion of revenues that are monthly recurring, offering high predictability in our cash flows. Indeed you can see our portfolio revenues increased by 12% in the second quarter of 2024 to €732m.

Moving next to Slide 10, we show an overview of Cash Flow Generation and Change in Net Debt in the first half of 2024.

Our YTD cash flow generation is anchored on €1.049 bn euros of Portfolio EBITDA. These are recurring high-quality cash flows from our customer portfolio, which closed Q2 at almost 5.4 million customers.

Customer Acquisition Investment is made of two elements. First, replacing attrition, and second, funding portfolio growth. Taken together, we invested €594m in acquiring new customers during the first 6 months of the year. Our capital allocation policy remains prioritised towards deploying capital to finance continued organic growth.

Portfolio and Other Capex made up a €142m outflow during the first 6 months of the year. Portfolio Capex of €72m 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 €70m includes investments in R&D, product and service innovation, and software engineering.

Change in Working Capital accounts for negative €29m during the first 6 months of the year.

Also in H1 we paid €31m in Taxes, with Interest and Financial Items of €248m.

Finally, SDIs and Other, which includes adjacencies and IFRS adjustments, made up an additional €41m.

So with that, all in all free cash flow was €36m negative during the first half of the year, with a Net Debt increase of €56m, including lease debt effects under IFRS16 of €21m.

Turning next to Slide 11 we update on our net leverage position. As you can see, we've reduced leverage consistently over the past two years. Our highly predictable profile is driven by consistent EBITDA growth.

As Austin mentioned in his remarks, in the second quarter we continued our deleveraging trajectory. We took another meaningful step down, with Total Net Leverage closing at 4.9 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 financial policy, disclosed for the first time in February and explained in detail to many of you during our latest refinancing in April.

We plan to continue to 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 is designed to increase clarity around our financial policy as well as progressively reducing Verisure towards public market leverage levels.

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

Starting top left with the sales engine, we have delivered excellent growth in new customer installations over the years. And we are always focused on high-quality customer intake with high upfront customer commitments and entry pricing in line with our base. We were pleased to see new installations growing 6.8% year over year in the second quarter of 2024.

In parallel, we continue to focus on delivering best-in-class attrition levels. We've experienced a small increase in the last couple of years, however our customer loyalty and base stability remain very strong by all comparable standards. And we are encouraged that attrition in Q2 is again slightly 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 now offer peace of mind to almost 5.4 million families and small businesses.

This 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 the second quarter, to 33 EUR 20 Cents, up 1 EUR 50 cents, over 5%, year over year.

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, to €2.1bn on an annualized basis.

Overall, and as Austin noted in his opening remarks, we're pleased with our Q2 performance and financial results. We see many strategic focus areas bearing fruit and we look forward to a strong second half of 2024.

So, that brings to a close 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.

[There are no questions]

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

To recap, against the backdrop of the global economy, Verisure has performed well in the first half of 2024 with another quarter of quality growth. And new highs for our portfolio and financial performance metrics.

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

Every Verisure team member 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. We look forward to talking to you again next quarter.