

Transcription

Verisure Group Q3 2022 Results

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PRESENTATION

Vincent Litrico

Good afternoon and welcome to our Q3 2022 results presentation. As always, participants on this call are our CEO, Austin Lally, and me, Vincent Litrico, the Group CFO. You can find our Q3 2022 earnings report and presentation in our corporate website.

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

As in previous calls, Austin will share an overview of the key performance highlights of the quarter. Then, I will provide an update on our financial performance, which will be followed by the usual Q&A session.

And with that, I hand over to Austin.

Austin Lally

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

Today we will present the Q3 2022 results for the Verisure Group.

I am very glad to share that we had another strong quarter both operationally and financially, despite the more difficult external environment for consumers.

So, let's start with our Q3 performance highlights on slide #5.

We had 198 thousand new installations in the quarter. We are now proud to protect more than 4.6 million customers. We have added almost 500k customers to our portfolio in the last twelve months, representing a growth of +12% versus last year.

Our total revenues were up +14% in the quarter. Our portfolio EBITDA was also up +14% in the quarter, reaching 430 million EUR. Quarter after quarter we continue to post all-time high records. Annualized, our portfolio EBITDA is now over 1.72 billion EUR. Total adjusted EBITDA was up +32% in the quarter.

We view this as very strong and robust financial delivery especially in the current external environment with high inflation, low consumer confidence and predictions of recession.

As you know, with the support of many of you, we successfully refinanced 500 million EUR of Senior Secured Debt in late September. Besides 200 million EUR maturing in 2025, all our debt now matures in 2026 or beyond. As I discuss our performance for the quarter, you will recognize the results and trends from the management meetings we held during the refinancing. Basically, no surprises.

Finally, I am also very happy to announce that we have very recently launched operations in Ireland. That means we are now protecting customers in 17 countries in Europe and Latin America. It's our first opening since Argentina in 2019. Every new geography where we replicate our business model is exciting.

Let's now move to slide #6. Our customer portfolio has 499 thousand more customers than a year ago. We now have a portfolio above 4.6 million customers. This corresponds to a net portfolio annualized growth rate of +12.0%.

Let's now move to slide #7. As mentioned earlier, it was another very strong quarter on new sales. We added 198 thousand new customers to our portfolio. This is our second strongest Q3 ever on new sales. It represents a growth of +4.3% on the new sales in Q3 2021, despite a more difficult environment. This is of course growth on growth. As a reminder, Q3 2020 was an exceptional year in terms of new sales as we enjoyed pent-up demand after lockdowns ended in many geographies.

Let me also comment briefly on CPA. In Q3, our CPA was 1,405 EUR. It is up +11.6% versus last year. But it is basically almost exactly in line with Q2, as I had indicated in the refinancing calls. The picture remains the same as in the recent calls. Like everyone, we are seeing inflationary pressures across our cost structure, especially on material costs. But even with this current higher level of CPA, we are still creating valuable, attractive customers with a very high lifetime value. The payback on new customers remains attractive. Investing in these new customers is still a very good use of capital. And of course, on CPA overall, we continue to innovate to find more effective and efficient approaches.

As normal, we don't give formal forward-looking guidance. But we are still optimistic about the future. Even in a more difficult external economic environment for consumers, with inflation and poor confidence, we still see strong demand for new sales. So far this year, we have still added around 200 thousand new customers every quarter, totalling 600 thousand new customers as of the end of Q3. That is up +5.6% versus last year. And we can still deliver this growth because of the amount of white space out there. That white space makes the difference even if many households are under pressure and consider delaying some discretionary purchases. It's about competing in relatively low penetration markets still with a long runway ahead.

Let's move to attrition performance on slide #8. Similarly to Q1 and Q2 this year, absolute quarterly attrition has remained stable at around 7%. It's a modest uptick versus the same period last year. It's what we indicated in the re-financing calls here. No surprises. 3 quarters in a row like this means the LTM attrition now converges towards the 7% mark. Our LTM attrition currently stands at 6.9%.

We believe this performance leads not only our industry, but subscriber-based consumer services overall. This is also encouraging given the inflationary pressure that many households are feeling today. It shows that professional security remains a high priority for families even when they have to make other tough budget choices. Our solidity also reflects the high-quality customer intake and customer experience.

We obviously monitor attrition performance extremely carefully and we will always act to protect our customer base. We will continue working hard to maintain the trust and loyalty of our customer base, which are so valuable and so important to us.

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

In Q3, we continued to enjoy excellent Earnings per Customer. We reached 31.2 EUR per customer per month, +1.7% versus last year and our strongest Q3 performance ever.

Average revenue per user, ARPU, increased to 43.4 EUR per customer per month in Q3, up +2.7% versus the same period last year. This, together with the portfolio growth discussed before, translated into incremental total portfolio revenue of 79 million EUR in the quarter compared to the same period last year, representing a year-on-year growth of +15.3%.

We enjoy strong unit economics. Taking a longer-term view, over the past 5 years, we have grown EPC by 5 EUR per month. That's more than 1 EUR per year. This was broad-based. Unit customer profitability improved in all our main geographies.

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

Vincent Litrico

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

Verisure Group delivered another strong quarter of financial results. Revenues increased to 722 million EUR in the quarter, up +14% versus last year.

Our key cash generation measure, Portfolio Services EBITDA, continued to increase strongly and reached a new record-high of 430 million EUR in the quarter. This is an improvement of +14% vs. last year. Our Annualized Portfolio EBITDA is now over 1.72 billion EUR.

We continue to enjoy sustained high profitability levels in our Portfolio. Portfolio EBITDA Margin was 72% in the quarter. The slight decrease versus last year is driven by some inflationary pressures. If you look at it over time, we have improved our Q3 Portfolio EBITDA Margins by over 1 percentage point per year on average during the last 5 years.

Total Adjusted EBITDA was 302 million EUR in the quarter, up +12% vs. the same period last year.

Cash Flow from Operating Activities was 251 million EUR in the quarter, what represents a 5% decrease versus last year. This is the result of higher underlying cash flow generation, of over 38 million EUR, offset mainly by negative changes in trade working capital.

Total Capital Expenditures increased +14% vs. last year, reaching 207 million EUR in the quarter. Net Debt closed the quarter at 7,345 million EUR, an increase of +4% vs. last year.

Finally, we have 306 million EUR of financial headroom, from a combination of cash on balance and available funds under our Credit Facilities.

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

Turning now to slide #11, we show a detailed view of our Income Statement for the quarter. Looking first to items excluding SDIs, Revenues stood at 722 million EUR and total EBITDA at 302 million EUR, what translates into a total EBITDA margin of 42%.

Depreciation and Amortization reached 120 million EUR in the quarter. It relates primarily to the depreciation of the alarm equipment installed at our customers' premises as well as the depreciation of capitalized variable sales costs.

Retirements of assets decreased to 23 million EUR down from 30 million EUR last year. This represents the remaining balance of capitalised material and direct costs, at the time customers leave the portfolio or upgrade to our new platform.

Operating Profit closed at 159 million EUR, what translates into an operating profit margin of 22%. Net Interest Expense was 76 million EUR and Other Financial Items -1 million EUR, broadly in line with last year. In total, Result Before Taxes reached 81 million EUR in the quarter.

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

Furthermore, we recorded 18 million EUR of amortization of acquisition related intangibles. Most of it relates to the amortization of the contract portfolio acquired in 2011 from the Securitas Direct Group. This is significantly lower than what we had last year, given part of the contract portfolios were fully amortized in Q3 2021. This amount is obviously non-cash.

Separately disclosed Other Financial Items reached -5 million EUR in the quarter. This is the result of negative non-cash FX revaluation of debt items and unrealized derivatives of -1.2 million EUR, the amortization of prepaid financing fees of -3.5 million EUR, and a negative IFRS 9 adjustment related to the modification of loan agreements of -0.8 million EUR.

Finally, if we now look to total numbers, we see that Income Tax for the quarter was -8 million EUR.

All in all, this results in a reported Net Gain for the quarter of 45 million EUR, compared to a -5 million EUR Net Loss in the same period last year.

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

Our main source of cash flow generation is the recurring cash flows from our customer portfolio, which grows month after month, and which currently stands at 4.6 million customers. So far this year, we generated 1,260 million EUR of Portfolio EBITDA.

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

This is what we call Customer Acquisition Investment. Part of that investment goes to replace attrition, and part to fund the portfolio growth.

Despite having posted negative net cash flow of 180 million EUR YTD, you can easily run the math of how much cash we would have generated if we had not invested in additional growth. However, we believe that the best usage of cash is to continue bringing high quality customers to our portfolio with high lifetime value. We achieve ROIs of around 20% on each new customer we bring, which is well above our cost of capital.

Portfolio and Other Capex further contributed to a 159 million EUR outflow YTD. Portfolio Capex of 67 million EUR mostly relates to new equipment for existing customers. Other Capex of 92 million EUR includes capex related to R&D, IT and premises.

Change in Working Capital has negatively impacted cashflow by 94 million EUR YTD. This was mainly driven by inventory build-ups, increases in trade receivables, and to a lesser extend decreases in trade payables, partially offset by decreases in other receivables and increases in other payables.

Paid Taxes accounted for 29 million EUR and Paid Interests and Financial Items accounted for 249 million EUR YTD.

SDIs and Other contributed with an additional 60 million EUR outflow.

All in all, YTD net cash flow is negative 180 million EUR, what translates into a negative net debt variation of 173 million EUR, considering lease debt increased by 7 million EUR.

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

We talked in past earnings calls about how COVID-19 impacted our operations and working capital. We estimated these impacts to illustrate what our normalized Total Net Leverage would have looked like.

In Q3 2022, we have continued our deleveraging trajectory, and Senior Secured Net Leverage and Total Net Leverage closed at 4.9x and 6.2x, respectively. We have delevered 0.2x in the quarter and 0.6x so far this year.

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

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

Starting with the sales engine at the top left-hand side, we have had very strong growth in new customer intake over the years. During the last 5 full years, New Installations have grown at a CAGR of over 16%. If we look at LTM New Installations, these have grown +3.7% over the same period last year. Please remember, this is growth on growth.

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

Strong customer intake and low attrition leads to strong Portfolio growth. We have enjoyed double digit growth rates in our Customer Portfolio for several years and we now have over 4.6 million customers. It is remarkable that during the last twelve months we have increased our portfolio by 0.5 million customers.

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

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

As explained in previous calls, on average, we have historically been able to price significantly over local inflation. Our pricing window typically occurs in Q1 every year. We decide price increases considering latest available inflation estimates, among other things. Of course, we can be surprised by actual realized inflation in a particular year. But if this happens, we have demonstrated we are able to catch-up in subsequent years.

EPC has grown at a CAGR of 4.5% between 2016 and 2021. Q3 YTD EPC is +1.7% higher than last year. As discussed today and in previous calls, growth deceleration is mainly driven by post-COVID normalization of workloads, as well as some inflationary pressures.

Overall, strong portfolio growth and continued improvement in unit economics has led to consistent high double-digit growth in our key profit and cash flow measure, portfolio EBITDA. Portfolio EBITDA is now over 1.72 billion EUR on an annualized basis.

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

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. Please state your name and company. Please go ahead.

Jemma Permalloo

Hi, good afternoon, and thank you for taking my questions. I have three questions. I am sorry, it's actually Jemma Permalloo from JP Morgan.

My first question is on your debt exposure. So, you have had the refinancing of the bonds, I think you probably have about 50% of your underlying debt that's fixed, and I understand you have recently hedged some of your euro floating term loans. Could you remind us how much of floating debt exposure do you have and the impact of higher rates going into 2023?

My second question, and maybe that's a bad statement to make, but I wanted to see whether you have any thoughts on the correlation, or at least in previous crisis and recession, the correlation between unemployment rates and crime rates, and what that could mean for Verisure?

And then, my last question is on your number of subscribers. So, if you exclude the customer acquisition, you obviously generated positive free cash flow. Any indication in the median term on what that number of subscribers could be for you to free cash flow break even? Thank you.

Vincent Litrico

Let me take the first question on debt exposure. So, you are right, 50% of the debt stack we have is in floating-rate instruments. And then, on top, we have complemented this with float to fixed interest rate swaps. We had some of these coming due in October, which we rolled over. And so, today, you should think of about two thirds of our debt being fixed over a duration of almost five years. So, this provides good resilience and hedging against the current interest rate environment.

Now, in terms of the impact moving interest rates would have on our interests' expenses in 2023, as you know, we don't give forward-looking guidance. But you can do the math simply. Seven billion debt times one third, and you apply the interest rate on whatever increase in interest rate or Euribor curve you think we would get, and you get the number yourself. But we believe, overall, we deliberately managed our debt in a cautious way, and that continues to be the philosophy that we will follow going forward.

On the second question, we have seen studies, but I don't really have a lot of details. More from the US showing that there seems to be a positive correlation between crime rates, burglary, and actually surprisingly interest rate increases, and unemployment. I guess those go kind of hand in hand. We haven't run ourselves any study directly, but empirically, I guess we certainly can see that higher pressure on household income and higher degree of precarity facing certain classes of the population can lead to an increase in crime and burglary, which should be providing some tail winds to our business.

Austin Lally

I would also just add to that, it's clearly a difficult external environment for many households. And so, you also have on the other side of the column potentially some discretionary purchases being delayed. And we are quite realistic about that. It's why our focus is not actually on an absolute NPG growth percentage, it's really on continuing to make sure we are bringing in very good quality customers.

Vincent Litrico

And if I get to your third question on what would it take to get free cash flow positive or neutral. Not much. I think the point we keep stressing is that the model is quite unique, in the sense that we control free cash flow generation. It's clearly a deliberate investment into growth, and we can dial it up or also dial it down quickly relatively to business that have a lot of fixed costs. The lion share of our customer acquisition cost is variable.

We fully appreciate that we operate in a higher cost of capital environment, and yet, the IRR we extract from the marginal customer continues to be exceptionally strong and well north of the cost of capital, which suggests that it continues to be a very good financial decision to continue to bring peace of mind to more and more customers.

But of course, the business is cash intensive, and that affects net cash flow generation, especially when the cost of debt is going up. So, I guess that's where you are going to. Now, if we were to determine that this a better way of running the business is to slow down growth, which again, is not what we think makes financial sense, you could do the math yourself. Basically, it's going to be a function of CPA. Roughly, if you take the CPA we have posted, we could get to 6% net portfolio growth, fully self-funded, even in the current more challenging, I would say, environment in terms of cost of growth, in terms of cost of capital. Does it answer your question?

Jemma Permalloo

Yes. Thank you. That was helpful. And maybe if I can squeeze the last one, since you mentioned cash flow. In times where you have clearly had a reduction in the leverage, we

have also seen dividend distribution, and that meant another turn in your net leverage figure. Looking at your cash position and liquidity as well post the refinancing, there has been some deleveraging. Do you think there's a possibility, and it's obviously up to the shareholders, but do you think there is a chance of us seeing dividend distribution in the coming years or maybe one to two years from here?

Austin Lally

I think we never really comment on that, because I think our historical practice has never really been to comment on it. I can certainly say no one today is sitting in the business talking about dividends. What we are talking about is high-quality customer intake. Because it's obviously a difficult external environment out there. The cost of financing, as we experienced in September, was obviously higher than it has been in previous cycles. And that obviously is something we consider.

Jemma Permalloo

That's great to hear. And the commentary was quite helpful. Thank you.

Operator

The next question comes from David Brooks from Arcmont. Please go ahead.

David Brooks

Hi there. Thanks for the presentation. If I could just ask two questions. The first one is on CPA. Last quarter you talked about the IFRS 16 effect. Could you just comment on that? And then, secondly, if you wouldn't mind giving an update on Sweden. Specifically, there is the IMY investigation, and I believe there has also been some change in management, if you could speak to that.

Vincent Litrico

Let take the first question. So, there was also, again, this quarter an adverse impact on IFRS 16. Not as pronounced as last quarter. I think I commented last quarter it was a 103 Euro optic setback in CPA versus the same quarter a year ago. And the impact in the previous quarter, Q1, and before, was negligible. Not really material warranting a call out. For this quarter, it's coming down a bit, but it was still a 79 Euro CPA adverse impact.

Austin Lally

I mean, as we pointed out in the presentation, you should be looking at Q3 and Q2 CPA picture like it's the same, similar.

Vincent Litrico

Right. But relative to last year, there was indeed an IFRS 16 impact. So, that's for the first part of your question.

Austin Lally

On Sweden, maybe two parts to this answer. Regarding the IMY, we have obviously given a very full response to the questions that were asked, and it's now in the hands of the regulator to digest the material that we have given. We are obviously very robust in our defense of the job that we do. We think we do an incredibly good job, thorough job, secure job, looking after customers. That has always been the view historically, when, for example, regulators have come to certify our business. And I am not expecting any adverse outcome from this IMY inquiry. But it's obviously ongoing.

And then, the comment on management change. We announced a few weeks ago, that the managing director in Sweden, who had been with the company for about nine years, has decided for personal reasons to step down. He made a fantastic contribution to our company over that period. Created a lot of value in Sweden. And we obviously respect his decision. He will continue, obviously, to be close to us, to be part of our family. And he was succeeded effectively by his deputy in the country. So the sales and marketing leader in the country actually stepped up, promoted to the managing director. So, it's actually a nice example of succession planning in the company and passing the torch onto the next generation. I really wish him all the best.

David Brooks

Great. Thank you very much.

Austin Lally

You're welcome.

Operator

As a reminder, if you wish to ask a question, please dial start five on your telephone keypad. Please state your name and company. Please go ahead.

Nicola Mezzadri

Hi, Nicola Mezzadri from Barclays. Just one quick question, and it's a little bit more taking a step back, rather than on the numbers this quarter. I think one of the strong points you mentioned about your business model is your ability to raise or lower the growth rate as you see fit. And I think you have done a great job during the Covid crisis. I think also recently, your net subscriber core rate has come down in front of, probably, a little bit more challenging environment. Can you give us a little bit of insight on how you manage that? So, if there is a committee? how do you differentiate country by country? And the kind of level of insight and data that you use in order to take these decisions around how to modulate your growth rate?

Austin Lally

It's a very good question. I would start by saying, we have been highly data driven in the analysis that we do. But it actually comes down in the end to a couple of important levers. There are many, but there are two that I am going to draw particular attention to.

The first one is how much marketing investment we are going to deploy in a particular market to stimulate demand. Because our model is about stimulating demand, and that demand turns into bookings, into appointments, into moments of sale for salespeople. And you obviously have the possibility, I mentioned this in the refinancing calls a few weeks ago, you obviously have the possibility of diminishing returns. And one of the things that we are always looking at, it's not just the cost of creating a booking, the cost of creating a new customer, it's the marginal cost of creating the next customer. And so, when I look at the marginal marketing investment for that incremental next 1%, that's obviously something that we take into account. We don't want to, in a sense, just maximize growth at any cost. We want the entry return on investment for that customer to make sense.

The second lever is sales recruitment, how many new salespeople do we bring into the organization. There is obviously a natural attrition on a field-based sales model like the one we operate. Some people conclude that this is not the life for them, some people don't get to the level of performance of sales, and therefore of commissions and earnings that they desire, then maybe they decide to go and do something else. The pace with which we basically replace those folks, and we train them and develop them, that influences the size of the sales organization.

And if you ask me a simple question, how many alarms am I going to sell next quarter, the biggest part of the answer would be, well, it will depend on how many bookings I generate and how many salespeople we have. And so, that's actually the primary way in which we are able to smartly flex the customer acquisition investment in the end. And I think what

you see in the marketplace at the moment is, there is still strong demand for alarms, and that's why we have been able to do basically 200,000 installations per quarter.

But what we have been finding is that the cost, let's say, to create that demand has been a bit higher. Because there are customers that are delaying discretionary purchases. And what we have got to calibrate well is, in a way, how much of an increase in acquisition cost are we prepared to accept. And I think we are quite clear that we just don't acquire customers at any cost. By the way, those customers will be here tomorrow. And we have got the opportunity, to some extent, to stagger that acquisition cost to make the economics of those customers when they arrive in the portfolio more attractive.

Nicola Mezzadri

Thank you.

Operator

The next question comes from Michael Chakardjian from Franklin Templeton. Please go ahead.

Michael Chakardjian

Hi. Thanks for the call. Two questions. The first one is, I know at the time of the new issue when you guys came to market, you had quite a lot on your revolver drawn. I know market conditions were very, very weak at the time. What are your thoughts on keeping the 400 million plus and refinancing the revolver?

Then, the second question is on attrition. It's been inching up, and last time you spoke you said it wasn't due to macro effects, but it was just more people switching homes. Could you just give us a bit more color on what is going on behind that inching up, and where do you think it can go? I know the next few quarters tend to be a bit more seasonal, but just get some more specific commentary on the attrition. Thanks.

Austin Lally

Let me get back to this. Actually, there may have been a misunderstanding about what we said in the refinancing calls actually. Because I think what we said at the time was, there was an increase in cancellation requests, and really around economic reasons. We are certainly not immune to consumer confidence, inflation, pressure on budgets. That's clearly what's leading to that increase. I guess what we said at the time was, it was pretty modest. We have gone from being in the sixes to, on a quarterly basis, being about seven. And we have basically been at about seven for the past three quarters. So, the attrition position in

Q3 is actually stable relative to Q2. Which, again, I take as quite reassuring. That's why, when I look at the attrition number on a last-12-months basis, we are now at 6.9, we are basically tangential to seven today.

Now, will that edge up a bit more into 2023? Again, it will depend on the economy. But I think the one thing that makes us confident here is the high level of satisfaction that our customers demonstrate. And frankly, the very robust performance that we have seen through 2022 already.

So, we are continuing to watch this like a hawk. But at the moment, I think that this increase or this uptick in attrition is very manageable, compared to our overall economic model. It's also about taking a long long-term view. Even at 6.9%, 7%, I think by global standards for security and for consumer subscriber services, it's still actually a very low number. And it's also much lower, for example, than the historical levels that we had as a company years ago. Certainly, significantly lower, for example, than what we had when we went through the global financial crisis and the knock-on impacts in Southern Europe.

Michael Chakardjian

Yeah. And then, I guess on a similar topic then, are you seeing people trade down? Because I am not seeing that in your results. But are you seeing, instead of leaving, going to a lower tier of service with you guys?

Austin Lally

No. And I mean, actually, there's a simple reason for that, which is we don't offer a lower tier. At Verisure we are not selling detergent. I used to work for Procter and Gamble, so I am kind of biased on this. We are not offering you the chance to go from Ariel to Daz. What we offer you is professionally monitored high security. And the other thing to remember is, I think, two things.

The customer has invested in the system, the customer has already paid an upfront investment to have us install the system. On average, that's more than 500 euros, so the customer is invested. So, there's clearly an element of an exit barrier financially.

But more importantly, the second point. What we find is that when customers are doing their budget, and they are taking a look at their household choices, there are lots of other things that they give up on before they give up on security. It's a sticky service, because it's important. And that has obviously benefited us. So, I am sure if you compared our attrition rate to other services, like streaming services and so on, I am sure our profile is going to be better.

Vincent Litrico

And maybe on your question regarding the revolver. So, as we commented during the refinancing, a month ago now, under normal market conditions, we would have likely addressed the refinancing of the RCF together with the 2023 maturities. However, market levels were not particularly attractive, as you know. We are aware that they have improved a bit since then.

But if you step back a bit, we currently have over 300 million of available funds under our credit facility. Remember that not too long ago we were operating the business with a total revolver size of 300 million. So, we feel this is something we can definitely live with. We are going to keep looking at market conditions, and we might potentially address the refinancing next time we come to market.

Michael Chakardjian

I see. So, you are basically saying it would come with an addition to something else, not just to refund the revolver?

Austin Lally

No, I wouldn't speculate with that. If we feel we need it, or if we feel it would be prudent, and we feel the conditions are good, then we obviously reserve the right to do that. As we said on the refinancing calls, you guys will be the first to know if we decide to proceed.

Michael Chakardjian

Okay. Thanks.

Martin Ward

Hi, it's Martin Ward from Black Diamond. I have two questions. One was, do you track how much of your portfolio is wired into premises versus the newer sort of cellular offerings?

Austin Lally

Well, we have got a very, very small number of legacy wired systems. Really, really dating into the past, plus a relatively small specialist portfolio of higher-end business customers, where there are some insurance requirements for wired systems. But in general, the vast, vast, vast majority of our portfolio is connected to us through a combination of cellular, internet and ultra-narrowband communication for redundancy.

Martin Ward

Okay. I was just wondering, do you think that then leads to the risk of higher churn as you go forward? Because in the old days, and I am thinking about my house, it's wired, and if somebody wants to change my alarm system on a wired system, it's got quite a high switching cost to it, and brain damage to change it. Whereas if everything is more cellular and easier to remove the units, it makes it easier to switch out to competitors.

Austin Lally

I would say not particularly. And let's look at this in practical terms. If I was to come to your house and sell you an amazing Verisure system, which by the way, I am pretty sure would be a massive upgrade for you, so please get in touch afterwards. And by the way, no discounts, because I certainly wouldn't want to show our lenders that we can erode our pricing. So, in fact, we would probably charge you a premium, just to make the point. But if we were to come to your house and install the system, in reality, you basically snip the wires, you take down your devices, you put some plaster on the wall to effectively cover where the wires used to be, and you install on top. And if I compare that, for example, to someone who wanted to take a Verisure system out of the home, it's the same hassle. We have got often between 10 and 12 different components in the home. So, it's a few hours' work for someone to do that. But if someone wants to do it, in reality, this is not like knocking a house down.

Martin Ward

No. I understand. I guess I am trying to reconcile it to the attrition rate, which is at an eight-year high on a quarterly basis. You have to go back to 2014 since you hit this rate, and the trajectory is very steep, looking at the graph.

Austin Lally

I don't agree, I don't agree it's very steep. I think what you see here are three quarters in a row in the middle of a very difficult external economy, where attrition is now at seven when it used to be at 6.3 or 6.5.

Martin Ward

The bit I am trying to reconcile is, why are they at so, I get it, it is a tough economy at the moment, but then why are the adds so high, if your attrition is increasing at this rate? I would have expected the adds to have slowed considerably, and you would see the increase in the attrition, but you have very high adds and for me, this is something else.

Austin Lally

No, well, I think not. I think to be super, super simple. In the economy, the impact is obviously not homogenous, it's heterogeneous. There are still plenty of families who have a need for security, who want peace of mind, and who can afford the service. And that's why we are adding steadily 200,000 new customers a quarter. Now, separately, there are some families and some small businesses who are finding it very difficult out there. And that's why, for example, maybe going directly to the implicit point behind your questions, this has got nothing to do with wired systems. It's completely the opposite. Probably the highest attrition levels across the industry today are old, obsolete wired systems. What you are seeing here is not an increase in attrition, for example, because of home moves or because of competition or topics like this. It's basically economic reasons, which we fully understand. Now, the good news is, even with attrition increasing modestly up to seven, there's so much white space out there that I am able to continue to deliver good levels of net portfolio growth, 12% year on year. Which we are obviously happy about.

Martin Ward

Okay. And earlier, was there a comment that the ROI is 10% for new customers?

Vincent Litrico

No, we said almost 20%.

Austin Lally

We said actually an IRR of 20% on new customers.

Martin Ward

Okay. No, I just wanted to clarify that. I was trying to put it in the context of the financing rates on the new bonds. Okay. All right. Thank you.

Austin Lally

Yeah, thank you.

Operator

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

Jonathan

Hi. Just to follow up on the first question on the interest rate hedges, I was just wondering at what rate is the floating to fixed rate swaps done at?

Vincent Litrico

We just rolled it over, so it was repriced to market. So, if you look at the yield curve, that will give you the number. It is about 3%.

Jonathan

Okay, cool. Thank you.

Vincent Litrico

Yeah, you're welcome.

Operator

The next question comes from Adi Arya from HPS. Please go ahead.

Adi Arya

Hi. Thanks for taking my question. And congrats on another strong quarter of growth. I just had a quick one. When asked about attrition in previous calls, I think you have mentioned about wanting to do better, particularly in staying with customers as they move homes, tracking them and retaining that customer and managing that process better. Just in the last quarter, maybe the last five months or so, have you been able to track improvements there? Can you speak to specifically how you have improved that, and will that maybe help rend attrition in as a new upside?

Austin Lally

Yeah, I think there hasn't been much progress made on that topic over the past quarter or two. We continue to work on it, and the reason is because, of course, the major focus has been handling the increase in cancellation requests coming from people for economic reasons. So, the big effort has obviously been around retention of customers, given what's happening outside on the economy. But I completely agree with your point, which is we obviously believe that that's one of the areas where we can actually make a structural

improvement in attrition performance. And it's, in a way, quite timely to do better here, given we have seen this uptick in attrition overall.

Adi Arya

Okay. Thank you very much. Well, hope to see that coming through then.

Austin Lally

Well, yeah, me too. Yeah, clearly.

Operator

The next question comes from Kimmo Salokoski from Mandatum Asset Management Limited. Please go ahead.

Kimmo Salokoski

Thank you for taking the question. Just coming back to the CPA, can you be more granular about how much of the pickup in those costs is of temporary nature, and how much is sticky, and what's your projection for the upcoming quarters, assuming there will be a recession? Just to get an understanding of where that is heading towards. Thank you.

Vincent Litrico

Okay. Let me take this one. So, in terms of stickiness, it's really function of the time horizon we are looking at here, and I can't really have a conjecture on where inflation will get to.

But if you look at the different buckets in CPA. And remember these are fully loaded costs. You start with the cost of the material, the equipment, which is about 400 Euros. Of course, we have seen inflation here. So specifically, and that's the math you can do with the data you have, there's about 70 Euros, versus Q3 last year, of increase, and some of this is tracing to FX. As I commented many times, and as you probably know, in the electronics industry, most of the business is transacted in US dollar, and obviously, it's been appreciating quite steeply versus Euro. So, despite the hedging we have in place, that's something we must face up to. But typically, we price up for that.

I think the challenge under the current accounting rules, with IFRS 16 I commented before, is that for any improvement in upfront, we don't get to recognize it immediately. It's capitalized and spread over the next two years roughly. But there's a piece which is fully variable, which is about material cost. And on one end, we will see where the US dollar versus Euro exchange rate is going to go. On the other hand, clearly, the supply challenges I

referenced in previous earnings calls are clearly easing, so we are now shifting towards probably over capacity, which should put pressure on pricing going the other way. My procurement and purchasing departments should be in a better position to drive some savings. And also, most of the cost structure of our suppliers is actually not fully indexed to US dollar, so we are working on trying to recover a part of that.

Now, we have seen inflation, of course, in salaries. There is a bit of a lag effect, but that's also something that we can manage. As you know, the lion's share of this is actually variable, and in many places, we have not necessarily increased the commission, so the sales guys have to work a bit harder, basically deliver more sales, to get the same net take home pay.

Now, if I look at marketing, which is one we commented as well. We have seen inflation, and to your question on whether it is transitory or here to stay, it has been going up and down in the context of Covid and into 2020. Paying GRPs or digital impressions went down significantly. So, CPM went down significantly, came back up with a vengeance in 2021 and 2022. Frankly, if we end up in more of a recessionary outlook on the economy, we should see marketing costs coming down, which should provide the tailwind for us in terms of cost of acquisition, cost of acquiring the next marginal customer.

So, again, it varies by spend pool. But that's something we are very vigilant on. We are doing our best to continue to drive efficiencies. In addition to CPA being very important, a big focus is on bringing high-quality customers. Even more so in the current context.

Kimmo Salokoski

Thanks for the comprehensive answer. Thank you.

Vincent Litrico

You're welcome.

Operator

There are no more questions at this time, 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 for our company.

These are certainly serious and difficult times for many families. We can help. We are a peace of mind company. At this time, we contribute to the peace of mind of our customers by continuing to provide an excellent service 24/7 every day. Its more important than ever.

Our portfolio is robust. Our service levels remain high. Our new sales performance is strong. Our financial delivery is strong. We have delivered another quarter of strong operating and financial performance, and we have once again achieved new records for portfolio and performance metrics.

We continue to look at the future with optimism because for Verisure the opportunities are still there. We still see demand for new sales. Even if some households are under pressure and consider delaying some discretionary purchases, the amount of white space for us remains significant, given that we operate in relatively low penetration markets with a long runway ahead.

Our intention as a company remains the same, which is to serve more customers, and to serve them better.

And in a world that is more volatile, and feels less safe, to leverage our unique strengths and assets to deliver differentiated value creation.

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