

Transcription

Verisure Group Q3 2024 Results

07 November 2024

Operator:

Welcome to the Verisure Group Q3 results presentation. Today I am pleased to introduce CEO Austin Lally, and CFO Colin Smith. For the first part of the conference call, the participants will be in listen-only mode. During the question-and-answer session, participants are able to ask questions by dialling 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 everyone and thank you for joining us today, for our Q3 results presentation. As always, you're joined today from Geneva by our CEO, Austin Lally, and myself, Colin Smith.

In terms of materials, 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 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 Q3 2024.

Overall, we were very pleased with our results in the third quarter. Our performance continues to reflect strong progress. There are a number of important themes.

We delivered another quarter of year over year growth in installation volumes, acquiring high quality customers at broadly the same investment as last year. Remember our business model is not about maximizing installation growth. We aim to solve for the sweet spot of 3 things: Strong volume AND customer quality AND controlled acquisition investments. We delivered against those 3 things well again this quarter.

Customer profitability hit a new high, up +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 are reporting today again excellent, broad-based financial performance with strong growth in both absolute profitability and also margins year on year.

We are proud of the contribution made by every one of our talented, highly engaged team-mates across the Company.

Let's start with our Q3 performance highlights on Slide 4.

Total revenues were up +9% in the quarter, +10% in constant currency. Adjusted EBITDA, which is EBITDA excluding SDIs, was up +15% in the quarter, +16% in constant currency. Portfolio EBITDA was up +14% in the quarter, reaching 543 million EUR. And adjusted EBIT, again excluding SDIs, was up +17% in the quarter, +18% in constant currency. As you can see, financial performance across these key metrics continues to be strong and robust.

In terms of gross volume, our commercial teams delivered 204 thousand new installations in the quarter, that's up +4% year on year. It's a mini milestone as it's only the second time that we have delivered more than 200 thousand installations in a third quarter. The only other time was Q3 2020 and that was exceptional because it was the huge post COVID summer bounce back boosted with a lot of stored up demand, so that quarter was actually up +37% year on year.

We are very happy with this increase in Q3, and as I mentioned earlier, importantly we ensured this was also a high-quality customer intake and it was achieved with well controlled acquisition investments. We're not just buying volume. This performance again underscores the significant growth potential of our business but also our operating discipline.

We added 106 thousand customers to our portfolio in Q3. We now have a portfolio of over 5.5 million customers, up over +8% year over year.

Last Twelve-Month attrition remains very low relative to other subscription businesses, at 7.5%, and slightly down from 7.6% last year. Our teams continue to work hard and to get better on topics like customer experience, care, service, and retention best practices including root cause specialization.

We have further deleveraged by 0.1x in the quarter. Total adjusted net leverage is now 4.8x. This is the lowest level we've had since 2011. You can see we are making good progress towards the 4.5x leverage target we communicated earlier this year in

our new financial policy. It's a good trend. Over the past two years, driven by consistent growth in our profitability, we have decreased leverage by 1.4x.

Finally, at hand, we 668 million EUR of available liquidity.

Moving to Slide 5. Our customer portfolio has 430 thousand more customers than a year ago. We now have a portfolio of over 5.5 million customers. This corresponds to a net portfolio annualized growth rate of +8.5%.

We never give formal forward-looking guidance. But as before we remain very 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 across Europe and LATAM. In 13 of our 17 geographies, we are market leaders in terms of customers served. And in other newer markets that we have entered more recently, we are often already the leader in new sales. And of course, as a premium priced player we generally get to leadership in revenue share even ahead of customer count.

Moving to Slide 6. Controlling attrition remains a key priority for Verisure.

We discussed in previous calls that cost-of-living pressures and the associated significant declines in consumer confidence, meant that in both 2022 and 2023 households revisited their household budgets and their spending choices more frequently. And consequently, cancellation calls from customers in 2022 and 2023 did increase and remained slightly elevated over that period.

But we are encouraged that we are seeing the attrition trend turning. Our customer base is stable and quarterly attrition decreased 8 bps during Q3. This builds on the quarterly attrition decreases we also saw during the first two quarters of the year. As a result, our last twelve months attrition has decreased to 7.5%. And we are working hard to reduce further from these levels. We are confident we can and will given the service we provide and the high levels of customer satisfaction we enjoy.

Overall, we believe this attrition performance not only leads our industry, but subscriber-based consumer services overall. It shows that the innovative security solutions we provide, built on our proprietary technology stack, remain 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 third quarter we continued to see significant progress here. Let's turn to Slide 7.

Starting with our customer acquisition segment, our CPA was 1,435 EUR in Q3. This is +0.5% higher than last year. +1.6% higher in constant currency. So, only slightly up. Overall, the picture remains broadly consistent with previous calls. We continue to acquire customers with a very high lifetime value and very good paybacks. Management and our shareholders therefore believe that investing in these valuable new customers is the best way to deploy our capital.

Moving to our portfolio segment and revenues per customer, we're very pleased with progress here on both revenue and costs. ARPU increased to 45.5 EUR per customer per month in Q3. This is up +3.8% in constant currency versus prior year. This increase has come from a well-executed price increase at the start of the year, plus our continued focus on upselling activity into our existing customer portfolio, as well as optimising discount levels.

Operating cost efficiency continues to be a priority across all markets. Our progress on cost also contributed to the 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 Q3 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 now turn to Slide 8, to summarise our Financial Performance for the third quarter of 2024.

Note that I will talk to growth rates in constant currency, where applicable.

Overall, we delivered another strong financial performance in Q3. Total Group Revenues were €854m, up 10% year over year. Group EBITDA was €396m, up 16% year over year, demonstrating strong operating leverage, particularly as we consider our increased volumes of new customer installations.

Portfolio EBITDA reached a new record-high of €543m, an increase of 14% year over year. Portfolio EBITDA continues to grow at pace and is now over €2.1bn on an annualised basis. And Group EBIT was €213m, up 18% year over year, with margins increasing to 24.9% during the third quarter. This represents a 160 basis point margin improvement versus Q3 last year.

Cash Flow from Operating Activities was €327m in the third quarter, down 16% year over year. This reduction was driven by two things. A higher volume of installations and upgrades in the third quarter, and primarily a normalisation of working capital movements, as per the guidance we shared over the past several quarters. Excluding working capital movements, our Operating Cash Flow increased 19% year over year.

Q3 Capital Expenditures were €214m, up 2% year over year, supporting growth in new customer installations as well as increased investment in portfolio upselling and technology development. We were pleased with this valuable control of capital expenditures in the quarter.

Net Debt increased very marginally, by 1% over the past twelve months, closing June at 7.497 billion euros.

And lastly, we had €668m of available liquidity at the end of the third quarter, from a combination of cash on hand and available funds under our Credit Facilities.

Looking to the chart on the right of the slide, we're pleased with the significant portfolio margin expansion delivered over the past 12 months. This has been driven by excellent ARPU development as well as further valuable progress on our cost transformation programme.

We increased Portfolio EBITDA Margin to 73% in the third quarter, 215 basis points up year over year. This represents our highest Q3 portfolio profitability ever. We're

pleased with progress here and will continue to identify and execute on good quality cost reduction opportunities going forward.

Moving next to Slide 9, we show an overview of Cash Flow Generation and Change in Net Debt for the first NINE months of 2024.

Year to date cash flow generation is anchored on €1.593 billion euros of Portfolio EBITDA. These are recurring, highly predictable cash flows from our portfolio, which closed Q3 at over 5.5 million customers.

Our investment in customer acquisition totalled €886m in the first NINE months of 2024. This investment is made up of two elements. First, replacing attrition, and second, funding portfolio growth. Our capital allocation priorities remain unchanged: We will continue to deploy capital towards financing high quality organic growth.

Portfolio and Other Capex made up a €212m outflow during the first 9 months of the year. Portfolio Capex of €109m relates to new equipment for existing customers, as we upsell and upgrade our customer portfolio. This is becoming a more significant leg of growth for Verisure, and we see further opportunities here. Continuing to innovate for our customers is a core priority, and Other Capex of €103m includes investments in R&D, product and service innovation, and software engineering.

Change in Working Capital was negative €75m during the first 9 months of the year. This working capital outflow was driven primarily by an increase in inventory driven by the Red Sea crisis as well as increasing stocks to support our new SmartLock launch in major markets over the past six months.

Also, during the same period, we paid €47m in Taxes, with Interest and Financial Items of €382m.

Finally, SDIs and Other, which includes adjacencies and IFRS adjustments, made up an additional €62m.

So, in total, free cash flow was €73m negative during the first 9 months of the year, with a Net Debt increase of €90m, including lease debt effects under IFRS 16 of €17m.

Turning to Slide 10 we share an update on our net leverage position.

We've reduced leverage consistently over the past ten quarters. Our highly predictable profile is driven by consistent EBITDA growth.

As Austin mentioned in his remarks, in the third quarter we continued our deleveraging trajectory. We took another step down, with Total Net Leverage closing at 4.8 times, representing a 0.1 times reduction in the quarter.

All in all, this means we have reduced our net leverage ratio by 1.4 turns in the last 24 months.

Finally, I wanted to remind you of our financial policy, published in February and explained in detail to many of you during our 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 policy is designed to provide increased clarity around our current and future financial policy.

Finally, on Slide 11, we present a summary of the business model we operate at Verisure. This sets out our long track record of delivering strong, high-quality growth.

Starting top left with the sales engine, we have delivered excellent growth in new customer installations over the years. We have a relentless focus on high-quality customer intake with high upfront customer commitments and entry pricing in line with our base. New installations increased by 4% in the third quarter of the year.

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 which we have all experienced, Verisure has performed very well during the first 9 months of 2024. And in Q3, we delivered another quarter of quality growth and new record 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.

On a personal note, Q3 was a special milestone as it marked the 10th anniversary of me joining Verisure as CEO. This bondholders call today is the 41st time that I have had the privilege of presenting our quarterly results. Over that time, our portfolio has tripled, our revenues and profitability have quadrupled, and we have entered 4 new geographies. But, as a team, we have just got started, and we believe the best is yet to come.

Every Verisure team member looks ahead to the future with optimism. We still see strong continued demand and remember that we operate in relatively low penetration markets with a long runway ahead. And we are determined to make the most of that opportunity.

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