Transcription

Verisure Group Q4 2021

23 February 2022

PRESENTATION

Operator

Ladies and gentlemen, welcome to the Verisure Group Q4 2021. For the first part of the call, all participants will be in a listen only mode and afterwards there will be a question-and-answer session.

I will now hand over to Austin Lally, Group CEO, and Vincent Litrico, Group CFO. Please go ahead with your meeting.

Vincent Litrico

Thank you, operator. Good morning and welcome everyone to our Q4 2021 and 2021 full year results presentation. Participants on the call are our CEO, Austin Lally, and me, Vincent Litrico, the Group CFO. As always, our Q4 2021 earnings report and presentation can be found in the Investors section on our corporate website.

Before we start, let's have a quick look at the agenda on page four. As in previous calls, Austin will share an overview of the key highlights of the quarter and 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 to our CEO, Austin.

Austin Lally

Merci, Vincent, and good afternoon to all of you joining us today. Thanks for taking the time again to engage with the most recent developments on our business.

First, I hope you and your families are safe and well as we see the pandemic context continuing to evolve positively in quite a few places. Today, we will present the Q4 2021 results for the Verisure Group and our full year results. Our company has again delivered a very strong quarter, both operationally and financially.

So, let's start with our Q4 top line results on slide number five. We did over 195,000 new installations in the quarter. We are now proud to protect more than 4.2 million customers. We added over 0.5 million customers to our portfolio in 2021. Total revenues were up 12% in the quarter as reported, up 17% in the year. Portfolio EBITDA was up 14% in the quarter, up almost 18% in the year. It reached 380 million euros in the quarter, and quarter after quarter, we reach new all-time high records. Annualised, portfolio EBITDA is now over 1.52 billion euros. Total adjusted EBITDA was up 7.5% in the quarter, and over 15% in the year. We view this as very strong financial performance.

Let's now move to slide number six. Our customer portfolio has 511,000 more customers than a year ago. We now have a portfolio slightly shy of 4.3 million customers. This corresponds to a net portfolio annualised growth rate of almost 14%.

Moving to slide seven. As mentioned earlier, it was another very strong quarter on new sales. We added over 195,000 new customers to our portfolio. This was our second strongest Q4 ever on new sales and ahead of our internal going-in targets. It was down very slightly, 2% versus Q4 last year. However, as you may remember, new installations in Q3 and Q4 last year were exceptionally high, with a COVID catch-up effect.

If we look into the accumulated installations for the year, we closed 770,000 new installations in 2021. This represents an increase of 19% versus 2020 and an increase of 26% versus 2019. We don't give formal forward-looking guidance, but I can say that we continue to be optimistic about the future. We see strong continued demand, and we operate in relatively low penetration markets, with a long run rate ahead.

Let's move to attrition performance on slide number eight. Our portfolio once again proved its resilience. We maintained our strong attrition performance. In Q4, attrition continued at a low level, 6.4%. This is slightly lower than the 6.5% we had one year ago. 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. We obviously monitor the attrition performance extremely carefully. We always act to protect our customer base. We will continue working hard to maintain the trust and loyalty of our customers who are so valuable and so important to us. The key point is that we have been able to continue to deliver our recognised very high service level. And we have continued to focus every day on a high-quality customer intake.

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 of value creation, so we are now going to look at earnings per customer, EPC, on slide number nine.

In Q4, we continued to enjoy excellent EPC. We reached 30.1 euros per customer per month, slightly up versus last year. For the full year, EPC increased to 30.7 euros, up 3% versus last year. Average revenue per user, ARPU, increased to 42.4 euros per customer per month. That's up 2.3% versus 2020 as reported. This, together with the portfolio growth itself, translated into incremental total portfolio revenue of 77 million euros in the quarter compared to the same period last year. For the full year, ARPU increased to 42.4 euros per customer. That's up just under 3% versus last year.

Now, these are strong unit economics. Taking a longer-term view, over the past five years, for example, we have grown EPC by more than 6 euros per month, and this was broad based. Unit customer profitability improved in all our main geographies.

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

Vincent Litrico

Thank you, Austin. So, turning to slide number ten, I will start with a summary of our key financial metrics for Q4 2021.

Verisure Group delivered another strong quarter of operational and financial results. Starting with revenues, they increased to 653 million euros in the quarter, representing an increase of 12% compared to the same period last year. Our key cash generation measure, portfolio services EBTIDA, continued to increase and reached a new record high of 380 million euros in the quarter, an improvement of 14% versus Q4 2020. Our annualised portfolio EBITDA is now over 1.5 billion euros.

Portfolio EBITDA margin remained above 70% in the quarter, at 70.9%. This is slightly lower than last year when we enjoyed all-time record levels due to abnormally low operational activity due to the COVID situation. To put this in context, Q4 2021 portfolio EBITDA margin is 1.5 percentage points higher than in Q4 2019, when we posted a 69.4% margin.

Total adjusted EBITDA excluding separately disclosed items was 251 million euros in the quarter, which represents a decrease of 2% versus the same period last year. This decrease is mainly driven by inflationary pressures observed in marketing costs as well as material input costs.

Cash flow from operating activities generated 175 million euros in the quarter, compared to 256 million euros in the same period last year, which represents a 32% decrease, but up 4% versus Q4 2019.

Total capital expenditures came in a 220 million euros in the quarter, which represents an increase of 6% versus last year.

As of December 31st, 2021, net debt amounted to 7,172 million euros, The increase versus 2020 is primarily driven by increases in gross debt due to the refinancing exercise we conducted in Q1 last year, 2021.

Finally, worth highlighting that we have significant financial headroom from a combination of cash on balance and our 700 million euro revolving credit facility. At the end of the quarter, we had 480 million euros in unutilised credit facilities and cash. The increase versus last year is explained by the upsize in our RCF, which we sized up from 300 million euros to 700 million euros as part of January's refinancing exercise.

So, in summary, we have had a continued strong financial performance in the quarter, especially considering the external environment we operated in.

Turning now to the next slide, number 11. We show a more detailed income statement for Q4 2021. Starting with reported financials, excluding separately disclosed items, revenues stood at 653 million euros and total EBTIDA at 251 million euros, which translates into a total EBITDA margin of over 37%.

Depreciation and amortisation amounted to 103 million euros. This relates primarily to the depreciation of the alarm equipment that we installed at our customers' premises as well as the depreciation of capitalised variable sales costs. The increase versus last year is mainly due to the increased size of our portfolio.

Operating profit closed at 117 million euros for the quarter, generating an operating profit margin of 18% and net debt interest expenses amounted to 75 million euros. The increase versus last year's result of 61 million euros is driven by the increase in gross debt I mentioned before. In total, this gets us to a result before tax of 41 million euros in the quarter.

Let me now quickly explain the separately disclosed items. Starting at the top, we incurred 7 million euros of operating SDI expenses during the fourth quarter of the year. These are mainly related to ongoing transformational projects.

Furthermore, we have recorded 80 million euros of amortisation of acquisition related intangibles. Most of it relates to the amortisation of the contract portfolio acquired in 2011 from the Verisure Direct Group. The amount is lower than what we had in previous quarters as part of the contract portfolios were fully amortised in Q3 2021. This amount is obviously non-cash.

Separately disclosed other financial items amounted to positive 10 million euros. This is driven by a non-cash FX revaluation of debt items and unrealised hedges of positive 15 million euros, partially offset by the amortisation of pre-paid financing fees of negative 3 million euros, a negative IFRS 9 adjustment related to the modification of loan agreements of minus 1 million euros, and other minor bank charges.

Finally, if we now look to the reported numbers on the right-hand side of the table, we see that income tax for the quarter was 23 million euros.

All in all, this results in a reported net profit for the quarter of positive 2 million euros, compared to positive 9 million euros in the same period last year.

Let's now turn to slide number 12 where we show an overview of our operating cash flow for 2021.

We have had a strong operating cash flow generation of 817 million euros in 2021. This represents a decrease of 13% versus the same period last year, but up 17% versus 2019. Excluding changes in working capital, operating cash flow generation was 923 million euros, up 9% versus 2020, and 41% versus 2019.

Our main source of cash inflow is the recurring cash flows from our customer portfolio, which grows month after month, and which generated 1,477 million euros of portfolio EBITDA in 2021.

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 effects was 421 million euros in 2021.

Changes in working capital negatively impacted operating cash flow by 106 million euros. This contrasts with the positive movements enjoyed last year of positive 98 million euros. As explained on previous occasions, negative movements in working capital are mainly driven by inventory build-ups and by the reversal of some of the tailwinds enjoyed last year due to the pandemic context.

Finally, SDIs and other items further contribute to a 72-million-euro cash outflow in 2021. Main driver is the payment conducted to the Norwegian Competition Authority of 766 million NOK in December 2021. As we stated publicly, we firmly disagree with the decision of the Norwegian Competition Appeals Board. We are very disappointed. We believe the market has always been characterized by strong competition. But we decided to pay the fine and move on, to put an already lengthy process behind us, so we can place all our focus on our business, on delivering peace of mind to our customers.

Total cash flow generation from operating activities amounted to 817 million euros in 2021 compared to 942 million euros in the same period last year and 701 million euros in 2019.

Turning to page number 13, we illustrate the net debt bridge in 2021. Starting from our net debt position as of December 2020 on the left-hand side, you see the 817 million euros of operating cash flow generation we just talked about. Of that, we have reinvested 764 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 263 million euros.

Furthermore, we had an increase in net debt of 1.7 billion euros this year related to the refinancing and the paid distribution to our shareholders, which was conducted in the first quarter of 2021.

In addition, we have paid 99 million euros of bank, advisory fees, and call costs on our old SUN debt, all of which are mostly related to January's refinancing, as well as other financial items.

Finally, we have also had other negative cash flow items totalling 51 million euros including an increase in IFRS 16 debt of 19 million euros.

All in all, net debt increased to 7,172 million euros as of December close. And as a reminder, on the back of January's refinancing, both Moody's and S&P affirmed our ratings at B2/B with stable outlook.

Now, let's turn to the next page, number 14. We show a summary of the quarterly leverage evolution since 2018. As a reminder, we talked in the past earnings calls about how COVID-19 impacted our operations in terms of volume phasing, costs to acquire, costs to serve customers, and also working capital. We had estimated these impacts and show what our total net leverage would have looked like in 2020 and Q1 2021 if normalised for these COVID-19 effects.

As you can see, we have de-levered and levered up on several occasions in the last years. In 2021, on the back of January's refinancing and subsequent paid distribution conducted in Q1, our total net leverage increased to 6.6x, with a corresponding senior secured net leverage of 5.2x. If we normalise Q1 leverage for COVID-19 effects, we estimate total net leverage would have been 6.9x.

Leverage in Q4 2021 is 0.2x higher than last quarter. We're closing the year at 6.6x on a total net leverage basis and 5.2x on a senior secured net leverage basis.

On the numerator side, this is primarily driven by the 766 million NOK payment to the NCA which I commented before and which accounts for almost 0.1x of the increase, almost half of it, as well as intentional increases in inventory levels to face the current supply challenges and manage the equipment phase in and phase out associated with our "Moonshot" programme, which corresponds to the balance half.

On the denominator side, our year-end EBITDA has been impacted also by increased advertising and material inflationary pressures.

Finally, and before moving into the Q&A session, I would like to quickly show some perspective on the development of our key metrics over the past years which reflects our ability to continuously grow sales, recurring profit and cash for the business, at a sustained rate. On slide 15, 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've had very strong growth in new customer intake over the years. During the last five full years, new installations have grown at a 16% compound annual growth rate, including 2020, which was a very challenging year due to the pandemic. In 2021, customer intake has grown even faster than that, and please note that this is of course accelerations of growth on growth. In parallel, we have a continued focus on improving customer experience 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've enjoyed double digit growth rates in our customer portfolio for several years and we now have almost 4.3 million customers.

At the same time, this volume growth is complemented by consistent, strong improvement in unit economics and profitability by customer – EPC. 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 driven also by strong product and service innovations as well as improved efficiency and costs to serve, supported by operating leverage.

EPC has grown at a CAGR of 6.2% between 2015 and 2020. EPC growth in 2021 is slightly lower than that achieved in previous years due to the inflationary pressures discussed on material and marketing costs as well as the normalisation of the abnormally low service workload levels enjoyed in 2020, as the COVID associated lockdown situations impacted the ability to perform maintenance.

Overall, as you can see on the right-hand side of the page, strong portfolio growth and continued improvement in customer profitability has led to consistent high double-digit growth in our key profit and cash flow measure, portfolio EBITDA. It has consistently grown between 17% to 20% per year in constant currencies, and some years even more. Portfolio EBITDA is now over 1.5 billion euros on an annualised basis and has almost doubled in the last four years.

And 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. Thank you.

Q&A

Operator

Thank you. Ladies and gentlemen, if you have a question for our speakers, please press 01 on your telephone keypads. After you are announced, you can ask your question. Please hold until we have the first question.

The first question is from Brian Ruttenbur, Imperial Capital. Your line is now open. Please go ahead.

Brian Ruttenbur

Thank you very much. Great quarter and year. I wanted to just ask a couple of questions around inflationary pressures. Can you talk about your products costs and how much it's gone up? And how much of those costs have you passed along to end customers in terms of price increases? If you could say – the unit used to cost this much to install and now it's this much more, just trying to understand how much inflation is impacting you guys.

Austin Lally

Vincent can give you a little bit more specifics. But if you think about the total value of the customer that we create and the size of the installation that the customer puts in, many of these increases in component costs in the end are not really representing a material question for the company. And actually, putting it another way, the fact that there is an inflationary environment out there means that in general many consumer-service companies, whether you're talking mobile companies or cable companies or telcos, are actually putting through significant increases in subscriber revenue which obviously for us is a much more significant topic.

Do you want to comment a bit more Vincent?

Vincent Litrico

Absolutely. So, in aggregate, if you do the math, we end up capitalising most of the material costs at the point of acquisition of new customers, when we install at the premises the alarm equipment. This is about almost 400 euros roughly and on a full year basis this has been up 6%. We have seen towards the back end of the year an increase in input costs. We continue to enjoy extremely good return on investment on the marginal customer acquisition.

But then, we do also price the portfolio, which has contributed to the substantial margin expansion as commented on page 15 of the deck. Typically, we take pricing in Q1, so we don't do it immediately when the input cost surges. But we do have a very strong and stablished track record of taking pricing well ahead of inflation, typically once a year, and that window is basically happening now.

If I go back to the input costs inflation, material costs have gone up approximately 6% in the year. If you look at marketing costs, we are actually coming from a low 2020 given the supply and demand dynamics in the context of COVID, which played in our favour especially in Q2, Q3 and Q4. So, from that low base, we're seeing a double digit increase in marketing costs which we've been absorbing in the last, I would say, two quarters of 2021, and which we intend to recover through pricing as we get into 2022.

Maybe just briefly on the other costs. We do continue to enjoy scale, efficiency. We continue to work on improvements in the build of the material, in the cost of our material – our total equipment. So, independently from the increase we are seeing in input costs, we do take action to optimise the cost structure and find ways to offset where we can. And that, especially in 2021, was a bit difficult for the reasons I mentioned. If I look however at overheads, we continue to drive what I view as a very good operating leverage out of the cost structure, both on the portfolio and on the customer acquisition side, which has been contributing positively to the numbers we posted in 2021 for when it comes to CPA.

Brian Ruttenbur

Okay. Just to summarise really quickly into a nutshell, then the product costs went up roughly 6% and did you absorb that, or did you pass that along to customers? That 6% increase due to inflation. I know you absorb the other costs like the marketing and others.

Vincent Litrico

So, if I look just to 2021, we've absorbed it. We didn't pass it on to the customer. It's a bit more complicated. We do have the opportunity, on every sale, to pass the cost inflation. We've done that where we could, but I would say in aggregate, if you look at the level of upfront pricing we've taken from customers, we have so far not passed on that 6%.

Austin Lally

And that's because, I guess just to reinforce the point, we are creating customers that are worth thousands of euros in value. So, obviously our priority through 2021, like in other years, has been to really accelerate our customer intake. And we obviously had a very strong performance year on year. I think like basically 19% - 20% up versus the previous year in terms of customer intake. So, that's obviously very powerful.

Also, in that environment, we've moved our ARPU upward, as we've pointed out, and we've continued to take our costs down, that's why the unit profitability of the customers is at an all-time record.

Brian Ruttenbur

Great, thank you very much.

Operator

The next question is from Al Moniz, Boundary Creek. The line is open, please go ahead.

Al Moniz

Yeah, just to follow up on the previous question. So, if you think about consolidated EBITDA margins going forward, how should we think about those broadly speaking? And then the marketing costs, I know you talked about why it's gone up, but is it also because of entering the new geographies or is it just coming off a low base? And the third question is, in terms of inventories, I know you've talked about it, but do you feel like the supply chain issues are easing up? Or are you still seeing an elevated amount of pressure on the supply chain?

Vincent Litrico

Let me take this. So, unfortunately, the first part of your question, I will not be able to address very specifically given, as you know, we don't provide forward looking guidance. I did allude to the fact that the input costs inflation we've seen, and which the general industry has seen actually, has been more back loaded than frontloaded in 2021. Our typical pricing window, however, happens in Q1, mostly in January/February depending on the markets. So, I would just leave it there. So, we incurred towards the back end of 2021 general inflation pressures, as most industries, and the plan is to take note of that, of course, in the way we size the level of pricing we want to take in from customers in Q1 2022.

Austin Lally

Without being specific, we feel good, as we always have done, about the inherent structural profitability of the business and how we feel about the future.

Vincent Litrico

Absolutely. Now, the second part of your question was around marketing costs. I mentioned earlier high double digits. This is mostly an increase from advertising providers including TV and all other media we use such as digital, etc. We are seeing a normalization. Also, some of this, as I mentioned before, is also due to the base of the index in 2021 which was quite depressed in 2020 due to the COVID situation, which played in favour of advertisers.

On the last part of your question around inventories. I think that's something I provided perspective on in at least the past two-three earnings calls. I would say here the inventory ramp-up has been deliberate, intentional, in anticipation of 2 things. On one hand, driven by our transition to a new ERP system, which is now implemented in our biggest geographies and which has been very smooth and efficient. But you never know, so you want to build up inventories just in case. That's behind us. Very successful implementation which down the road will enable us to turn on a lot of more sophisticated algorithms to drive further efficiency in logistics.

In addition, the second element is related to the phase in-phase out of our "Moonshot" product proposition programme. And I would say, on top of course the tense microchip supply environment we are facing now for over a year is something that led us to decide to strategically increase our safety stock to make sure we would not be in a similar situation to that of some companies or industries who had to shut down their plants because they were lacking a few critical chips or components. So thanks to the strategy we put in place we transitioned to our new ERP seamlessly. We are now working on transitioning our new product proposition "Moonshot", which we have discussed for a few times already, and we are very pleased to see that it's now hitting the market.

And finally, we've been able to not miss a single sale. We've never had to switch off our sales factory because we've planned and built pretty generous levels of safety stock. Now, the price we pay for this is increasing inventories a bit. I think in 2022, and without getting into specific numbers here, we don't expect the situation to ease, not in the front half of the year. We continue to see shortages which are putting a lot of pressure in our supply chain. We are managing very well, but we are not planning to drive efficiencies out of our inventories in 2022. This is not the year. This would be something we look into in 2023 when the situation starts to ease a bit on the microchip and semiconductor supply parts.

Al Moniz

Sure, that's super helpful. Thank you. And one other follow-up question. I appreciate the key metrics slide you showed at the end, which was very helpful, but from a general perspective, have the competitive dynamics in any of your markets gone up? Or is it pretty much staying with what you've dealt over the past few years?

Austin Lally

I think that we would always say that this market in Europe has always been characterised by intense competition. I mean people actually enter, come, and go, like over time quite regularly. As an example, many attempts by telco operators to come into this market. And I've been here for eight years. This has been a, I would say, just a steady picture. We face strong competition. In the Nordic markets from Sector Alarm. We face strong competition in France from a range of players, including some of the leading banks. We have strong competition in Spain from the combination of Movistar, Telefónica and Prosegur. In every market. I could go through one by one.

I think obviously part of our competitive advantage is that we play across this very large footprint so we're very diversified and we have what we call real economies, not only of scale, but of knowhow, that we're able to bring. So, over that period, our business has continued to grow strongly. And we actually think that we continue to grow our market share on a European basis.

Al Moniz

Thank you so much.

Operator

The next question is from Paul Brand. Your line is now open. Please go ahead.

Paul Brand

Hi. Good afternoon and thanks for the call. My question is just on the portfolio services EBITDA margin. It was pretty stable in the first three quarters. You're kind of close to 73%. It's more like 71% in this quarter. The question is, is that just a reflection of inflationary pressure as well? And is that the kind of new run rate level or is there other kind of timing impacts or other effects hidden there in this quarter?

Vincent Litrico

No, it's pretty much the latter. So, there's nothing abnormal reflected here. Inflation is one, which I commented before. The second one actually has more to do with the base, where we saw an accelerated margin extension to, I would say, abnormal levels driven by COVID. I think I mentioned this in many calls previously. The COVID lockdowns resulted in the fact that we enjoyed actually better margins.

Austin Lally

Vincent, sorry, you're breaking up a little bit. Just to make that tangible. Obviously, people at home calling us a bit less often, less workload. Which was obviously first of all not sustainable, but not something actually we'd want to be sustainable. And so, this reversal is one of the points Vincent I think made earlier in his remarks.

Vincent Litrico

And maintenance as well, which we were not able to do, and so that created a bit of pent-up maintenance that we had to handle which propped up your improved margins in Q4 in 2020 while we reverted back to normal levels of maintenance in 2021, in the later part of 2021.

Paul Brand

Okay, thank you.

Operator

The next question is from Romel Anabarnier, Barings. Your line is open, please go ahead.

Romel Anabarnier

Yeah, hi, so thanks for taking my question. I had another question on inflation but focusing on the wage inflation you're experiencing in your employee base.

Vincent Litrico

So, it's one of the elements we've included in our review of what would be the appropriate pricing we take in Q1 this year. So, indeed there is an element – looking at the cost structure, of course employee costs are a big one. Generally, we have not seen the level of acceleration we´ve seen in material costs, for instance, or marketing, which is why I didn't specifically comment on it. So, we do, as every year, see some level of increase on our labour force salaries. As every year, it's a bit higher this year. That's, as I said, something we've considered in our pricing plans.

Romel Anabarnier

Would it be possible if you could give a range? Like between 3% to 5%, if input costs are up 6% or lower than that?

Austin Lally

I think at the moment it's at levels that are actually low enough that for us it's not an issue that goes beyond somehow a normal year. Remember that when you have discussions around wages, there are questions around things governments do around minimum wages, then there are things around collective bargaining agreements that come at different time periods, different paces, and then you have actually the third thing which is around attracting new talent to you company and actually that latter topic is actually one of the things that changes quicker.

On the other hand, the vast – if you think about our structure – the vast majority of our employees that we value very much are salespeople in the field whose compensation is highly variable and therefore is really related to what they earn for us. And again, the other really large group of teammates that we have in the company are operators who are actually dealing day to day with customers and in customer care, in monitoring and in other areas. And those are not actually the sectors which are the most exposed, let's say, to talent shortages or to wage inflation. So, I think at the moment, we're relatively silent on the topic and we also know that we have the pricing power, given the service that we provide to manage through topics like that.

The very high margins in the portfolio, for example, that was mentioned in the previous question in a way shows you the headroom we have on a topic like that.

Romel Anabarnier

Thank you for that. So just to be clear, you intend to pass on all the wage inflation that you're currently seeing in your Q1 pricing.

Austin Lally

I guess put it the other way, that we take pricing in Q1 every year. It's not somehow that the – I mean, you can probably say some years we've priced well ahead of wage inflation and some years differently. What we try and do is price in line with giving the customer a good value. Now, we've therefore always priced a little bit ahead of inflation. I think what's interesting this year is those inflation benchmarks are volatile. Clearly, significant changes in those indices in Q3/Q4 in quite a few European markets.

That's why I mentioned in my remarks what we've been – what we've kind of noted is actually quite a lot of price increases in the subscriber world. You've probably had that too, probably through your own letterbox. Your satellite subscription and your broadband subscription and so on. So, I think that what we're seeing is that customers in Europe are actually getting quite a few price increases on subscription services. Does that make it more difficult for me? No, because in fact what it means is that the price increases are actually seen as a normal backdrop.

Romel Anabarnier

Okay, thank you. That was all I had.

Operator

There are no further questions. I remind you that if you would like to ask a question, please press 01 on your telephone keypads.

The next question is from Navid Mhuktar, PGIM. Your line is now open. Please go ahead.

Navid Mhuktar

Hi. Thanks for call. Just a couple of quick ones. On your CPA customer acquisition per new subscriber numbers, it looks like that metric has gone up 25% versus fourth quarter last year and I do appreciate the comments you've made about the fourth quarter in the second half of last year. I'm just trying to reconcile with the 6% increase in the material costs you mentioned. Can you maybe just explain a bit more about the other 19% increase in that metric? And what factors are there?

Vincent Litrico

Yeah, sure, absolutely. I'll take this one. I think I was specifically mentioning the 6% on a full year basis. Really, if you look at just the quarter to quarter, the increase was high teens on material costs and even higher on marketing. Some of this is due to phasing actually of when the rebates or the purchase price buy-ins get passed onto us by our suppliers and of course the shortage situation we mentioned did put upward pressure on material input cost prices. So, that explains the increase.

If you look at the 25% net CPA increase on the quarter, it's actually – if you were to slice it into revenue and cost – the cost piece went up 15% and within this again material costs and marketing costs were the two main drivers. Those apply both for the year and the quarter. Does that answer your question?

Navid Mhuktar

It does, thank you. And just one quick one on the tax side, you saw the cash tax a little bit higher in the quarter. I'm just trying to understand the reason whether this is a kind of level of tax that we should expect.

Vincent Litrico

I could not pinpoint one thing in particular. As the business becomes more profitable, especially on the back of the margin improvement we've been driving in 2020, some of the timing of the phasing of the tax payments have been in Q4 so that largely drives this. There's' nothing other than that, unusual that I could point out for you.

Navid Mhuktar

Okay, because just for the full year, the cash tax cash went from 33 million, 34 million to 61 million. So, it's sort of a big jump.

Vincent Litrico

This is a lot related to timing. There is also a number of geographies where we have seen slight increases in statutory tax rates. But for the numbers you mentioned, it's mostly timing phasing and taxable profit denominator going up, actually in a few of our large geographies. Part of that – to be very specific also – is linked to the fact that IFRS 15 has been adopted, which we have adopted more than three years or more ago, in our IFRS reported books. It was not adopted by some counties and more recently a number of geographies have been adopting it locally for tax purposes and local accounting and that is actually driving up a bit the taxable base in a few of our big jurisdictions. So, that also partly explains the increase in cash taxes we've seen.

Navid Mhuktar

Great. That makes sense. Thank you.

Operator

There are no further questions at this time, I hand back to you.

Austin Lally

Well, thank you very much, operator. Thanks, Vincent. Thanks, everybody for participating on the call today and more importantly for the continued interest and support that you show in the company.

We remain fully aware that these are serious times, and we are a serious company.

We acknowledge the responsibility that we've got to our employees and our customers, our investors, and also other stakeholders like police and fire services.

2021 was another challenging year for individuals and families and communities. It was also a year of progress on vaccines, boosters, and new treatments. For us, the lessons that we learnt in 2020 on how to keep our employees and customers safe, how to work remotely when prudent, how to keep providing the services, served us very well last year too, in 2021, and it will serve us well as we move into 2022.

Our service levels remain high, as we talked. Portfolio is robust. New sales performance is very strong. The financial delivery is very strong. We've shown that we've got pricing power, that we've got great cost management. We delivered new records for portfolio and for performance metrics. When I look to 2022, we continue to believe that the future is bright. Opportunities are there for us. The penetration in our geographies remains low. We believe the fundamental customer need that we serve, peace of mind, will only increase in the future.

That's what it's all about for us; to be Europe and Latin America's number one peace of mind platform. And our intention as a company this year remains the same, which is to serve more customers, to serve them better, to continue to innovate, to continue to grow and develop our talent, to reinforce our culture, to be an effective contributor to a more sustainable future, to become much stronger, leaner, even more effective.

So, in closing again, many thanks for your interest and your support and for the great questions that we had today. Please continue to do everything you can to stay healthy and safe and we look forward to talking to you again in a few months about Q1 and the beginning of our trajectory into 2022.

Operator

Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may now disconnect.