

Transcription

Verisure Group Q4 2023 Results

23 February 2024

Operator:

Welcome to Verisure Q4 Report 2023. Today I am pleased to present CEO, Austin Lally, and CFO, Colin Smith. For the first part of the conference call, the participants will be in a listen-only mode. During the questions and answer session, participants are able to ask questions by dialing star five on their telephone keypad. Now I will hand the conference over to the speakers. Please go ahead.

Colin Smith:

Thank you, operator. Good afternoon and welcome to our Q4 results presentation. You're joined today from Geneva by our CEO, Austin Lally, and myself, Colin Smith.

In terms of materials, as always, you can find our presentation and quarterly report on our corporate website.

Before we start, let's have a quick look at the agenda on Slide 3.

First, Austin will share an overview of the key developments in the quarter. Then, I'll provide a more detailed financial review. And finally, we'll close the session as usual 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 the continued interest and support in our company.

Today we will present the results for Q4 2023 and the full year 2023 for the Verisure Group.

I am very glad to share that we had another strong quarter, both operationally and financially. 2023 was another strong year for the Verisure Group. We continue to navigate well against the backdrop of a difficult global economy, including high inflation which is now abating, and high interest rates, which we expect to see reducing. It has been a tough couple of years for consumer confidence. Yet, even in this more complicated environment, every day, we demonstrate the resilience of our business model including the high quality of our portfolio and our ability to grow. We are very pleased with this continued strong performance. And proud of our talented, highly engaged, growing team right across the Company.

So, let's start with our Q4 performance highlights on slide #4.

Total revenues were up +8% in the quarter, +9% in constant currency. Adjusted Group EBITDA, which is Group EBITDA excluding SDIs, was up +14% in the quarter, +15% in constant currency. And Portfolio EBITDA was up +11% in the quarter, +12% in constant currency, reaching 484 million EUR. Quarter after quarter we continue to reach all-time highs. We continue to grow strongly across key financial metrics. We view this as very strong and robust financial delivery.

In terms of volume, we installed 199 thousand new customers in the quarter, up +2% year over year. We are pleased with this increase in Q4, and we remain disciplined and focused on high-quality customer intake. In a difficult and volatile external context including the worst consumer confidence in a generation, we have again underscored the unique growth profile of our business.

We added 421k customers to our portfolio in the last twelve months. At the end of the year, we had a portfolio close to 5.2 million customers, up +9% year on year.

LTM attrition remained low relative to other subscription businesses at 7.6%. After a lot of hard work from our teams across our markets, attrition has stabilized.

We have further deleveraged the business by 0.1x in the quarter. Our total adjusted net leverage is now 5.3x. We have decreased leverage by 0.7x in the last 12 months despite the challenging external environment. This deleveraging underscores the stable, predictable quality of our business model.

We are also publishing today a new financial policy for the Group. We intend to deliver further reductions in net leverage to levels below 4.5x. Colin will talk about this in more depth later.

Finally, as of the end of Q4 we had 500 million EUR of available liquidity.

Turning now to slide #5, we present key operating and financial results for the full 12 months of 2023.

Total revenues were €3.1bn in 2023, up +11% in constant currency. Adjusted Group EBITDA was up +18% in constant currency. We are pleased to see EBITDA margins strengthening over 2.5 percentage points to 43.4% in 2023. Portfolio EBITDA was up +13% in constant currency, at 1,885 million EUR. Portfolio EBITDA margins remained close to 72%. Finally, adjusted EBIT was 694 million EUR, up +22% in constant currency. Adjusted EBIT margins increased 2 percentage points in 2023. We were very pleased with these strong full year results.

In terms of new customers, we delivered another year at around 800 thousand installations, despite the difficult cost-of-living pressures facing many households and small businesses across our markets in 2023.

Let's now move to slide #6.

Our customer portfolio has 421 thousand more customers than a year ago. We now have a portfolio close to 5.2 million customers. We are very proud to have surpassed the 5 million milestone in the same year as we celebrated our 35-year anniversary. This corresponds to a net portfolio annualized growth rate of +8.9%.

The level of new installations across our 17 markets is a conscious choice. We focus on maintaining high quality customer intake; balancing CPA efficiency, entry ARPU and customer quality. We add new customers with an average customer lifetime of around fifteen years.

You know we never give formal forward-looking guidance. But we remain optimistic about the future. Our growth prospects are strong as penetration of monitored security in our geographies still has significant room to grow. We are well established as the leading provider of professionally monitored alarms for residential and small business customers in Europe. In 12 of our 17 geographies, we lead the category in terms of customers served. And we continue to gain market share.

Let's move to attrition performance on slide #7. Controlling attrition remains a key priority for Verisure.

As discussed in previous calls, we saw in 2022 and 2023 that households were reassessing spending choices more frequently. And so, cancellation requests in 2022 did not trend down as much as normal through the year and remained elevated in 2023 too.

That being said, we see the trend turning and our customer base has stabilized. Total LTM attrition is 7.6%. After two quarters of decreases in quarterly attrition, we are now seeing the usual increase in Q4 as annual price increases and price increase communication take effect in some of our markets.

Overall, we believe this attrition performance still not only leads our industry, but likely subscriber-based consumer services overall. It shows that the professional and innovative security solutions we provide, built on unique technology that delivers against key promises, remains a high priority for our customers even when they must

make other tough family budget choices. Our solidity also reflects the high-quality customer intake and the focus on a superior customer experience.

Value creation is not just about the size of the total portfolio. We also focus heavily on maintaining excellent unit economics, both in our customer acquisition segment and portfolio segment. So, we are now going to look at unit economics, on slide #8.

In Q4, starting with our customer acquisition segment, our CPA was 1,439 EUR. This is only 1.4% higher than last year, in constant currency, and we're pleased with our control here given the external inflation picture. It shows our focus on efficient marketing spending is having a positive effect alongside strong cost control. Overall, the picture remains broadly consistent with previous calls. We continue to acquire attractive customers with a very high lifetime value and good paybacks. We believe investing in these valuable new customers is a very good way to deploy our capital.

Moving to our portfolio segment and revenues per customer, ARPU increased to 43.8 EUR per customer per month in Q4. This is up +2.0% in constant currency versus prior year. This increase has come from several sources. First, a well-executed price increase in Q1 '23. Second, an increased focus on upsell activity into our existing customer portfolio. Third, a focus on optimising discount levels in all of our markets.

Overall, in Q4, we continued to generate excellent Earnings per Customer. We reached 31.5 EUR per customer per month, +3.1% in constant currency versus last year, and our strongest Q4 performance ever. We are particularly pleased with this outcome given the macro environment in which we've been operating.

Beyond our financial and operational results, I wanted to take the opportunity today to highlight some external recognition too.

We've continued to invest in product and service innovation, so our customers can be better protected in their homes and places of business. This earned us additional external recognition last year, picking up two Red Dot awards for elements of our product suite, as well as 'Product of the Year' and / or 'Customer Service of the Year' award in Belgium, Italy, Spain, Portugal, and France.

We continued our work with the United Nations Global Compact to advance our ESG strategy and framework. And as a testament to the strides we have made in ESG, our Group, officially Verisure Group (Midholding AB), has been recognised by Morningstar Sustainalytics as an ESG Global 50 Top Rated company, as well as an ESG Regional and Industry Top Rated company.

In Q4 2023 we engaged with Sustainalytics for our first solicited ESG rating assessment. We obtained a rating of 7.1 (Negligible risk), which positioned Verisure as the number 1 in the ranking of Consumer Services industry (this is out of 509 rated companies) and we came in ranked at 53 in the overall global rankings (out of just under 16,000 rated companies). A lot more to do but we are very pleased at the recognition.

Finally, it all comes down to our people. We were once again recognised as one of the best companies to work for, with certifications across 11 countries as a 'Top Employer' and/or a 'Great Place to Work'. And, we have just been named as a 'Top Employer in Europe' for 2024. These recognitions are important because they help us attract and retain the talent we need to grow.

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 first turn to Slide 9, to review our Key Financial Headlines for the fourth quarter of 2023.

Note that I will talk to financial figures always in constant currency, where applicable.

We delivered another strong financial performance in the fourth quarter. Total Group Revenues were €785m, up 9% year over year. Group Adjusted EBITDA was €338m, up 15% year over year. And Portfolio Services EBITDA reached a new record-high of €484m, an increase of 12% year over year. Our Portfolio EBITDA continues to grow at pace and is now approaching €2.0bn on an annualised basis.

Cash Flow from Operating Activities was €344m, up 21% year over year. This is the result of strong underlying cash flow generation in addition to positive cash flow from working capital items. This is consistent with the positive trend we reported in previous quarters.

Total Capital Expenditures in the fourth quarter were €234m, which was flat vs. last year due to strong cost control of both customer acquisition and development capital investments.

Net Debt increased very marginally over the past twelve months, closing December at €7.4bn.

And lastly, we have €500m of financial liquidity at the end of the fourth quarter, from a combination of cash on balance and available funds under our Credit Facilities. This is over €220m higher than at the end of 2022.

Looking at the chart on the right-hand side of the slide, we continue to deliver high profitability levels in our Customer Portfolio. Our Portfolio EBITDA Margin was 71.9% in the fourth quarter, 80 basis points up year over year despite headwinds from high inflation. We're pleased with this return to growth in portfolio margins. This has been a big priority for the team and driven by strong cost control leading to a reduction in operating costs per customer.

Turning now to Slide 10, we unpack a more detailed view of our Income Statement.

As discussed, group revenue was €785m, up 9% year over year.

Reported Group EBITDA was €319m. This includes €19m of Separately Disclosed Items during the fourth quarter of the year. These are related to ongoing transformational projects and restructuring costs. Adjusted Group EBITDA, which excludes SDI's, was €338m, representing a growth rate of +15%. EBITDA margin progression was again encouraging, increasing from 41% in the fourth quarter of 2022 to 43.1% this year.

Depreciation and Amortization was €146m in the fourth quarter. This includes €9m of Separately Disclosed Items, related primarily to the amortization of the customer portfolio acquired in 2011 from Securitas Direct Group. This amount is non-cash. Adjusted Depreciation and Amortization was €137m.

Retirement of assets in Q4 was €29m.

Adjusted Operating Profit, again excluding Separately Disclosed Items, was €172m in the quarter. This translates to an Operating Profit margin of 22%, up 170 basis points vs. the same period last year. Adjusted Operating Profit increased 19% year over year.

Net Interest Expenses were €116m in the quarter, which was up from €91m last year, driven by the higher cost of debt.

Other Financial Items totalled €60m, of which €72m were Separately Disclosed Items. FX revaluation of debt items and mark-to-market adjustments in unrealized derivatives were €68m. These are non-cash. €4m was related to the amortization of prepaid financing fees and €1m to the modification of loan agreements.

In total, Adjusted Profit Before Tax was €69m in Q4, representing an increase of 33% year over year.

Finally, Income Tax for the quarter was positive €9m, leading to Reported Net Income of negative €22m in the fourth quarter.

Turning next to Slide 11, we show an overview of Cash Flow Generation and Change in Net Debt for the full year 2023.

Our cash flow in 2023 was anchored on 1.9Bn EUR of Portfolio EBITDA. These are recurring cash flows from our customer portfolio, which closed 2023 at 5.17m million customers.

As you know and as we've discussed many times, we allocate a significant part of the cash generated from our growing portfolio to finance our continued growth cycle. We invest to acquire new high-quality customers that will remain with us for around 15 years on average.

This is what we refer to as Customer Acquisition Investment. Part of that investment goes to replace attrition, and part to fund portfolio growth. In total, we invested over €1.1Bn in acquiring new customers in 2023. We firmly believe that our best use of capital is continuing to add quality customers to our portfolio with high lifetime value.

Portfolio and Other Capex made up a €274m outflow in the year. Portfolio Capex of €118m relates to new equipment for existing customers, as we upsell and upgrade our customer portfolio. Always innovating for our customers is a core priority, and Other Capex of €156m includes investments in R&D, product and service innovation, and software engineering.

Change in Working Capital has contributed €197m in 2023, primarily driven by improvements in payables and reduction in inventory holdings.

We paid €91m in Taxes in 2023.

And Interest and Financial Items was €478m.

Finally, SDIs and Other, which includes adjacencies, M&A, and IFRS adjustments, makes up an additional €134m.

All in all, our free cash flow was €23m negative in 2023, with a Net Debt increase of €25m, including a small lease debt effect of €2m.

Turning next to Slide 12 I will give an update on our net leverage position.

As mentioned in Austin's opening remarks, in the fourth quarter we again continued our deleveraging trajectory. Senior Secured Net Leverage and Total Net Leverage closed at 4.2 times and 5.3 times, respectively.

This means that we have reduced our net leverage ratio by 0.7 turns in 2023.

Turning now to Slide 13, I wanted to update you on our new financial policy, which we are publishing for the first time today.

First, we plan to continue to consistently reduce our reported net leverage, in line with our recent track record, to levels below 4.5 times. Once this target is achieved, we intend to update our leverage ratio guidance further.

The policy we are announcing today will progressively move Verisure towards public market leverage levels. As you know, we've operated successfully within a leverage corridor of 5.0-7.0x in the past years. We do not intend to return to those levels, and we do not intend to pay any material dividends.

We will retain appropriate levels of liquidity and make considered re-financing decisions well ahead of maturities. Lastly, we may revise our leverage profile temporarily in cases of significant M&A activity, but as you know, our growth has been highly organic. Any acquisition would not alter our commitment to reach 4.5x leverage.

Finally, moving to Slide 14, and an update we regularly share to unpack the business model we operate at Verisure. This sets out well our track record of delivering strong, high-quality operational and financial growth.

Starting top left with the sales engine, we have delivered good growth in new customer installations over the years. And we have maintained a strong volume of new customer installations through the past 3 years despite the global pandemic and the once in a generation macro pressure on consumers. As we've said many times, we remain highly disciplined and focused on high-quality customer intake.

In parallel, we continue to focus on improving customer experience and delivering best-in-class attrition levels. Although we've experienced a small increase in the last couple of years, our customer loyalty and base stability remain very strong. As noted

earlier, we are encouraged that attrition showed year over year reductions in two of the last three quarters of 2023.

Strong customer intake and sustained low attrition leads to consistent Portfolio growth. We have driven stable growth rates in our Customer Portfolio for several years. We are now proud to protect close to 5.2 million families and small businesses.

At the same time, this volume growth is complemented by continued improvement in customer profitability. Instead of trading off between volume and unit economics, we focus on delivering quality growth across both. This drives significant operating leverage and delivers strong and predictable growth in profitability.

We can see this manifest on the right-hand chart, with consistent double-digit growth in our key profit and cash flow measure, portfolio EBITDA, which reached close to €1.9bn in 2023.

So, with that let me pause there and I'll hand next to the operator for Q&A.

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 Michael Hemmings from CVC Credit Partners. Please go ahead.

Michael Hemmings:

Hi there. Thanks for taking my questions. Congratulations on the strong results. I had a couple of comments on the financial guidance and the comments that were provided on page 13 with regards to the active management of maturity profile. Conscious of the 2026 maturities and the structure, are there any comments you could provide on what timeline you'd look to be addressing those?

The second question would be regarding the ARPU, the price increases that typically come through in Q1. Assume those have been put through. Are there any comments you could provide on what we should expect for that? Thanks.

Colin Smith:

Let me start first, Michael, with your first question. As you say, in terms of our maturities, we don't have any due until the summer of 2026. As we talked earlier, our liquidity is also strong. We have around €500 million of available liquidity under existing credit lines. We've got a couple of years. We're not in a rush.

However, given the way that the market has been moving over the past couple of months, we will of course be diligent, and we want to actively address the maturity profiles of our debt structures, as I said earlier, well in advance. I think we may well choose to come to the market in 2024 if we feel that markets continue to be strong enough. But we will keep that under review.

Austin Lally:

On the ARPU question, in 2023 we increased the ARPU +3.2% in constant currency. The price increase that we've now executed is in the marketplace. It's broadly in line with CPI, country by country, and we think we've executed it well. Therefore, we are confident about the unit economic development. And we're also confident about, for example, customer loyalty and attrition.

And remember. Our company is a “power of and” company. We understand that so many of our business levers are interconnected. If I think about pricing, for example, we always look for a sweet spot. We're looking for a sweet spot obviously of

profitability. But we also don't forget the customer. We're looking for value for money, we're looking for the customer experience. And we are looking at customer lifetime value. That includes attrition impact. That's what creates equity value. It's about looking at pricing and profitability not only in the short term, like what does it do for a quarter or what does it do for the year, but actually, what does it do for the company in the long term given the customer's lifetime is over 15 years,

Michael Hemmings:

Brilliant. Thank you very much for the color on that.

Operator:

The next question comes from Stephane Fievue from Allspring Global Investments. Please go ahead.

Stephane Fievue:

Hi. Good afternoon. And thank you for taking my question. I just wanted to get, if possible, some details on the working capital improvement. It's been a pretty large inflow for 2023. I just wanted to know if you could provide me some more details and if you expect that to continue to improve, or some stabilization, in 2024. Just a bit more color on that, please.

Colin Smith:

Stephane, let me take that one. It's Colin here. I think there are a couple of things that I would talk about.

First, our supply chain organization dealt very well with the pressures that we saw globally over the past couple of years around component shortages and the like. We made sure that through 2022 we were well stocked across our inventory. As a consequence, what we've seen in 2023 is a reduction in stock levels. That has generated a positive tailwind in working capital. I think the bulk of that is now done, but there's probably a little bit more reduction in days of stock still to come, but certainly nothing of the same magnitude as we saw this year.

I think the second point is a bit more kind of mundane, and that is just a rigorous focus on working capital and working capital management. Whether it's receivables or payables, I think the finance teams from around the business have done a good job at basically making sure that we are as tight as we can be. That is something that will continue to be the case going forward. I think we've had benefit from some of that through the course of 2023 as well.

Stephane Fieeve:

I understand, thank you.

Operator:

The next question comes from Sebastian Tallis from HSBC. Please go ahead.

Sebastian Tallis:

Good afternoon. Thanks for the call today. Could you just clarify two things, please? First of which is the average lifetime of your customers. Is it around the 15-year mark? And then the second is regarding your workforce and the wages. What are you starting to see, the wages increase or decreases? Also, has there been any issue of being able to hire in recent years?

Austin Lally:

Yes. The average customer lifetime is about 15 years. I mentioned the number in my remarks, and that is a function of just having very low attrition relative to other consumer subscription businesses.

There clearly has been wage pressure. You can read the newspapers as we do, but we also see it. We've had governments increasing minimum wages. We've had high levels of indexation in some places. Belgium for example stands out as being like the kings and queens of indexation. Our employees have faced the cost-of-living pressure just like the rest of the community. Therefore, we've had to act market by market to ensure that we can face that pressure. That's one of the contributing factors to some of the pressure on cost-to-serve that we've had.

Now, on the positive side, we've been able to more than price for it. That's why you see the earnings per customer growing year on year. One of the things I feel very good about in Verisure is that obviously, we work as hard as we possibly can to offset inflation. We have a big-cost program that we call "funding or growth". That's going to bring even more benefits in the future. But compared to many other businesses in a tough inflation environment, we've got pricing power and we've been able to use it.

Sebastian Tallis:

Brilliant. Awesome. Finally, regarding the competition. Obviously, you're operating in 17 geographies in Europe, but what have you seen from the likes of Amazon and Ring. How are you preparing yourself there?

Austin Lally:

First, we take competition super seriously. We monitor it continuously. We look at the traditional players, we look at new entrants, sometimes combinations of both. We

look at our footprint. We also look at other regions like the US where we are not present.

We've got a very strong belief that competition grows the market. It stimulates demand. The other thing that we've demonstrated again and again is that competition, in a way, makes us better because it forces us to raise our game. If I think about, for example, a traditional competitor like Prosegur, who competes against us, in Spain, Portugal, and some countries in Latin America. They formed a joint venture with Telefonica. They created Movistar Prosegur Alarmas, a joint venture in Spain. And it grew. They added quite a few hundred thousand customers over the past few years.

But we added significantly more, a multiple of that over that period. We kind of defended / grew our market share. I think that story gets repeated market after market. This has always been a market characterized by tough competition. We don't have the market shares that we have because we're lucky or because the world is asleep. We have the market shares we have because we earn them. We earn them by having a superior business model, by executing better, and by having strong talent in the company.

Now, the question around the tech players is slightly different and quite interesting. One of the things that we've noted in Europe is that the idea of a lower-priced do-it-yourself security offering, which did get some traction in the US market for a period of time, really hasn't landed in Europe.

I can give you a long answer or a short answer.

The short answer is that solutions like that emerge if the professional players don't do a good job, don't define what security is, and don't define what the right consumer expectations are. That's part of it. The other part of it is that Europe is quite a complicated continent. It's highly regulated and it's regulated at the country level. It's not so easy to just roll across Europe with a new solution.

What we've also seen, and probably more interesting in terms of volumes than mid-priced alarm systems, is the growth of the camera segment. Standalone camera security solutions. Volumes in that area grew for some time. That was part of the logic of why we made the acquisition of Arlo in Europe. We wanted to be exposed to that segment. We wanted to understand it. If it was going to become important for customers, we felt that we should be there. But we always recognized that it was a different service and that it wasn't the level of security that we had a responsibility to deliver to customers. It also comes actually with significantly lower pricing and much lower levels of profitability.

Professionally monitored security is where we choose to focus because first of all, it's what protects the customer. We feel good about doing the right job. But it's also actually where the profit and the value creation in the industry is.

What's interesting, and I'm looking at the U.S. market almost as a bellwether, because some of these trends tend to develop in the US first. What we're seeing now is that the total number of active camera users, seems to have reached a plateau in the US. Even in the most recent data, when you start looking at how many active camera users per week and so on, we're starting to see that slowly declining. I think that this reinforces the choices that we've made as a company.

Thanks for the question. I think the answer was probably a bit long, but there's a lot to unpack on that topic.

Sebastian Tallis:

Very helpful. Thank you.

Operator:

The next question comes from Shaun Gribben from WhiteStar Asset Management. Please go ahead.

Shaun Gribben:

Hi, guys. Thanks very much for the call and the presentation. Back to the attrition rate, do you think we're kind of more at a 7-7.5% mark now as a new normal, not 6-6.5%? You've historically seen it for the last few years, or do you think that it's coming out now with the consumer sentiment?

Austin Lally:

That's interesting. It's like you've been listening to my speeches. Because I've been going around the company country by country, insisting to people that this is not the new normal.

What I'll tell you here, first of all, even at this level. I think as we mentioned in the presentation, we see it sort of plateauing. We expect to see it improving. We are determined to get it back down. We've got the plans and tools in place. We've actually got a major group-wide effort on attrition. Even if it's still the best performance in the industry, even if it's only modestly up in the middle of a crisis, and I can give you a lot of contexts, we are determined to get it back down.

The first objective is to get it back below 7%.

I would say we've got an inspiring vision around bringing it even lower than that. Now I'll give you some of the ideas here that we know work. Delivering an even higher service level for the customer. We do net promoter score surveys at many, many touch points, and we figure out which customers are promoters and detractors. We're working very hard on root causes to eliminate the detraction. We're looking at programs that can build engagement with the customer that can include things like more app usage and making the app usage more useful for the customer, adding more value in digital services like, for example, our Guardian service, which protects you and your family when you're away from home. And that gets you more engaged with the company, more engaged with the brand.

We're stepping up our use of analytics. Better prediction so that we're not dealing with customers leaving, we are forecasting and acting to neutralize them. There's also a lot of stuff to do with the product experience. The more you interact with images and video, for example, the less likely you are to leave.

Maybe the final thing I would say. There's a lot around the front door. As we build penetration of things like electronic door locks, for example, and video doorbells. That significantly increases the amount of consumer interaction. If I take the door lock example, because we've got quite a large portfolio now installed, particularly in Scandinavia, the attrition profile of people who have an electronic lock connected to their alarm, it's the lowest level of attrition that we have in our portfolio.

Certainly, 7.6% is not the new normal. I mean, again, I'm not going to give you guidance on 2024, but when I look at 2024 and the years beyond, bringing that attrition level back down is one of my absolute top priorities.

The other thing I want to say is, of course, what matters is net portfolio growth. This balance of installations and customers leaving. If you can bring attrition down by one point, that adds one point to the NPG profile of the company. But it's one point of growth that you get for free, almost. It's a point of growth that you get without having to put CPA against it. Somehow in any list of financial decision-making, that's the no-brainer to go after.

Colin Smith:

If I can just add, Shaun, a couple of other points. I think the business is getting ever better in terms of our retention operations at saving customers that do reach out and talk to us.

We have a product that, if you think about how things are classified, we're very much thought of as an essential product, not discretionary. Therefore, when customers do

contact us, the saving rates that we get on talking to them are incredibly high. It just goes to show that customers are not in a position where they really want to cancel Verisure. Typically it's the economy. And we have had a tough unprecedented couple of years. We are hopeful that is going to turn around and start to support.

Shaun Gribben:

Got you. Thanks for that. If they're reaching out, is it typically then to offer some sort of discount, possibly for a year or two or a certain time? Then hopefully the plan is to bring them back into line with what you would like customers on.

Austin Lally:

That's often the motivation. I'm going to make a simple point here. I could sell plenty more alarms than we sell. If I was prepared to sell them cheaply. Or if I was prepared to buy marginal customer leads at an incredibly high cost that doesn't make any sense. We deliver the installation volumes at the level we do while managing the cost of the acquisition and managing the pricing and the value of the customer.

It's the same thing with attrition and retention.

I mean, you could end up with almost no attrition if you just basically slashed your prices every time someone called you. What's really powerful about our model is that we've got very low attrition relative to other subscriber businesses with actually a relatively low level of discounting.

One of the things that I've been very pleased with in 2023 is that we've worked very closely market by market on how we can do a better job at saving the customer with speech or with modest temporary concessions rather than deep permanent price cuts.

Of course, the problem with that is that if you did it, you would end up with a big gap between what your current customers are paying and what you expect new customers to pay. What they call back-book, front-book in other subscriber businesses. That's a big problem in industries like telecommunications because what it does is create a culture where people think that they can shop around. You just basically create a deal-seeking world, and we don't want that. Our front book / back book is balanced, which stands out compared to other players.

Colin Smith:

That's exactly right. Just to finish off on that point, on the accounting, all discounting given to existing customers runs through ARPU in the reported numbers. As you can see, we've delivered consistent year-over-year growth in that metric over the past couple of years.

Shaun Gribben:

That's helpful. Appreciate the color on that. Thank you.

Operator:

As a reminder, if you wish to ask a question, please dial star five on your telephone keypad. 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 in our company.

To recap, against the backdrop of a difficult global economy, Verisure achieved another year of solid quality growth. New highs for our portfolio and performance metrics.

We achieved this despite households and small businesses continuing to be under pressure from inflation and higher mortgage payments.

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

We have also delivered important milestones discussed already, which we have celebrated. But we are never complacent. Although we continue to see certain economic indicators improving, there remains some degree of uncertainty.

I look ahead to the future with optimism. Latent demand remains strong for professional monitored security and penetration in our footprint remains low. This is a big macro advantage. We will take this opportunity. As we continue to innovate and enrich our proposition, so our customers can be better protected in their homes and places of business.

So again, many thanks for your interest and support and for the interesting questions. We look forward to talking to you again next quarter to review how 2024 has started.