Transcription

Verisure Group Q4 2024 Results

27 February 2025

Operator:

Welcome to Verisure Group Q4 results presentation. Today, I am pleased to introduce CEO Austin Lally and CFO Colin Smith. For the first part of the conference call, all participants will be in listen-only mode. If you wish to participate in the questions and answer session after the prepared remarks, then you need to dial into the telephone conference and press star five on your telephone keypad to enter the queue. Please note that you will not be able to ask questions if you have joined using the audio cast link. 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.

Now in terms of materials, as usual you can find our results presentation and quarterly report on our Investor Relations website. We've updated our 10-year trending schedules, also available on our IR website, which summarise key operating and financial data for the Group.

To get us started, let's take a quick look at the agenda on Slide 4.

First, Austin will share an overview of key performance highlights in Q4. 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 the results for Q4 and full year 2024 for the Verisure Group.

Overall, we were very pleased with our results in the fourth quarter. 2024 ended as another record year. It marks nearly four decades of uninterrupted quality growth. And continuing to protect what matters most to the families and small businesses we serve. There are several important themes that we want to bring out today.

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

Customer profitability reached a new high, up +5% year on year. We delivered strong ARPU growth. And we made excellent progress on our cost base too. Customer attrition was also down year on year, as we emerge from what was a very tough macro-economic backdrop. And we are reporting today again excellent, broad-based financial performance with strong growth in both our absolute profitability and our margins year on year.

I will also share today updates on several corporate topics. This will include that the company, as part of our evaluation of strategic options, is considering plans to list our equity on a public market.

Before we begin our update on results, I wanted to share details of a new appointment to our board of directors. As of March 1st, 2025, Graeme Pitkethly will join our Board and will serve as independent chair of our audit committee. Graeme brings very significant experience to our company at this important stage of our development. He had a highly successful 22-year career at Unilever. Graeme was Group Chief Financial Officer for over 8 years, and prior to his appointment as CFO, he was responsible for their UK and Ireland business. Graeme served on the Unilever board until December 2023.

Graeme is currently Audit Committee chair at both Pearson plc and Sandoz. And we look forward to welcoming Graeme to our Board from March.

Graeme becomes our third Independent Director, alongside Dominique Reiniche and Andrew Barron.

Dominique joined our board just over a year ago. She has a wealth of experience across many sectors. Her executive experience includes Procter & Gamble and Kraft Jacob Suchard and then 22 years with Coca-Cola. At Coca-Cola, she served as CEO for Europe and latterly Chairman of Europe. Apart from Verisure, Dominique is currently serving as a non-executive director at Deliveroo, Paypal Europe and Mondi Group. Her previous Board roles include serving as Chair of the Boards of Eurostar and Hansen Holding A/S.

Finally, Andrew Barron has served on our board since 2020. Andrew has had a long and successful career in telecoms and media. He started at McKinsey and then Disney. Other executive roles included COO at Modern Times Group and Virgin Media. He was the co-founder of Ocelot which became Ocean Outdoor. He was also Chair of Com Hem AB and Tele2. Apart from Verisure, Andrew is currently a non-executive director at Openreach, Astound broadband and Delta Fiber.

But let's start with our Q4 performance highlights on Slide 5.

Total revenues were up +11% in the quarter, +12% in constant currency. Adjusted EBITDA, which is EBITDA excluding SDIs, was up +13% in the quarter, +14% in constant currency. Portfolio EBITDA was up +13% in the quarter, +14% in constant currency, reaching 549 million EUR. And EBIT, again excluding SDIs, was up +13% in the quarter, +14% in constant currency. As you can see, financial performance across these key metrics continues to be strong and robust.

In terms of new sales, our commercial teams delivered 211 thousand installations in the quarter, that's up +6% year on year. It's a mini milestone as it's the first time that we have delivered more than 200 thousand installations in a fourth quarter.

We are happy with this increase in Q4, 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. Or taking short cuts on growth. This performance again emphasises not only the significant potential runway we have ahead of us but also the importance to us of maintaining our operating discipline.

We added 110 thousand customers to our portfolio in Q4. We now have a portfolio of over 5.6 million customers, up +8.5% year over year.

Last Twelve-Month attrition remains very low relative to other subscription businesses. We are now at 7.4%, that's down from 7.6% last year. This is our lowest level since Q1 2023. And our latest quarterly attrition is down 35 basis points year on year, to 7.3%. This is a big focus for us, and one of our strengths. Our teams continue to focus on topics like customer experience, care, service, and retention best practices including root cause specialization and the management of customer moves and discipline on discounting.

We have held leverage stable at 4.8 times during the quarter. This is 0.5 times lower than last year. We remain on track towards the 4.5 times leverage target that you will remember we communicated one year ago in our new financial policy. Over the past two years, driven by consistent growth in our profitability, we have decreased leverage by 1.2 times, which we are pleased about.

Finally, at hand, we have over 500 million EUR of available liquidity.

Moving to Slide 6. Our customer portfolio has 439 thousand more customers than a year ago. We now protect over 5.6 million families and small businesses. This represents a net portfolio annualized growth rate of +8.5%.

As you know, in these bondholder calls we do not give formal forward-looking guidance. But as ever we remain very optimistic about the future. Our growth prospects remain strong as penetration of monitored security in our existing geographies still has significant room to grow. And there remains white space around us. We see a lot of attractive, high-quality runway ahead.

We are well established as the leading provider of professionally monitored alarms for residential and small business customers across Europe and LATAM. We estimate we are over 5 times larger than the number 2 player across the geographies where we operate. In 13 of our 17 geographies, we are market leaders in terms of the number 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 7. Controlling attrition remains a key priority for Verisure.

We discussed in previous calls that cost-of-living pressures and the associated pressures on household incomes, meant that in both 2022 and 2023 households revisited their household budgets and their spending choices more frequently. And consequently, calls from customers in 2022 and 2023 increased over that period. We are mostly a consumer business, so we have never claimed to be immune from the macro pressure that families and small businesses could face. But we have also noted in previous calls that the increase in attrition that we did see was a modest uptick. We're not immune but we have shown that we're sticky and resilient.

And we are very encouraged that we are now seeing attrition reducing again. Our customer base continues to grow, and quarterly attrition in the most recent quarter decreased 35 basis points year on year. This continues the trend of year-on-year quarterly attrition decreases that we also saw through the other quarters in 2024. As a result, our last twelve months attrition has decreased to 7.4%, down from 7.6% last year. And we are working hard to reduce further from these levels. We are confident here of more progress given the stickiness of the service we provide, the high levels of customer satisfaction we enjoy and importantly the know-how and the ongoing commitment to get better, to ideate and experiment and scale.

Overall, we believe this attrition performance not only leads our industry, but we believe that it leads subscriber-based consumer services overall. It shows that the innovative security solutions we provide, built on our proprietary technology stack with a steadily evolving and improving proposition, with our commitment to meaningful innovation, will remain a high priority for our customers, even when they must make difficult family budget choices.

Our low attrition also reflects our high-quality customer intake. It's not a random flow of impulse purchases. We drive growth with category creating marketing and Go-to-Market expertise. We believe that it is marketing and sales know-how and intensity that will build out this under-penetrated industry in Europe and Latin America. Remember that our sales model is mostly marketing led, bookings based, counselled and the customer is invested. Marketing led, booking based, counselled and invested. And we also aim to deliver a superior experience at all the moments of truth for customers once they arrive in our portfolio. Looking at installation, customer service, technical service and maintenance, and of course the core of what we do on detection, verification and intervention. That's really what the customer is paying for.

Value creation is not just about the size of the total portfolio. We also focus on delivering excellent unit economics, both in our customer acquisition and portfolio segment. In the fourth quarter we continued to see good progress here. Let's turn to Slide 8.

Starting with our customer acquisition segment, our CPA was 1,523 EUR in Q4. This is +5.9% higher than last year.

Importantly, if we excluded the impact of IAS29 financial reporting in Argentina to account for last year´s high inflation, our CPA was broadly flat year over year. The delta in CPA caused by IAS29 was €100 in Q4. So, overall, the picture remains consistent with previous calls. We continue to acquire customers with a very high lifetime value and very good paybacks. Management and our shareholders therefore continue to believe that investing in these valuable new customers is a good way to deploy 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 45.2 EUR per customer per month in Q4. This is up +4.2% in constant currency versus prior year. This has come from a well-executed price increase at the start of 2024, plus our continued focus on upselling activity of new products and services into our existing customer portfolio, as well as discipline on optimising discount levels.

Operating cost efficiency continues to be a priority across all markets. Our progress on cost on top of the pricing also contributed to the excellent growth in Earnings per Customer. We reached 32.9 EUR per customer per month, +5.5% in constant currency versus last year, and our strongest Q4 performance ever. This represents highly valuable, recurring profit growth.

Let´s turn now to slide 9. We are sharing an important corporate update today.

First, we wanted to update you that the Company, as part of its ongoing planning, is considering strategic options, which include a possible listing of its equity on a public market. We will update you further as these considerations develop, as and when appropriate.

Second, and as we have often discussed over the years, we continue to invest in product and service innovation. We want our customers to be better protected. We also believe innovation can contribute to stimulating category growth with news and more genuine usefulness. I thought we should provide a few updates on this topic. For example, in 2024 we launched a connected door lock called LockGuard, in three of our largest geographies, specifically Spain, France and Italy. It is a great experience; it is a connected and protected lock integrated with our monitored alarm services. We are seeing strong demand for this proposition, with more geographies to come. Also, among other new product launches, we have also launched in France our WiFiVision™ product, using WiFi sensing technology for improved detection. Remember we took a minority stake in Origin Wireless last year to partner with us on WiFi sensing. We are very excited to learn about the potential of this idea, and we think there can be more future use cases.

Our innovation programme again earned recognition last year in the prestigious Red Dot Design competition. This competition receives entries from some of the world's biggest brands across 60 countries. We picked up two Red Dot awards in 2024 for our innovative GuardVision™ Business and Outdoor cameras. We had already won a Red Dot award for our GuardVision™ Photo Detector in 2023. We have now won nine International Design Awards since we made our first application in 2021. That's seven Red Dot Design Awards and two iF Design Awards, covering almost all our latest hardware designs. This also included our first Red Dot award for User Interface (UI) design earlier this year. We also received Product of the Year and/or the Customer Service of the Year award in several countries.

Finally, we also ended 2024 with our teams more engaged than ever. Our essential diagnostic tool is our Sustainable Engagement Survey – measuring how engaged, enabled, and energized our people are. This year we were very pleased with our survey results and the very high participation levels. I am also delighted to share that Verisure has been awarded the 2025 Top Employer Europe certification for the second consecutive year. It is an important recognition, with five of our countries honoured as Top Employers. Notably, Spain and France have been recognised for their seventh and fourth consecutive years, respectively. This follows the Great Place to Work (GPTW) certifications we obtained in nine countries in 2024. In total, 12 of our countries have been certified as either Top Employer or Great Place To Work. This is critical to our business success. Remember we win because of a winning combination of great people and great technology. We are a technology-enabled human services company.

We are also proud of the progress we are making on our ESG programme. We earned another recognition from Morningstar Sustainalytics as an ESG Global 50 Top Rated company, as well as an ESG Regional and Industry Top Rated company, for the second consecutive year.

With this, I now would like to hand 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:
Thank you, Austin. Let's turn to Slide 10, to summarise our key financial results in Q4.

Note that I'll always talk to growth rates in constant currency, where applicable.

Overall, we delivered another strong financial performance in Q4. Total Group Revenues were €870m, up 12% year over year. Annualised Recurring Revenue which we are reporting today for the first time, was 3.047 bn euros, and up 13% year over year. ARR is a measure of high quality, recurring revenues from our customer portfolio. In Q4 our ARR made up 88% of Group Revenue.

Group EBITDA was €382m, up 14% year over year, demonstrating strong operating leverage particularly in the context of increased volumes of new customer installations.

Portfolio EBITDA was €549m, an increase of 14% year over year. Portfolio EBITDA continues to grow at pace and is now over €2.1bn on an annualised basis.

Group EBIT was €196m, up 14% year over year, with margins at 22.5% in the fourth quarter.

Cash Flow from Operating Activities was €323m in Q4, down 2% year over year. Excluding working capital movements, our Cash Flow from Operating Activities increased 15% year over year.

Q4 Capital Expenditures were €264m, up 13% year over year. We invested in higher volumes of installations; driving organic, high-quality growth, and also increased portfolio upselling and technology development.

Net Debt increased 2% over the past twelve months, closing December at 7.588 bn euros.

And lastly, we had €509m of available liquidity at the end of the fourth 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 particularly pleased with the significant portfolio margin expansion over the past 12 months. This has been driven by excellent ARPU development together with valuable progress on our cost transformation programmes. Portfolio EBITDA Margins increased to 72.7% in the fourth quarter, 85 basis points up year over year. This represents our highest Q4 portfolio profitability ever and builds on our longstanding track record of portfolio margin expansion.

Before we turn to Slide 11, I wanted to share an accounting update with you today. Some of you may have noted that in our Q4 reporting we are disclosing a restatement of our 2023 balance sheet and cashflow statement.

We identified a classification issue in our balance sheet and cashflow statement accounting as part of our internal control processes. It relates to a broad strategic alliance, which has grown successfully for over 10 years in one of our major markets.

Our partner is a financial institution and sells our services bundled with mortgages and insurance. This partnership also includes a factoring component.

A term within this agreement was amended in 2020, in which customer default risk moved from the factoring provider to the group. This was accounted for correctly in our Income Statement; however, unfortunately we did not reflect this change in commercial terms correctly on our balance sheet and cashflow statement.

Following the identification of this issue, we have decided to restate balance sheet and cashflow statement classification in line with IFRS 9 to appropriately account for the update to the agreement. As we have noted, there is no impact on Income Statement or to Shareholder Equity.

This arrangement is QUALIFIED RECEIVABLES FINANCING and is not included as indebtedness per the terms of our lender agreements. We have chosen to restate despite the fact that both the company and our auditors do not believe this is material. Of course, I would be happy to discuss this adjustment further in the Q&A, if helpful.

Next, turning to Slide 11, we summarise our 2024 full year performance, where we're reporting today excellent year over year growth across the board.

Total revenues were 3.408 billion EUR, up 11% year over year.

Annualised Recurring Revenue was 3.068 billion euros in the year, up 12% year over year.

Adjusted EBITDA growth was 15%, at 1.534 billion euros. EBITDA margins climbed over 160 basis points to 45.0% in 2024, a record high.

Portfolio EBITDA was up +14%, at 2.142 billion EUR. Portfolio EBITDA margins increased to 72.7%. This marks our fifth consecutive year of customer profitability levels above 70%.

Group EBIT was 819 million EUR, up +19% year over year. EBIT margins increased 150 basis points in the year, to 24%. This is the result of both excellent revenue growth and valuable progress on cost.

Last, we consolidated 840 thousand new installations, representing 5.3% growth year over year. As Austin noted earlier, this valuable return to installation growth came with no compromise on quality intake or unit economics.

Moving to Slide 12, we set out an overview of Cash Flow Generation and Change in Net Debt for the full year 2024.

Cash flow generation is anchored on over 2.1 billion euros of Portfolio EBITDA. These are recurring highly predictable cash flows from our portfolio, which closed Q4 at over 5.6 million customers.

Our investment in customer acquisition was 1.2 billion euros in the year. This investment is made up of two elements. First, replacing attrition, and second, funding portfolio growth. Our capital allocation priorities remain consistent: We will continue to deploy capital towards high quality organic growth given the significant penetration opportunity that exists across our markets.

Portfolio and Other Capex made up a €323m outflow. Portfolio Capex of €155m relates to new equipment for existing customers, as we upsell and upgrade our customer portfolio. This is becoming a more significant growth vector for us and we see further opportunities here. Continuing to innovate for our customers is a core priority, and Other Capex of €168m includes investments in R&D, product & service innovation, and software engineering.

Change in Working Capital was negative €59m in the year. This trend is largely explained by intentional stock build to support Smart Lock product launches in several of our key markets as well as ensuring we had sufficient inventory, in line with new USB-C regulations across Europe.

Also, during the same period, we paid €115m in Taxes, with Interest and Financial Items of €478m.

SDIs and Other, which includes adjacencies and IFRS adjustments, made up an additional €111m.

So, in total, free cash flow was €151m negative in 2024, with a Net Debt increase of €180m, including lease debt effects under IFRS16 of €29m.

Turning next to Slide 13 we update on our net leverage position.

As Austin mentioned in his remarks, in the fourth quarter we held leverage stable at 4.8x. Net debt increased by €91m in Q4, supporting inventory build, higher growth and investments in innovation. We expect the benefits from these investments in 2025. Overall, 2024 was another year of progress, reducing net leverage by 0.5 to 4.8 turns.

As discussed in previous quarters, we plan to continue to reduce our net leverage to below 4.5 times, before updating our financial policy once again.

Finally, on Slide 14, we present a high-level summary of our business model. This sets out our long track record of delivering predictable, high-quality growth across a range of performance metrics.

Starting top left with new installations, we've delivered excellent growth in new customers over the years. We have a relentless focus on high-quality customer intake with meaningful customer commitments and entry pricing in line with our base. New installations increased by over 5% in 2024.

In parallel, we continue to focus on delivering best-in-class attrition levels. After a small increase over the last couple of years, driven by the challenging macro, we are encouraged that attrition is now reducing.

Strong customer intake and sustained low attrition leads to consistent Portfolio growth. We've driven stable growth rates in our Customer Portfolio for several years. We are now proud to protect over 5.6 million families and small businesses across 17 markets.

This volume growth is complemented by consistent increases in customer profitability. As noted earlier, today we are reporting another significant increase in the fourth quarter, increasing EBITDA per Customer to 33 EUR 10 Cents, up 1 EUR 46 cents, or 5%, year over year.

Taken together we can see the impacts manifest on the right-hand chart, with consistent double-digit growth in our key profit and cash flow measure, portfolio EBITDA, to over €2.1bn in 2024.

Overall, and as Austin noted in his opening remarks, we're pleased with both our Q4 and full year results. We're reporting a year of strong execution against our plans and we come into the new year with excellent operating and financial momentum.

So, that concludes our update today. With that, let's move next to questions. Operator, over to you.

Operator:
If you wish to ask a question, please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial star five again on your telephone keypad. The next question comes from Konstantin, from Lukic. Please go ahead.

Andre Philippides:
Thanks for taking my questions and congrats on the results. I have three please. The first one, can you give us a bit more color on the current subscriber additions, on which geographies are doing a bit better? Which ones are doing a bit less good? I'm thinking maybe about the UK specifically. The second one is on CapEx. Should we expect that

the CapEx trend continues in 2025 and 2026? And finally, what is the ideal timing for your exit? Thank you.

Austin Lally:

Generally, we don't go market by market giving too much detail. It's quite competitively sensitive. Generally, we grow fastest, of course, in markets that are newer and younger. It's a little bit the law of the big numbers and the small numbers.

We certainly have a maturity profile in our portfolio where established markets with a large portfolio will generally grow a bit more slowly. However, the quantum of intake that comes in from those markets is significant. What I would say to you is, in general, our growth is broad based, and therefore we're quite happy with that performance. I think one of the things that stood out in 2024 was very good performance in some of our largest markets.

On the IPO topic, I'll take that one. Then, Colin can talk about CapEx. As I said today, no decisions have been made yet, including on timing.

What we've said is that we're going to explore options, including a public listing. It would be premature to speculate on that today. We certainly don't have any internal or external pressure on us to reach a conclusion on that topic. As I said in my commentary, we will update you if there are material developments.

Colin Smith:

If I can just come back and add a little bit of colour on CapEx. I think first off, in the fourth quarter, let me just unpack what drove that CapEx increase. I've talked about this earlier in my comments.

The installation growth for the quarter at 6% was certainly a contributing factor. There was also a more significant push by the company into upselling, with real success across the three months that led up to Christmas. We also have in this area, the investment that we're making in our customer portfolio to make sure that they are 4G ready. Lastly, we had, again, quite a significant phase of investment in technology and product innovation in the fourth quarter.

Although I cannot give forward looking guidance, my sense would be that the Q4 growth was probably a little on the high side, because we had quite a few of these topics I see as step ups, and I don't consider that amount of growth to be consistent going forward.

Andre Philippides:
That's very helpful. Thank you very much.

Operator:
The next question comes from Benoit de Broissia from Keren Finance. Please go ahead.

Benoit de Broissia:
Thanks for taking my question. Can you elaborate a bit on the smart lock opportunity? To what extent is it an opportunity to improve upselling? Can you quantify the price point for this product and potential impact on annual recurring revenue, given the new indicator you're disclosing today? Then I have a question about your targeted leverage of 4.5 times. Can you give us an idea of when you plan to reach this target, which is a first step as per your wording. Thank you.

Austin Lally:
Maybe I'll comment on the smart lock first, and then I'll pass over to Colin.

What we are seeing is probably three effects on the smart lock. The first one is that when we advertise it, it stimulates bookings. It sort of creates higher levels of customer interest and basically gets more people to think about coming into the alarm category. That's really interesting.

One of the things I said in my remarks is that we believe that news actually help stimulate category growth. Of course, many people that think about Verisure they're not discovering the brand for the first time. We've been advertising for a long time and maybe they've considered buying an alarm system in the past. Bringing some news, something like Lockguard, Wi-Fi vision or Zero Vision, which we brought before, all have a track record of stimulating demand. Remember that our business model is marketing led and it's booking based. Anything that drives demand at the top of the funnel like that is very valuable.

I think the second thing that you get with the lock is that not only does it protect and connect the front door to the alarm system, therefore being a real security benefit for customers. But it also opens a lot of other interesting use cases, like as an example, easier for emergency services to access the property if there's a medical SOS. In fact, we've had some real incidents like that in recent months. We think it's a product that people talk about. We think there's a word-of-mouth effect also coming from the lock that we think is good. One of the things I expect we will quantify over time, because we also have some experience with locks, for example, in the Scandinavian markets before, is it's going to lead to more usage and therefore it's going to lead to lower attrition over time. Again, that's something that we're going to be looking at carefully.

Then the final point is pricing. It clearly allows us to support higher levels of what we call entry RMR. The entry recurring pricing. Just because of the value that the customer sees in it. It's one of the factors that's behind the gradual improvement in recurring revenue that you're going to see.

If I think about the upselling topic that you raise, we haven't really started on that yet seriously. But we think it's a huge opportunity for the future. Because when I go out and I offer customers new upselling opportunities today, some of the most common upselling transactions would be things like more shock sensors to give people more complete installations, maybe more smoke detectors in more parts of the home. Again, to give the customer more protection. I think the lock is potentially a much bigger idea than that. As a company we see that as a real upside for the future.

Colin Smith:

Just to come in on the leverage question. As of today, we are at 4.8 times. We won't give precise forward guidance on when we expect to reach a level at 4.5 times. I'd just point to our track record where we've taken leverage down by 1.2 times in the last two years and 0.5 times in the last 12 months.

I would fully expect us at some point across the 2025 period to be at that level. That's the point where we will, in good order, come out with an update to our financial policy, which, as you know, we published for the first time in February last year. I hope that answers the question.

Benoit de Broissia:

Yes. As a follow-up, would it make sense to shift to a leverage expressed on a 12-month basis instead of last two quarters? A 12-month basis instead of being more standard with the publicly listed companies given the objective? Also, the other question would be considering the IPO option, would it make sense to reconsider the structure of having senior and secured versus unsecured capital debt?

Colin Smith:

We're at the very beginning of the evaluation process and considering these options. I think it's the same answer for the first part of your question as well, on the actual mechanics of the leverage calculation. These are all things that the company is going to be looking at and assessing with our strategic advisors over the course of the next months.

Benoit de Broissia:
Fair enough. Thank you very much.

Operator:
The next question comes from Jean-Baptiste Teissier from Amundi Asset Management. Please go ahead.

Jean-Baptiste Teissier:
Good afternoon and thank you for taking my question. I had the same as Benoit before, but I will follow up one on the restatement that you've made. I understand that you have a bit more reported debt on your balance sheet due to some factoring, which is not the deconsolidated. Would you have still other deconsolidating factoring lines outstanding?

Colin Smith:
It's a good question. Thank you. As part of the work that we've done since we identified this issue, we've reviewed all such similar agreements that are in the group. This is the one that we have that's of any materiality. We've done that as part of our internal review process.

The one other thing that I would say is that the adjustments that we've made, and this is important to understand, to financial liability on the balance sheet, which as I said earlier on, is not classed as indebtedness, as at the end of December 2023 was €308 million.

Importantly, we have many years of observed behavior from customers that join Verisure as part of this alliance. That's the gross default risk that we report under IFRS 9. It's important just to note that the actual observed behavior tells us the net default risk on that factoring will be around 10 percent of that amount. Just an important point to note.

Jean-Baptiste Teissier:
Okay. Great. Another one on debt. I saw in your quarterly report and your full year report that the senior secured level has decreased by €100 million quarter on quarter between Q3 and Q4. Looking at Bloomberg, I saw that there was one note, one senior secured note, the 27s, but I haven't seen your cash flow statement or redemption of that note of any note at all. While the amount of the reported senior secured level has decreased by €100 million. Did I miss something?

Colin Smith:

We had a 500 million note that we repaid 100 million off in October 2024. That's the reason why that number came down.

Jean-Baptiste Teissier:

Okay. Great. Thank you very much. Thank you.

Operator:

The next question comes from Fernando Martinez Bovaira, from CVC. Please go ahead.

Fernando Martinez Bovaira:

Hello. Thank you very much for taking my questions. I have a couple maybe related to the financials. The first one is that looking at your figures, it seems like ARPU has gone down quarter and quarter from-- It's been very minimal from 45.5 and Q3 to 45.2 currently. And this has kind of trickled down to EPC. Could you please explain what are the drivers behind this decline? And then also, it seems like the upfront fee per client is down year-on-year. I think it was ballpark for 150 million last year and closer to 420 this year. Would be great if you could provide some color on that as well. Thank you so much.

Colin Smith:

It's Colin, let me take the second one first. The upfront is impacted by a number of different factors. We blend the upfront by country, and we also blend by business versus residential. In some markets there can be a trade between the upfront and the entry RMR, all being on the margin. I think as I look at the numbers for the quarters, we were at €448 in October to December 2023 against €429 in October to December 2024. We see that very much as being a marginal movement year-over-year.

The first question, I think the ARPU is broadly flat as you see, in Q4. This basically relates to the fact that in December in particular, the other revenue component of our ARPU is a bit lower because of Christmas holidays and such like, and that's something that we tend to see each year. The price rise that we put in, as you're probably aware, kicks in from the beginning of January. Again, there's no impact really on the quarter from any price increase. That will come through, and you will see that, in our Q1 results.

Fernando Martinez Bovaira:

Thank you very much for the color.

Operator:

The next question comes from Shuoying Xu from Aegon Asset Management. Please go ahead.

Shuoying Xu:

Hi, Good afternoon. Thank you for taking my questions. Just a follow up on the paying down of your debt. Is there a particular reason that you did only 100 million and then going forward, not just the 27s but the 28s. Are you going to do something similar with your with revolver? And my second question is also related to factoring. Are you saying you're not able to disclose the total factoring outstanding? And let us know, at least the nature of the factoring that you have. Is this recourse or non-recourse? Thank you.

Colin Smith:

Let me start with the factoring. The factoring balance that we've adjusted on the balance sheet in terms of the financial liabilities, both short term and long term, as of December 2024, was €289 million.

The recourse on this is in receivables. As I said earlier on, we have a long track record having worked with this partner for ten years. The partner is a financial institution. They are incredibly diligent at credit scoring and credit checking customers that they finance with the Verisure product. And that basically means that we've got a very high degree of confidence on the successful paydown of that financing over the years. These are also part of our highest quality customers. The recourse really is the fact that if a payment is failed, we will stop the service. And as I said, that is offset in the working capital. So, we feel very confident about that balance.

Let me go to your second question. I'm not going to give specific guidance on what we intend to do with the debt complex over the next couple of years. I would just reiterate the financial policy that we talked about in February last year, which was not just the point where we set our leverage ratio target of 4.5, but we also talked in that update about the fact that we would revisit maturities in an appropriate way and at an appropriate time. I think that at this point in time, the first maturity that we have is in the summer of 2026. So, we have ample time before that becomes relevant for consideration. But we are always looking at trying to be opportunistic, and at all times fair with our lenders, to try and make sure that that debt stack is as optimized as possible.

Shuoying Xu:
Okay. Thank you. Just one quick follow up, if I may, on the factoring. Is that limited to just a specific market, or are you doing it across all your markets? Are those commercial or residential customers?

Colin Smith:
The factoring is limited to two markets, across our 17 geographies. So, it's not something that we do across our entire company. And again, this is the result of a broad alliance that we've had with a strategic partner for the past ten years or so, just to give a little bit more background and context. And that relationship includes bundled sales with both mortgage and insurance products. And has been very successful and has grown significantly over the past decade. But this is a very specific alliance partner that we have in only one market, and we do it in total across only two.

Austin Lally:
I´ll just add a comment here. This is Austin. Factoring isn't a strategy for us. We don't require it. That is why this is very limited in scope. What this is about, is it is an important sales channel for us that brings in high-quality customers as part of a bundling process. And the partner is a financial institution. And therefore, the factoring arrangement obviously is something that they find commercially valuable. So it´s a bit of a win-win, a quid pro quo.

I'm in the business of getting high quality alarm customers through the channel. I also think the other important point is that the factoring is done at arm's length. I don't think we're paying too much for it. But what we are getting is good customer growth.

Operator:
As a reminder, if you wish to ask a question, please dial star five on your telephone keypad. There are no more questions, 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 external economic backdrop, Verisure performed very well again in 2024. It was another record year. And in Q4, we delivered another quarter of quality growth and new record highs for our portfolio and financial performance metrics.

We are humbled by these results. We never take the trust placed in us by our customers for granted. We work very hard to deserve their loyalty. We aim to learn from each customer interaction and to improve. We know that we can always do better.

Every Verisure team member looks ahead with optimism. We are well established as the leading provider of professionally monitored alarms for residential and small business customers in both Europe and Latin America. Our growth prospects remain strong as penetration of monitored security in our existing geographies still has significant room to grow. And there remains white space around us. We see a lot of attractive, high-quality runway ahead. The best is yet to come.

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