Transcription

Verisure Group Q2 2026 Results

PRESENTATION

Operator:
Welcome to the Verisure Group Second Quarter Results 2026 presentation. Today, I am joined by 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 question-and-answer session after the prepared remarks, then please dial into the telephone conference and press pound key five on your telephone keypad to enter the queue. Please note that you will not be able to ask questions if you have joined on the Audio cast link. Now I will hand the conference over to the speakers. Please go ahead.

Colin Smith:
Well, thank you, operator, and good morning, everyone. Welcome to our second quarter earnings call. First, just a reminder that you can find today's presentation, earnings release, and interim report on our Investor Relations website, together with updated long-term trending schedules, setting out our operating and financial performance. This morning, Austin will begin with opening remarks and second quarter performance highlights. I'll then walk through financial performance in more detail. With that, Austin, over to you.

Austin Lally:
Well, thank you, Colin. Good morning, everyone. Thank you for joining us on our second quarter 2026 results presentation. Q2 was another strong quarter of delivery, and our results reflect the strength of our model. Recurring revenue growth, expanding margins, and improving cash generation. We grew our customer portfolio focused on quality new customer intake, grew margins, generated meaningful positive free cash flow, and reduced leverage to within our year-end target range. And today, we're declaring our first-ever dividend, entering a phase of progressive shareholder returns.

With that, let's turn to slide two. I would summarize the second quarter by talking about two themes. First, we are reporting profitable financial growth and significant positive free cash flow. Annualized recurring revenue reached €3,620 million, up 11.9% year over year at constant currency, including around two percentage points from Mexico. Adjusted EBIT was €269 million, up 13.9%, boosted by a record monthly EBITDA per customer of €35.7. We delivered our third consecutive positive free cash flow quarter at €56 million. That's a year-on-year improvement of €97 million. We've declared our first interim dividend as a public company of €0.10 per share within our pre-IPO guided range.

Second, we executed well against our strategic priorities. A rebrand in Spain is progressing to plan and on budget, and we're very pleased with the positive response, and I'll provide more detail on this later in the presentation. We also completed a technology-led bolt-on acquisition in France. The company is Kivala, and they have developed and brought to market a smart, innovative digital technology that controls access to apartment buildings. Think about a modern app-based intercom system. We also expect this to open new opportunities to increase apartment penetration within those buildings, complementing our current proposition. I'll share more on that later. Importantly, our AI program is progressing well with savings already landing and much more to come.

Finally, we won two prestigious Red Dot Design Awards for ZeroVision and for GuardVision cameras in the quarter. We achieved the highest MSCI ESG rating of AAA, alongside recognition as an ESG leader by Morningstar Sustainalytics. We were also pleased to be named on the Financial Times Europe's Best Employer list for the second consecutive year. Turning to slide three and our second quarter dashboard, you see consistent, broad-based delivery across every metric. Our portfolio is now around 6.4 million customers. That's up 9.4% year over year, reinforcing our position as the largest professionally monitored home security company globally.

New installations were 219,000, up 0.6% year over year, reflecting our focus on quality intake with no compromises. Now, as in Q1, we saw a more uncertain consumer backdrop in Latin America, particularly in Argentina. Total revenue increased 9.3% in Q2. This growth was supported by portfolio growth of 9.4% and ARPU growth of 2.4%. Annualized recurring revenue reached €3.62 billion, up 11.9% year over year. Adjusted EBIT was €269 million, up 13.9%, with the margin expanding 107 basis points year over year to 26.3%, increasing margins as our portfolio continues to grow.

Turning to slide four. Here, we set out the continued compounding of our portfolio alongside stable low attrition. On the left, our customer portfolio grew by over half a million customers year over year, or 9.4%. Highly consistent, valuable growth quarter after quarter. On the right, our Q2 annualized attrition was very stable, remaining low at 7.5%. We're very pleased with the performance here. With an uncertain consumer backdrop through Q2, the resilience and stability of our portfolio were evident again. Continuous improvements across the group offset an approximately seven basis point headwind from the Mexican acquisition. These remain industry-leading attrition levels, especially at our level of ARPU, reflecting the high-quality intake, the portfolio resilience and the high customer engagement that define our model. With that, let me hand over to Colin.

Colin Smith:
Thanks, Austin. Let's turn to slide six. As always, I'll talk to growth rates in constant currency where applicable. Annualized recurring revenue of €3.62 billion, up 11.9% year over year. Total revenue was €1.024 billion, up 9.3% year over year, supported by strong portfolio and ARPU growth. Adjusted EBITDA was €468 million, up 9.1% year over year.

As a reminder, our quarterly EBITDA includes a €10 million investment from our Spain rebrand program, as previously guided. Adjusted EBIT was €269 million, up 13.9% year over year, with margin expanding 107 basis points to 26.3%. This marks our 15th consecutive quarter of double-digit adjusted EBIT growth, reflecting a long track record of predictable compounding growth. Looking at the first half of 2026, adjusted EBIT was €546 million, up 16.6% year over year. H1 margin was 26.7%, up 157 basis points. Earnings per share in the quarter increased to €0.14, up from €0.08, reflecting profit growth combined with a step-down in interest costs following a refinancing program.

Finally, a quarter two highlight. Free cash flow was positive, €56 million, and I'll unpack cash flow in more detail later. Let's turn to slide seven. Our ARPU was €48.20 in Q2, up 2.4% year over year. This growth reflects the quality and engagement of our portfolio. A strong response to the January price increase, continued low discounting, and increased upsell propensity. We maintain NO frontbook-backbook dynamic within our base, with new customers joining Verisure in line with the portfolio ARPU. This supports both lower attrition and consistent ARPU delivery. Recurring monthly costs were €12.49, up 1.2% year over year. As previously noted, this includes an impact from the Mexico acquisition that we expect will reduce over time. Excluding Mexico, RMC was 0.4% lower year over year, reflecting continued progress on sustainable cost transformation against a backdrop of higher cost inflation. Bringing this together, EBITDA per customer reached €35.71. Portfolio services adjusted EBITDA margin increased to 74.1%, up 30 basis points. Increase in contribution per customer alongside a growing portfolio.

Turning now to slide eight and customer acquisition. Q2 new installations were 219,000, up 0.6% year over year. We remain disciplined in the quarter, focusing on high-quality customer intake with no compromise on credit scoring or discount levels. With an average customer lifetime around 15 years, maintaining acquisition quality is an imperative to drive long-term value creation. We continue to diversify our routes to market. In Spain, our new MasOrange partnership launched in April and is already showing promising signs, offering partnership access to over 30 million customers. In Italy, our Unipol partnership continues to evolve well, and in France, our BPCE alliance has now scaled nationally.

Cost per acquisition was €1,644, up 9.8% year over year. This includes €10 million of incremental Spain rebrand media investment, equivalent to approximately €46 on CPA. Excluding rebrand, CPA was up 6.7% year over year, consistent with previous quarters. The increase reflects media inflation and lower absorption of certain fixed sales-related costs. We chose to continue to invest in media given the long-term benefits to brand equity and future growth. Our acquisition multiple was 3.8 times or 3.7 times excluding rebrand, well within our target corridor. New customer cohorts generate an unlevered IRR of around 20% over 15 years, highly attractive value-creating returns.

Moving now to cash flow on slide nine. We generated €56 million of positive free cash in Q2, which represented our third consecutive positive cash flow quarter. Stepping through the bridge from adjusted EBIT of €269 million on the left of the chart, we add back D&A and customer acquisition EBITDA. We then remove technology and portfolio CapEx investments. In Q2, we delivered an improved working capital movement with an outflow of €8 million. This reflects further progress on our working capital improvement program. That takes us to adjusted operating cash flow before customer acquisition of €557 million. From there, we invested €195 million in attrition replacement and €164 million was deployed to organic portfolio growth, increasing our portfolio by 100,000 customers quarter on quarter.

Adjusted operating cash flow reached €197 million, more than doubling year over year. Below the line, finance costs were €80 million, which was slightly down year over year. This included €13 million of non-recurring costs related to a refinancing program comprising a call premia and associated transaction fees. Following the completion of the refinancing program in July, we expect cash finance costs to step down in Q3 and again in Q4. Last, I wanted to highlight the note on the right of the chart. By adding back organic portfolio growth investment, our pre-growth cash generation in Q2 was €220 million, up 84% year over year. This highlights the underlying cash generative strength of the financial model.

Let's now come to slide ten. Staying on cash flow, here we summarize progress as we move through our cash inflection point ahead of expectations on every dimension. Our balance sheet is strengthened significantly alongside improving cash generation. First, on weighted average cost of debt, we reached approximately 4.25% on a pro forma basis. Within our year-end target range of 4 to 4.5%, despite the higher rate environment.

Second, our refinancing progress puts us well on track to deliver at the upper end of the €200 to €220 million interest savings versus 2024 as we guided at the time of the IPO. Third, leverage is already within our year-end guidance range of 2.5 to 2.75 times, closing Q2 at 2.7 times. Fourth, portfolio reinvestment rate has reduced to 57.3% in Q2 from 58.5% a year ago. This is an important metric for us because as our portfolio grows in profitability and cash generation, a progressively smaller proportion of portfolio cash flow is reinvested into new customer acquisition. Lastly, CapEx intensity is reduced to 23.9% of sales from 25.8% a year ago. As we capitalize a lower proportion of customer acquisition costs, charging more of these costs immediately to the income statement. Taken together, it is clear that our cash inflection is now well established, with €95 million of positive free cash flow generated in the first half of 2026.

Lastly, in June, Fitch assigned Verisure its first investment-grade rating at triple B-minus with a stable outlook, further strengthening our financial flexibility. Moving now to slide 11. Our deleveraging progress continues at pace. As noted last 12 months, net leverage stepped down to 2.7 times at the end of Q2, representing a further 0.1 of a turn improvement in the quarter, with total net debt reducing to €4.9 billion. We reduced our total net debt by €72 million in Q2, and by €110 million in the first half of the year. We reaffirm our medium-term leverage target of around 2.5 times, with a clear pathway to additional shareholder returns over time. As we've noted in the earnings release, we're pleased with progress on refinancing.

In April, we refinanced a €570 million term loan A upsize with proceeds used to fully redeem a legacy pre-IPO bond, carrying a 7.125% coupon. Then, in late June, we placed a new €1 billion senior secured note for a 4.125% coupon, using those proceeds to fully repay our 5.25% Senior Notes. Following this refinancing, together with margin stepped downs on our RCF term loan A and Term Loan B, our weighted average cost of debt has been reduced to approximately 4.25%. We now have no debt maturities due until May 2030, but we will remain opportunistic in assessing further options within the debt structure. As noted, we expect to deliver interest savings at the top end of the €200 to €220 million savings range versus 2024.

Before I pass back to Austin, let us now turn to slide 12. Today we reconfirm our 2026 outlook. We continue to expect ARR growth of around 10%, excluding Mexico, adjusted EBIT margin above 26%, reflecting further margin progression while absorbing the Spain rebrand investment, and free cash flow positive for the full year. An important milestone today: our declared interim dividend is €0.10 per share. Based on a 35% payout ratio on H1 2026 adjusted net income. This will see us return €103 million to shareholders, marking the beginning of a new phase of progressive shareholder returns. We also reaffirm our medium-term guidance around 10% annualized recurring revenue growth, revenue growth up to 100 basis points below ARR growth, and progressive adjusted EBIT margin development to 30% long-term. Q2 was a quarter of measured execution and again demonstrated the adaptability and the resilience of our financial model. With that, Austin, back to you.

Austin Lally:
Well, thank you, Colin. Behind the Q2 numbers is a business model designed to compound value year after year. Over the next slides, I'll cover our disciplined portfolio model, investments for growth, our AI-enhanced service, and our plans for progressive shareholder returns. Now this slide sets out the essence of our model in four words: disciplined, compounding, portfolio growth. Strategic execution rests on three pillars. First, high-quality customer intake with no compromise on credit scoring or entry pricing. Second, highly attractive unit economics, each new customer generating around a 20% unlevered IRR over a 15-year lifetime. Third, robust growth margin

expansion and cash flow delivered quarter after quarter. Q2 underscores this on all three fronts.

EBITDA per customer reached the highest level ever. Per customer, profitability continues to grow. Portfolio services adjusted EBITDA margin increased to 74.1%, and that represents the valuable recurring monthly contribution generated per customer, and attrition at 7.5% remains among the lowest across global consumer subscription businesses. This is a business that has grown consistently through multiple cycles, and the opportunity ahead remains compelling. With category penetration still only around 4% across our footprint.

Turning to slide 15. Let me provide a brief update on the Spain rebrand. We launched the Verisure brand in Spain in April, building on the Portugal launch in late 2025. Three months in, we see strong early proof points. We already have over 70% awareness for the Verisure brand, and over 70% of digital marketing leads are now coming through the Verisure brand, both meaningfully ahead of our initial expectations. Beyond commercial channels, the rebrand is also strengthening our employer brand with traffic to our careers website from Spain more than doubling since April. Marketing investment in the rebrand remains on track with prior guidance and is fully included in our 2026 adjusted EBIT margin outlook of above 26%. The early response reinforces our confidence in the value of a unified, Verisure brand across our European footprint.

Let's turn to slide 16. Here we highlight three initiatives that reinforce our position for the future around growth, supply chain strategy and cost. First on growth. As I indicated earlier, we completed the acquisition of a company called Kivala in France. Kivala provides a secure digital intercom solution for residential shared access buildings. Kivala extends the Verisure protection ecosystem. We protect customers on city streets with our Guardian service at the building entrance with Kivala, at the front door with our very popular LockGuard product, and then inside the home through our AI-enabled alarm and camera platform. Standalone, Kivala is an attractive business with a profitable recurring revenue model and accretive unit economics. It also creates an opportunity to increase our ability to address apartments within Kivala-protected buildings. This was an opportunistic, technology-led acquisition, with a modest, committed investment of around €6 million in 2026.

Second, supply chain. We opened our new assembly facility in Brazil in the Manaus Free Trade Zone. Our supply chain strategy is focused on regionalization, shortening supply chains and bringing production closer to our end markets. This will also benefit working capital and unitary hardware costs over time. Third, on cost. Our fit for growth transformation program is delivering excellent benefits. The program is broad-based, and areas in scope include lowering material costs, digital-first organizational design, and AI-enabled sales and marketing efficiency. We look forward to sharing examples of new initiatives regularly over the coming months. Taken together, these initiatives support both growth and margin expansion, demonstrating that at scale, we continue to identify structural improvements that reinforce the model.

On the next slide, an important point on how we deliver our service. We are a human-delivered, AI-enhanced business, and AI lets our highly trained human experts act fast on what really matters. To bring this to life, in Q2, our systems processed approximately 24 million alarm triggers across our customer base. Nine million cases were verified by our highly trained security advisors. AI plays a key role here, supporting filtering, identifying high-risk events, and routing those events to the most experienced teams within our 17 alarm receiving centers. This allows us to filter out 99.5% of false positives. Of the 24 million alarm triggers, we provided expert intervention in 104,000 incidents that required on-site assistance. These are the key moments of truth when Verisure intervenes to protect a family, a home, or a business. Our intervention is what the customer pays for, and it illustrates how we're operating at scale.

Cutting-edge AI engineered by our in-house technology teams, deployed at scale, enabling our human experts to be more effective and more focused when it matters. Though AI doesn't replace our human service, it makes it consistently better. It's a genuine competitive advantage, especially given the size of our portfolio, the vertical integration in our technology stack, and therefore the size and the quality of the data set that we use. We see this continuing to enhance the service that we provide to our customers.

With that, let me move to the key takeaways. First, a strong Q2 performance, robust growth, margin expansion and positive free cash flow. The business model continues to deliver as expected. Second, progressive shareholder returns. Following the declaration of our first interim dividend today, we see clear scope for additional shareholder returns beyond 2026 as free cash flow continues to accelerate. We're coming through the 2G/3G upgrade program, the Spain rebrand and continued reduction in the portfolio reinvestment rate. Once leverage settles at our medium-term target of 2.5 times, we see a clear pathway to return further capital. Third, we reaffirm our 2026 guidance. ARR growth around 10%, adjusted EBIT margin above 26%, and free cash flow positive. Verisure is defined by disciplined, choiceful growth and consistent execution. In Q2, we executed well, demonstrating the flexibility of our business model. We're delivering quality growth, margin expansion, cash generation and shareholder returns, and that's the inflection point we have been guiding towards. With that, I'll hand back to the operator, and Colin and I look forward to your questions.

Q&A

Operator:

Thank you. As a reminder, if you wish to participate in the question-and-answer session, please dial in to the telephone conference and press pound key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial pound key six on your telephone keypad. We please ask all analysts to limit their questions to two per person. We will take a short pause as we wait for the first question. As a reminder, it is pound key five to join the queue. Thank you. The next question comes from Annelies Vermeulen from Morgan Stanley. Please go ahead.

Annelies Vermeulen:

Morning, Austin. Morning, Colin. Two questions then, please. Could we talk a little bit about the macro environment for new installations? Perhaps a little slower this quarter, but ARPU and retention are very robust. How should we square that? Perhaps could you talk about the regional differences you're seeing within that? Then secondly, just on the free cash flow, which was better than expected. Could you unpack the moving parts within that where you delivered better performance, and given the usual seasonality around working capital, would you expect Q3 and Q4 free cash flow to continue to build on the Q2 levels? Thank you.

Austin Lally:

Well. Annelies, good morning. Nice to talk to you. Maybe I'll take the first question on installations and the macro picture around. We certainly see, I think we're all looking at the same reports, a more choppy consumer backdrop. I would say it is a bit worse in Latin America than Europe, but even in the European economies, there's uncertainty. We know when we go through cycles like this that it creates some headwind on new installations, customers delaying decisions on big-ticket items until the situation becomes clearer.

I think against that backdrop, I was actually very pleased with the absolute volumes that we delivered in the quarter. It was 219,000 new installations. It was the third highest ever. I guess the important point is when that feeds into the portfolio, the book's up 9.4% year-on-year. That level of portfolio growth on a business of our scale against a difficult economy, we were really, really pleased about. I will say as well that even if you look across the footprint, there are still places where we actually deliver standout growth. I was very pleased, for example, I look at the UK, I look at Italy, I look at Spain, and that's important for the future.

I'm glad that you mentioned the attrition performance, the retention on the portfolio. That's the thing in the quarter program I'm most pleased with. Attrition was stable at

7.5%, despite a more difficult macro. That portfolio is just rock solid, like high quality, engaged, sticky. There's a little bit of headwind on that attrition number from Mexico. I think seven or eight basis points. If you excluded Mexico, attrition was actually down in the quarter. Maybe also moving to the question around ARPU development too. The way I look at it, we delivered the strong volume intake. We managed to continue to price. I think that was very pleasing. We held the portfolio rock solid, and I think the combination of those three things we were pleased with.

As I've said in previous calls as well, we could have sold more alarms in the quarter if we'd been prepared to compromise on the quality of the intake, and we didn't. We focused on very high-quality standards in that quarter because chasing some easy volume today is just tomorrow's attrition. It doesn't make sense. That's one of the reasons we don't guide on installs. We guide on ARR because ARR is a bit more than installs. It's about the portfolio size. It's about attrition. It's about the ARPU that you can develop. One of the reasons that we don't guide on install volumes is that I don't want to create pressure inside the company for people to chase customers that they're going to regret bringing in.

Colin Smith:
Why don't I pick up on cash, Annelies? Thanks for the question. Cash was a real highlight of our Q2 delivery. I was very happy with the quality of the cash delivery in the quarter. It was our third successive quarter of cash generation. As a reminder on the numbers, we delivered €56 million of positive free cash. That's actually €120 million over the last nine months. It shows the consistency of that delivery over time. Let me unpack the Q2 delivery in a little bit more detail. Firstly, look, we had two cash headwinds in the quarter that are worth talking about, both of which are non-recurring.

First, the payment of an IPO bonus to all staff, which was €18 million. That was paid in April. Second was refinancing costs mentioned in my remarks earlier on, which were a €13 million cash out. They came against us in Q2. Second, though, we were pleased with better working capital. You mentioned that, and I know that we've talked about this a lot together over the course of the past 12 months. In the context of us moving through our cash inflection point. Q2 working capital was a cash outflow of €8 million, making a working capital outflow of €56 million in the first half, and that broadly equates to around 2.5% of sales.

The outflow is lower than in Q2 2025, but I would treat 2025 very much as the outlier here. To share a little bit of color on what we're doing on working capital. Firstly, on inventory, we built up stock a little higher pre-summer than we had planned. We're carrying around €330 million of inventory, which is around seven months of supply. Stocking up a little bit higher was a deliberate choice for us, and that was due to the global memory demand and price pressures that we're seeing. Over the medium term, we do see opportunities to sustainably step down inventory, particularly given that our assembly line is now open and operational in Brazil.

Second, we worked across all markets to ensure that we're optimized across payables and receivables areas, such as recovering withholding taxes promptly. Further good progress on getting cash in the door more quickly. We also kicked off a rebrand in the quarter in Spain, as I talked about earlier on, and that had the impact of increasing our trade payables balance. Therefore, I think I'd see cash delivery in the quarter as very well balanced. As I said earlier, of high quality. In terms of guidance, as you know, we don't give cash guidance for the rest of the year. I do think that this is a positive point of progress on our journey on cash flow. We see it as a waypoint in terms of those accelerating shareholder returns that are looked at, that I talked about earlier on. Caveat here is that cash, as we know, will always be a bit choppier quarter on quarter than the P&L delivery, but we certainly see this as a good base for the rest of the year, that is, the H1 number.

Just before I close, I also just wanted to note that on cash flow, both of our discontinuous strategic programs, 2G/3G sunset and the rebrand, are at peak investment levels. They will flip to become a cash tailwind in the medium term. We've talked about cash so much since the IPO. It's the ultimate proof point that the model is working. As I say, we see ourselves at the very beginning of a really attractive journey on cash. Thanks.

Annelies Vermeulen:
Great. Thank you both for the detail.

Operator:
The next question comes from Joachim Gunell from DNB Carnegie. Please go ahead.

Joachim Gunell:
Thank you and good morning. Just to follow up on the discussions on new installations. I know that you don't guide, but can you just provide some commentary here on what we see going on with regards to the fires in Southern Europe? Basically, in light of your large presence in this region, can that become an even greater headwind to new installations in Q3?

Austin Lally:
I'll take this. I think for us the absolute first primary consideration is the safety of our employees and our customers. That's where we've been focused. We're supporting our employees who have been affected, particularly by the outbreaks to the west of Madrid. We did have a number of employees affected there who are being given paid leave. Our

teams are continuing to assess their needs and provide support on a case-by-case basis so that we get their families to stay upright and moving on. I think moments like this, your DNA is tested in terms of your care for your people and your care for your employees.

If I look at, if I look at western France, around Bordeaux, those fires and also what we saw in Var down in the south of France, we don't have major operations centered there, and so the number of employees impacted is smaller. But we do continue to support them. We actually had three sales branches in the affected area that we had to evacuate. We'll obviously return to activity there when the situation normalizes. Obviously, the first priority is that we don't make any compromises on the safety of our staff and our customers. Around that, initial evacuation here in Bordeaux, I think we had about 7,000 customers in our portfolio, and we're obviously in touch with all of them to make sure that we can help. I don't see that adding up to being a material topic around installations, but it's clearly, from a humanitarian perspective, it's a strong concern for us.

Joachim Gunell:
On the rebrand, that is progressing according to plan both in Portugal and Spain. You commented that the investments here are tracking in line, and this is embedded into the guidance. Just for Q3, the seasonal pattern on margin progression is a step up in the investments on the rebrand side, something that could pose a threat to the seasonal margin expansion into Q3 versus Q2.
I think you guided before that the investment in Q3 would be similar to Q2.

Colin Smith:
Yes, that's right. Joachim, it's Colin. We talked last time about a €25 million media investment over the course of the year. As we've talked about today, 10 million of that was made in the second quarter. I expect Q3 to be similar to Q2, with potentially a slightly lower level of investment in the fourth quarter. I think, stepping back, importantly, in terms of EBIT, as we said on the call earlier, we're pleased with where we're at both here today and in the quarter. Margins are at 26.7%. The rebrand at those levels was fully included in the outlook that we shared for the year. Before anyone asks if we're re-guiding on EBIT, I think the answer to that one very much is not yet. I think I would like to come back in Q3 and share more specific updates on the year-end '26 outlook.

Austin Lally:
Yes, very good. Commenting just a little bit more on the rebrand. I'm delighted with the quality of the execution in Spain. Just really proud of the Spanish team. It's been a full court press, across the whole organization, marketing, sales, operations, talent. Although I'm not guiding to upside, it's going faster than we anticipated, faster than we

expected. Some people thought about these rebrands as being like a risk or a cost, and I always viewed it as an investment, and I really look forward to having unification and control of our brand right across Europe.

Joachim Gunell:
Lovely. Thank you both and have a great summer.

Austin Lally:
You too. You are welcome. See you in Stockholm.

Operator:
The next question comes from Suhasini Varanasi from Goldman Sachs. Please go ahead.

Suhasini Varanasi:
Hi. Good morning. Thank you for taking my questions. Given the healthy free cash flow generation, it feels like leverage could actually drop quite quickly by the end of the year. In which case, if leverage does drop quickly, could we expect additional capital returns at the full-year results next year? Appreciate it's a bit too early, but I just want to get the question there. The second question is on the Manaus assembly line, which was opened. Just wanted to get a bit more color here, please. Are you trying to be a bit more vertically integrated here by getting into manufacturing? Are your capital requirements changing, or is it just trying to diversify the supplier base and having contracts with somebody else? Thank you.

Colin Smith:
Let me pick up Manaus. First off, from a supply side, I think the benefits here are really all about our strategy of shortening supply chains. We assemble the majority of our hardware. I think we've said before in Eastern Europe, and what we're doing here is we're working with Flex, one of our two strategic manufacturing and assembly partners, to basically open up in the Manaus kind of free trade zone in Brazil. That will basically mean that we shorten the supply chain and will be one of the elements that help us kind of reduce the inventory levels that I was talking about earlier on. It's going to give us working capital benefits. It also will deliver unitary cost benefits in terms of the hardware cost into Latin America, because we avoid some import duties by manufacturing that hardware locally.

I think all in all, it's a really nice business case, this one, and I think it really delivers multiple benefits, and helping us diversify manufacturing and assembly plants is always a good thing. Thanks for your question on cash. Similar to the answer I gave to Annelies earlier on, we're not going to give definitive guidance on cash flow for the full year, but as

I said earlier, we're in good shape. I think the first half should be looked at as a good base for what's coming. In terms of where that takes us in year-end leverage, I think you're right. I expect us to make some further progress, but that will be something that we will review and discuss at the right moment in time. I think standing back from it, the bigger position is, as you've called it, we see the ordinary dividend as being well covered already. I think the pathway and the opportunity for additional returns is fairly close at hand. Thank you.

Suhasini Varanasi:
Thank you very much.

Operator:
The next question comes from Virginia Montorsi from BofA. Please go ahead.

Virginia Montorsi:
Good morning. Thank you for taking my question. I just had two quick ones. One is about your ARR guidance because I think it's one of the most debated topics right now with the investor community. How are you thinking about the kind of moving pieces of new installations and cancellations to get to that 10%? Because I think lots of conversations we're having are, if we look at where you're tracking right now on the new installation growth and the current cancellations, 10% into next year looks a little bit harder to achieve. Is there anything we're missing out, and how are you thinking about it? Obviously, you explained the priority of the quality of the cohort. What are your moving pieces in terms of being comfortable with the guidance? Then last question on my side. Is there anything you can comment on exit rates on the new installations for Q2 or anything on July trading? Thank you very much.

Austin Lally:
I think in terms of how Q3 has started, obviously it's kind of similar to what I would say in Q2. I don't think that there's been a significant improvement in the landscape or a worsening. I think you're right on the ARR point, which is, look, over the medium and long term, our model benefits from growing installation volumes, but it's not something that's a one-quarter or a two-quarter-like effect. Obviously, a better macro would help us, but in the medium term, we're not counting on that because we're not in control of that, but we'll take it when it comes.

I think the first thing I would say on their ARR, of course, like in the short and medium term, it's fundamentally driven by having a big portfolio up 9.4% and the ability to price, and very, very happy with attrition being stable in this environment, but we obviously have an objective to try and bring attrition down, like over time. It's certainly not something that I would accept that 7.5% is sort of the new normal, for attrition. Maybe in a difficult economy, it comes down a bit more slowly, but we're still working very much on that. If I go to ARPU, because eventually ARR is the ARPU times portfolio, we've never had a stronger innovation program ahead. The whole point about innovation in Verisure is to create the market. It's to take the lion's share of the growth, but we've been on our journey over decades of basically resetting and step-changing the ARPU levels in this industry, and we've done it behind innovation. I think the innovation is ahead, is going to continue to give us pricing power, and that's going to contribute to that ARR delivery over time.

Colin Smith:
I echo that I think installations are always going to be subject to ebb and flow quarter on quarter. I think the one thing that's not subject to ebb and flow is our focus on quality. There's absolutely no compromise there, and that would never happen. It's all about the health of the portfolio. We've also announced today, Virginia, that EBITDA per customer. The average contribution made each month by our 6.4 million customers is at the highest level of 35.71. That really is the engine of both profitability and cash flow growth in the business. Thanks.

Virginia Montorsi:
Thank you very much. Very helpful.

Operator:
The next question comes from Andy Grobler from BNP. Please go ahead.

Andy Grobler:
Hi. Good morning. Just a couple from me as well, if I may. CPA was up again in the quarter, stripping out the rebranding cost. Can you just talk through the drivers of that and your expectations for the second half of the year? Do you think media costs are going to continue to rise? Are there any other factors we should take into account? Secondly, a niche one: within the cash flow statement, there are a few moving parts around factoring. Can you just talk through what's changed there and whether there is any impact on working capital? I don't think there is but just wanted to check. Thank you very much.

Colin Smith:
Andy, it's Colin here. Let me pick both of those up. I think let's go with the second one first because I think it's a simpler, shorter explanation. I think factoring, importantly, is not included in the €56 million free cash flow delivery. As you say, that doesn't come through working capital. We treat that as a financial liability, and it sits on the balance sheet. If you think about the reduction in net debt, which was 72 million, and the free cash flow generated per our definition, the difference between those two numbers is the movement in that factoring balance. This is primarily in partnership with a long-standing partner in Spain, as we've mentioned before. You'll always see a little bit of up and down

in terms of that factoring balance based on the amount of factoring that is provided for each new installation. We're broadly level with where we were last year, but I hope that answers the factoring one and clears that one up.

Let me go to CPA. Thank you for the question. Firstly, I just wanted to remind everyone that CPA is only really one half of what we focus on in terms of the returns that we get from customers. We work on the acquisition multiple, which captures CPA as well as the unit economics of customers that are newly acquired. The acquisition multiple was broadly stable in Q2 at 3.7x. That's in line with ten-year averages, and we're very happy with the returns that we receive here.

Let's look at CPA in Q2. We were up 9.8% in the quarter, as you see. Let me unpack that. I'm going to talk about four things. Firstly, and as we've talked, the media rebrand investment was 10 million. That equates to three percentage points of year-on-year growth, so that takes us down to a 6.7% growth rate, and that's in line with the last three quarters, as you see. Key drivers of the growth I'd point to would be as follows: lower upfront. As expected and as discussed previously, that's driven by country, but mainly the apartment mix of new installations, which led to around a two percentage point increase in CPA. We did see some persistent increase in media costs, primarily driven by digital. That increased CPA by around one percentage point. It's kind of slowed down a bit, but it's still there.

Lastly, the point I made earlier on lower operating leverage from install volumes that were slightly lower quarter on quarter and versus what we had planned to complete, which cost us around three percentage points of growth on CPA. As I noted, this relates to the under-absorption of fixed-quarter costs. Remember that CPA is a fully loaded metric. It's a unit cost, and more than 50% of CPA is fixed effectively in the quarter. The examples of those costs would include sales, salaries, vehicles, the branch network, and overheads. If we think about forwards, as you know, we don't guide on CPA, but we have previously talked about the €25 million of rebrand media. We stand by that and reconfirm that today.

We've also noted many times that we expect the upfront to continue to reduce similarly to how it has done over the course of the past 12 months. Given that we're a people business, primarily inflation will impact CPA going forward. Although I don't want to give full, kind of specific guidance, I think generally speaking, I'm broadly okay with where CPA sell-side consensus is for 2026. Now, taking all that together, it's important to note that, clearly, we work as a business to maximize or drive CPA efficiency. The cost program that Austin talked about earlier targets support costs and cost of materials. We're also driving increased conversion and productivity in the field, which lowers CPA, as well as working on alliance partnerships, which deliver a slightly lower-than-average cost per acquisition. I know that was a bit of a long answer, but I wanted just to make sure that we've provided some extra color on CPA in Q2 and how that's come through.

Andy Grobler:
Great. Thank you very much.

Operator:
The next question comes from Erik Lindholm from SEB. Please go ahead.

Erik Lindholm:
Good morning, Austin, Colin. Thanks for taking my questions. Two questions, if I may. Memory price inflation: you touched on the topic in not working capital, for example, but it continues to be quite extreme, and I guess you have some exposure in both your central unit and your detectors. I understand that there are, of course, many moving parts here, but is it possible to give a best estimate of how you're thinking about memory price inflation's impact on perhaps both the EBITDA and CapEx into next year? Thanks.

Colin Smith:
Okay. Well, let me pick that one up there, and I'll go quickly because I'm conscious of time. It's tough supply conditions globally, of course. We're not seeing a material cost exposure at this stage, and no risk to guidance, which we've reconfirmed today. If we talk about memory specifically, we spend a total of around €400 million a year on hardware. Currently, we see around €10 million to €15 million annualized impact from increasing memory costs, and that, as you say, is primarily in our central units and detectors. That's based on current elevated chip pricing. Now, where that cost goes to our CPA, it's capitalized and equates to maybe €10 million to €15 million because we've got seven months' worth of stock on hand. I expect that more to be our 2027 impact than 2026.

Just to kind of go around a couple of other topics. Freight and logistics are not material. A couple of million from elevated pricing. Thirdly, the fuel that runs our car fleet, we spend around €30 million a year on fuel. We are looking at a risk this year of between €5 and €10 million, but importantly, that's fully absorbed and included in our reconfirmation of guidance. Working hard on all of these items; whenever we see a cost up, that's unexpected. We do a full court press, and the business will look for opportunities to mitigate and offset.

Austin Lally:
I would just add really one quick comment on this too, which is, look, we make €36 in profit per customer per month. We've got a 15-year customer lifetime. Even a little bit of elevation on memory cost over the lifetime value of a customer. It's well worth taking, and obviously that's one of the reasons why we take the entry pricing up, so that we can get the money back quicker. The bigger topic actually, in these situations, is not the

elevated pricing. It's being able to make sure we secure supply. When we had the supply chain shocks, for example, coming out of COVID, one of the things I was really proud of our procurement team, we never missed a single customer order because of supply chain disruption.

Erik Lindholm:
Thanks. That's very clear. Just one follow-up, if I may, on the sort of under-absorption topic here in CPA that was the biggest driver of the CPA in the quarter. Are you sort of doing anything to address these costs, or do you think that this will improve as macro gets better and leads to higher installation volumes? Thanks.

Colin Smith:
I talked about the fit for growth cost program. So looking at areas like support cost, I also mentioned the fact that we're always looking to optimize sales channels and always looking to drive the productivity coming out of the field. I think generally speaking, I said earlier that we weren't pulling back on marketing and media because a lot of the media investment that we make is in return for future growth as we build brand equity, and we're certainly not going to be trying to squeeze CPA into our targeted number for the quarter. We're going to do the right thing for the medium and long term.

Erik Lindholm:
Great. Thanks.

Austin Lally:
Thanks, Erik.

Operator:
Thank you for your questions. I will now hand over to CEO Austin Lally for closing remarks.

Austin Lally:
Well, thank you all for joining us today and for your continued interest in Verisure. Colin and I are delighted to get your questions. Just maybe close by saying Q2 is another good example of the disciplined execution and the long-term value creation at the heart of the business: disciplined, choiceful growth, expanding margins, and a structural improvement in cash generation. Today, as you noted, we declared our first-ever dividend. We're now at the inflection point, the beginning of a different, progressive shareholder returns profile, and Colin and I look forward to meeting many of you in the coming weeks for further discussion. I want to wish you all a good summer.