Transcription

Verisure Group Q3 2026 Results

PRESENTATION

Operator:
Welcome to the Verisure Group third quarter 2026 results 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 questions and answers session after the prepared remarks, please 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 on the audiocast link. Now I will hand the conference over to the speakers. Please go ahead.

Colin Smith:
Thank you, operator. Good morning and welcome to our third quarter 2026 earnings call. To start, I want to remind everyone that you can find today's presentation and earnings release on our Investor Relations website, together with long-term trending schedules detailing our operating and financial performance. As usual, Austin will begin with opening remarks and operational highlights.

I will then walk through financial performance in more detail before handing back to Austin to cover strategy, priorities, and outlook. With that, I'll hand it over to Austin.

Austin Lally:
Well, thanks, Colin. Good morning everyone. Thank you for joining us today. Q3 was another solid quarter of delivery characterized by quality growth, driving strong cash generation and margin expansion ahead of our expectations. We grew our customer portfolio to around 6.5 million, prioritized quality customer intake, reached our highest-ever Adjusted EBIT margin, and delivered positive Free Cash Flow for the fourth consecutive quarter.

With that, let's turn to slide two.

I would summarize today's performance around three themes. First, Q3 delivered quality growth, record margins, and strong cash generation. Annualized recurring revenue reached €3.712 billion, up 11.8% year-over-year, which includes around two percentage points from Mexico. Adjusted EBIT was €285 million, up 13.9% at a record 27.7% margin. And we were pleased with Free Cash Flow of €59 million in the quarter.

Second, turning to our outlook for 2026. Q3 trading again demonstrated the resilience of our recurring revenue model. Portfolio Services economics remain strong, with ARPU, EPC, and attrition all tracking in line with or ahead of our expectations.

New installation volumes, however, remain softer than our original plan. In a small number of markets where macroeconomic conditions and consumer confidence remain soft as in the past few quarters, we again prioritize quality over pace, and we continue to exercise discipline in those markets. As a result, we are refining our 2026 ARR outlook to between 9% and 9.5% growth. We expect our Adjusted EBIT margin to be around 26.5% and confirm Free Cash Flow of around €200 million. Third, capital allocation.

We are approaching our 2.5 times leverage target. This will create capacity for shareholder returns beyond the ordinary dividend. With that, let's turn to slide three. Our third quarter headlines tell a story of consistent delivery across the board. Our portfolio is now around 6.5 million customers, up 9% year over year, reinforcing our position as the global leader in professionally monitored security.

New installations were 215,000, broadly stable year over year, reflecting our focus on quality intake against a more challenging consumer backdrop.

Total revenue increased 9.2% to €1.031 billion, and annualized recurring revenue reached €3.712 billion, up 11.8%. Adjusted EBIT was €285 million, up 13.9%, with margin expanding 116 basis points to 27.7%. This was a quarter of excellent financial delivery, our highest-ever quarterly revenue, Adjusted EBITDA, Adjusted EBIT and Adjusted EBIT margin, and marked our 16th consecutive quarter of double-digit Adjusted EBIT growth.

Turning to slide four.

Here we set out the continued compounding of our portfolio alongside sustained low attrition. On the left, our portfolio grew by 534,000 customers year over year to almost 6.5 million, with 97,000 net additions in Q3. On the right, LTM attrition was 7.5%, within our attrition corridor. Quarterly annualized attrition was 7.3%, 18 basis points above last year, including the higher attrition of the Mexico portfolio acquired in Q4 2025. Our AI-powered customer insights engine is now live in Spain and France, with several other countries following soon.

It proactively identifies detraction risk. Attrition remains one of our most differentiated KPIs. With that, let me hand over to Colin.

Colin Smith:
Thanks, Austin. Let's next turn to slide six. As always, I will speak to growth rates in constant currencies where applicable.

Q3 was a quarter characterized by strong financial delivery, with cash generation and margin expansion ahead of expectations. Annualized recurring revenue was €3.712 billion, up 11.8% year over year, including around two percentage points from Mexico, which, as a reminder, we lap in Q4. Total revenue was €1.031 billion, up 9.2% year over year. Adjusted EBITDA was €489 million, up 9.7% on a year-over-year basis. Adjusted EBIT was €285 million, up 13.9%, with margin expanding 116 basis points to 27.7%, its highest ever level, while absorbing €7.2 million of Spain rebrand media investment. On a year-to-date basis, Adjusted EBIT is €831 million, up 15.6% year over year. Year to date, margin increased to 27%, up 143 basis points, supporting today's upgrade of our full year Adjusted EBIT margin outlook to around 26.5%. Adjusted EPS increased to €0.16 from €0.09 per share in the prior year, reflecting strong profit growth, lower interest costs, and good progress on tax. Free cash flow was positive €59 million, our fourth consecutive positive quarter, taking the year-to-date to €154 million.

Let's now turn to slide seven.

ARPU delivered strong growth in the quarter at €48.10, up 3% year over year. Our growth reflects a lasting impact from the January price increase and underscores the stability and strong engagement from our customer portfolio. We also delivered increasing upsell and lower discounting. As I've often noted, we have no front-book, back-book dynamic in our portfolio. New customers join at the same level of ARPU as our portfolio.

Recurring monthly costs were €12.30, up 3.5% year over year, with around 50% of the increase from Mexico's higher inherited cost base, which will reduce over time as we integrate and introduce Verisure processes and systems. Bringing this together, EPC reached €35.80, up 2.8% year over year, increasing the profit contribution from each customer every month. Portfolio services EBITDA margin is at 74.4% in the third quarter. Turning to slide eight and customer acquisition.

Q3 new installations were 215,000, broadly stable year over year. We saw country-specific macro-led pressures in France and Latin America, specifically in Argentina, while our major markets elsewhere delivered very good year-over-year growth. The complex consumer macro made it challenging to grow at the pace of our 2026 plans. We chose, as always, to prioritize quality over volume with no compromise on credit scoring, entry pricing or discounting. With an average customer lifetime of around 15 years, maintaining acquisition quality is imperative to long-term value creation.

Cost per acquisition was €1,658, up 9.2% at constant currency, including around €33 per installation for the Spain rebrand media; excluding rebrand, CPA was €1,625, up 7% year over year, reflecting the lower upfront revenue per installation as previously guided, like-for-like media inflation and under-absorption of the fixed cost element of CPA against lower installation volumes. Our acquisition multiple was 3.9 times, up 0.3 times year over year, or 3.8 times excluding rebrand with higher CPA, partly offset by increased profitability per customer. New customer cohorts continue to generate an unlevered IRR of around 20% over 15 years, well in excess of our cost of capital. Moving now to cash flow on slide nine.

As noted, the company generated €59 million of positive Free Cash Flow in Q3. An improvement of €86 million year over year. And it marks our fourth consecutive positive quarter. We have moved firmly through our cash inflection point. Year to date, Free Cash Flow is €154 million, which is €278 million better than the first nine months of 2025.

Stepping through the quarterly Free Cash Flow bridge from Adjusted EBIT of €285 million, we add back D&A and customer acquisition EBITDA, and deduct portfolio and other CapEx, leases, and a €64 million working capital outflow. The working capital investment reflects inventory build and lower trade payables. That takes adjusted portfolio operating cash flow before customer acquisition to €515 million, up from €488 million a year ago. We invested €195 million in attrition replacement, acquiring around 118,000 customers and €160 million in organic portfolio growth, growing our book by 97,000 customers in the quarter. Adjusted operating cash flow was €159 million.

Below the line, we paid €18 million of tax, with net interest paid of €72 million, down from €132 million a year ago, reflecting the excellent progress made over the past 12 months on refinancing. Last, the note on the right of the chart: adding back the €160 million of organic growth investment, pre-growth cash generation was €219 million, up 62% year-over-year, underlining the growing cash-generative strength of our portfolio. Let's turn now to slide ten.

On the left, our leverage ratio was at 2.7 times at the end of Q3, including the €103 million interim dividend paid in the quarter. This remains within our year-end 2026 guidance range of 2.5 to 2.75 times. We closed the quarter with net debt at €4.95 billion. On the right, looking ahead. First, our cash inflection is firmly validated, with €154 million of Free Cash Flow year to date, driven by strong progress in operating cash flow, our working capital improvement program and lower financing costs.

The group's weighted average cost of debt was approximately 4.3% in Q3 within our target range, with 2026 interest savings versus 2024 at the upper end of our €200 to €220 million target as guided at the time of the IPO.

After the quarter closed, we repaid €350 million of our term loan B, funded by a €250 million term loan A upsize and €100 million from our RCF, cutting our weighted average cost of debt by around five basis points. We have no material debt maturities until May 2030, and at Q3 close, we had available liquidity of €911 million.

We are making excellent progress towards our 2.5 times leverage target, which will give us increased financial flexibility and create capacity for shareholder returns beyond the ordinary dividend. We reflect on Q3 as a solid quarter of delivery and progression against a complex macro. Our financial framework is working optimally with quality growth generating strong margin progression and free cash delivery. So with that, Austin, back to you.

Austin Lally:
Thank you, Colin. Over the next few slides, I'll cover the playbook that has made us the global category leader. How quality customer intake enhances long-term portfolio value, and the growth opportunities and cost transformation that will support our next phase.

Our global leadership position has been built over more than 35 years through a consistent playbook to unlock the market. Resting on four pillars, continuous innovation is core to Verisure, delivering proprietary differentiated products and services. Our human-led, monitored security focuses on protection in the home, at the perimeter, and beyond the home with GuardVision. Innovation is centered around modules that open new segments and drive up-selling. More on this shortly.

Secondly, category-creating marketing. We invest over €300 million a year, around 8% of sales, in category-creating marketing to drive demand and stay top of mind. Our brand leadership is now reinforced as Securitas Direct in Spain and Portugal transition, uniting our markets under one brand, Verisure. We began preparing to retain this leadership in an LLM world. Around 18 months ago, with a dedicated lead in every market, we leveraged our authority signals, deep digital presence, and real-world footprint, including our local branches.

We are able to reach customers within a day for a security audit or urgent installation. As number one in almost all of our 18 markets, Verisure is well-referenced across LLMs. 25% of consumers now start their category journey on LLMs, but typically revert to our website. Our share of the pool remains stable across our multiple channels, and since end-Q3 we've added a new pilot channel advertising on ChatGPT, now live in four markets.

Our go-to-market muscle and specialist field force of 12,000 security experts remains a strategic asset, increasingly complemented by an increasing number of strategic alliances that accelerate growth and customer experience. Our first-class customer service, supported by AI data and analytics, is one of the factors that keeps our attrition low. Increasingly, on-device AI diagnostics enable more faults to be resolved remotely and at first contact, reducing technician call-outs and simultaneously improving customer satisfaction. In the third quarter, the total number of customer calls analyzed by AI more than doubled quarter-on-quarter to almost 1 million. All four pillars are underpinned by our culture and talent.

With over 30,000 colleagues across 18 countries, we are proud to now also be recognized as one of the Fortune 100 Best Companies to Work for in Europe.

Verisure has always operated with a clear philosophy: acquire the right customers at the right returns in the right markets. That discipline has made our portfolio of around 6.5 million customers one of the highest quality recurring revenue assets in European consumer services.

On the left is our self-reinforcing growth model. Quality at the point of sale builds a growing long-duration portfolio. That portfolio generates strong economics, which we reinvest in growth and increasingly return to shareholders. Every decision is designed around one objective: maximizing long-term value per customer.

On the right, you can see what that focus delivers. Quality delivers annualized quarterly attrition of around 7.3%. Industry-leading ARPU of around €48, up 3% in Q3, a portfolio EBITDA margin of 74.4%, underpinned by expanding EPC and an average customer lifetime of around 15 years.

The customers we add today determine our attrition and our trajectory for years to come. So by maintaining our high standards, we protect the long-term recurring earnings power of the portfolio.

Slide 14 highlights three areas that will support our next phase of growth and margin expansion. Technology and innovation. Alliances and partnerships. And our Fit for Growth cost program. First, technology and innovation.

We have signed an exclusive partnership with US company Ting Labs to bring its electrical fire prevention technology to our customers in Europe. It will be fully integrated into our alarm ecosystem, with launch expected in early 2027. Kivala, our digital building access solution acquired in Q2, is now integrated and launched in France, and our AI-powered GuardVision outdoor detector is live in 12 markets, with outdoor solutions helping to prevent intrusion attempts. With over 200,000 GuardVision detectors already installed. Today, we are seeing strong attach rates in Italy, France, and Germany.

Second, alliances and partnerships. We are accelerating partnership sales with 23 alliances now active across the group. 2026 was a record year for new partnerships. Most recently with the insurer Frende in Norway and Danske Bank in Denmark. Alliances contribute over 10% of new installations, typically at a lower than average CPA. Third, fit for growth.

This is an ambitious, broad-based cost program spanning material costs, digital-first organizational design, and sales and marketing efficiency. Increasingly, we are using AI to reimagine our processes, from AI-supported customer care and remote diagnostics to our advanced monitoring model, our alarm receiving centres, and a new AI-powered recruitment platform. Taken together, these initiatives support our future growth and margin expansion. With that, let me move to the key takeaways.

First, Q3 delivered record profitability, margins and cash generation. Our portfolio grew 9% to around 6.5 million customers. We reached our highest ever margins, and Free Cash Flow was positive for the fourth consecutive quarter.

Second, our formula for value creation has not changed. Quality customer intake remains our core operating principle in markets where consumer confidence is below its long-term average. We choose quality over pace by maintaining our standards. We protect the long-term compounding earnings power of the portfolio. And finally, we are creating capacity for additional shareholder returns.

We have moved firmly through our cash inflection point and are delivering Free Cash Flow consistently each quarter. We are progressing well towards our 2.5 times leverage target, after which we create the capacity for additional shareholder returns beyond the ordinary dividend.

Verisure is defined by disciplined quality growth coupled with consistent execution. And Q3 is another clear demonstration of that. Before we move to the Q&A, I'd like to note up front that we will not be commenting on any questions regarding recent press speculation. With that, I will 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 into 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 kindly 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:
Hi. Good morning, Austin and Colin. I have two questions, please. So firstly, on the guidance, could you unpack the moving parts within the 9.5% ARR guidance for 2026 and what that assumes for Q4 in terms of installs and attrition? And as part of that, are you still confident in hitting your medium-term guidance of 10% ARR growth per year, given these moving parts?

And secondly, just on installations and new customer acquisitions. You've touched on this already, but could you talk a bit more about how you are navigating the current digital landscape? Navigating the increase in customers using search and how Verisure is positioned for that? Austin, I think you mentioned your advertising within ChatGPT. So is that increasing your marketing costs?

I appreciate a large number of your customers come through non-digital channels like telesales and alliances and so on. But I'm just wondering how that digital customer acquisition piece is evolving at Verisure with the rise of LLMs. Thank you.

Colin Smith:
Thanks, Annelies. Good morning. So why don't I go first on outlook and then Austin can pick up LLMs. So, look, I think to start, we would characterize the refreshed 2026 outlook as balanced and broadly in line with what we previously provided earlier this year in February for the company.

The outlook underscores that our financial model is working well as designed, and I have talked a lot with investors over the past year. If I start with ARR, we have an outlook projected now at 9% to 9.5% in 2026. That reflects the complex macro environment that we've worked with this year, particularly low consumer confidence and our focus on disciplined growth, always prioritizing quality intake with no compromises. As I said earlier on credit scoring or on entry ARPU. So we are seeing some country-specific pressures in France and Argentina with heightened consumer volatility in both markets.

If I just talk to how we get to the 9 to 9.5%, as we've said, we lap the Mexico acquisition in the fourth quarter. And we've said often that that is worth around two percentage points of ARR growth. And for the fourth quarter. Look, I'm not going to guide on installations, but the one point that I would like you to know is that we are lapping a very strong growth quarter in Q4 2025, where we grew installations at around 5.9%. At the same time, we are upping our Adjusted EBIT margin to around 26.5%.

That delivers over 100 basis points of margin progression this year, and that's driven by excellent ARPU growth and really good cost control. That manifests, of course, in increasing EPC on a month-to-month basis. We are well on track towards our 30% long-term Adjusted EBIT margin target and, of

course, Free Cash Flow. We are guiding today at around €200 million for the year, and cash conversion continues to improve. We paid our first interim dividend in September.

And that really did symbolize a start of a new phase of shareholder returns. So, in short, we are pleased with how financial delivery is shaping up for 2026 against what has been a complex year macro-wise. And if I look forward into 2027, as you would expect, we intend to update our 2027 outlook alongside full-year results in February. Today, we're focused on refining our 2026 outlook and the medium term. We are not changing medium-term guidance today.

We're working through our budget and operating plans, including growth, capital allocation, and pricing changes for 2027. So to confirm, we intend to update the market in February, providing an update on our outlook for 2027, as is customary.

Austin Lally:
Good morning. Can I maybe pick up on the analyst's question? Nice to hear from you. I would say it's still early days for AI's impact on consumer journeys.

So far, we have not actually seen a material change in channel mix for incoming bookings. Now we're estimating that about 25% of consumers are now using LLMs to search the category. It started by being almost entirely ChatGPT. We now see Gemini becoming more significant. But we are also seeing that behavior being a bit complementary.

They typically still revert to a website because they don't fully trust AI-generated answers. So reliance on traditional channels like Google is still there. Now, that's going to change over time. We started preparing for this shift, as I mentioned, around 18 months ago, and we appointed a generative engine optimization leader in every market. We want to be a pioneer here.

So we started at the end of Q3 already advertising on ChatGPT in four markets. We actually started in the UK in June. In terms of your question on cost, it's not big money. At the moment, it is a fairly limited investment. We're trying to figure out how well it works.

We will then look at the ROI on things like ChatGPT and Gemini compared to other alternative ways to spend. Now, we have said in previous calls that we think this will be good for our business because AI search, as I mentioned in my remarks, rewards brands with authority signals. So awards, customer reviews, having a large real-world footprint, having a deep digital presence, and having a lot of superior content. We are the number one brand in almost all of our markets. And so if you look at the LLMs today, Verisure is very well referenced across those models.

If you look on ChatGPT, we are number one for best alarm in most markets, and we are actually tracking that on a weekly basis.

There is also some discussion. I have seen discussion about whether LLMs actually favor local players. I think for us, this is actually very good because we're both a local and a global company. We have the leading brand, but we've also got the leading local presence. We have more than 600 local branches.

Basically, a Verisure salesperson is closer to any potential customer than any competitor in terms of driving time, speed of response, and appointment. We are the most local player in the industry, but we are also the most scaled global player. Now we keep monitoring it, particularly, what's the right spending profile and what do we get back? But we actually think over time, this is going to build advantage for us rather than being a drag on us.

Annelies Vermeulen:
That's super helpful. Thank you both for the detail.

Austin Lally:
Thank you.

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

Joachim Gunnell:
Perfect. Thank you. You are very strong on the line profitability here and Adjusted EBIT margin guidance, despite the inflationary backdrop. So, just how much of this underlying strength is structural versus some timing or one-off effects? And we expect this strength to carry into 2027.

Colin Smith:
Morning, Joachim. It's Colin, thank you. I think let's start by talking about Adjusted EBIT margin in Q3. I mean, the one thing that I would remind everyone of is that the Adjusted EBIT margin was delivered inclusive of the fact that we are investing in our Spain rebrand. So we invested over €7 million in the quarter on that rebrand.

So actually, I think the margin underlying that and normalized for that is actually even a little bit stronger. Let me unpack what drives our Adjusted EBIT growth as a business, just as a reminder. I believe the primary driver is volume. We grew the portfolio 9% on a year-over-year basis. And that is the single biggest driver of EBIT progression.

The second one is the fact that our portfolio is becoming more valuable and our EBITDA per customer is actually increasing. As I noted earlier, by 2.8%. So you've got a volume and you've got a rate driver here where together, those two things drove our Adjusted EBIT year-over-year up by around €80 million. We see that. We see those as being absolutely part of our model and something that we would expect to continue going forward.

Now the investment comes in terms of our CPA, as you touched on. Yes. So we have an increased CPA year-over-year that does include those rebrand costs. And that basically led to us investing around 30 to 40 million more euros in customer acquisition. And then, lastly, you have higher D&A on a year-over-year basis.

So, net-net, those are the four driving components of how we get our Adjusted EBIT nominal and our Adjusted EBIT margin up year-over-year. And I think there's nothing in there that is in any way different to the decades of performance that we've delivered as a company and as a team.

Joachim Gunnell:
Lovely. And then just a follow-up, at a high level, if this inflationary backdrop and softer consumer environment continues to be pressured into 2027. In what way do you think that the playbook here is different in light of how Verisure performed in, say, 2023, when attrition crept up? EPC growth slowed a bit and the new installations will decline year over year.

Austin Lally:
Let me say a few words on this. I am actually delighted with the attrition performance. If you go back and contrast it to 2023, it has been rock solid. And we did see a modest increase back in 2022 and 2023 that you haven't seen in 2026. And I think the reason for it is we've got capabilities now on things like sentiment analysis and AI predictive models that we didn't have then.

And by the way, we are not fixing it with discounting. That is the point that Colin made. We are doing it with service, with speech, with analysis, and with innovation. I think the other thing, though, that is very consistent with 2022 and 2023 is we understand when it is a bit more difficult in a market like France, we just do not chase the volume. We go for quality.

Colin Smith:
Maybe I can build a little bit on EPC and in particular add to what Austin said. I mean, I think the one thing that I would point to would be cost pressure. We have noted this before regarding hardware costs. I think the one thing that we should bear in mind is that hardware cost as a relative proportion of our customer acquisition investment is reasonably low. It is only around 25% of our CPA that is hardware.

I think the company has clearly been focused on ensuring that we can secure supply in this supply chain world that we live in. We have done that, and I am very happy with where we are at. We actually invested in working capital in the quarter to make sure that we could do that. As you may have seen, we now have around six months of stock on hand. I think that is absolutely the right strategy.

In this environment. The one thing that we are seeing is some cost inflation on that hardware. But as I say, it is nothing particularly material in the grand scheme of things. And as I look to the consensus for CPA in 2027, I think that's something that I would acknowledge and feel generally comfortable with. I think on the consumer side, you know, you've rightly called out the fact that we do need to be mindful of impacts in previous years.

We don't see the CPI environment growing anything like what we saw in 2022 and 2023. And I would just bear in mind that a slightly elevated CPI environment is actually positive for the business, because it gives us a bit more pricing power on the front end and drives the EPC that I was talking about earlier, which ultimately drops straight to profitability. I hope that helps give you a bit more color.

Joachim Gunnell:
Thank you.

Colin Smith:
Thanks.

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

Suhasini Varanasi:
Hi. Good morning. Good morning. For me as well, please. Good morning.

Just to go back to the new installs, given the softer macro environment. And considering that Q4 does have pretty tough comps. I just want to get some sense on this. Okay. Do we expect flattish trends in new installs similar to Q3, or can it even be down year over year?

I am cognizant that you have also invested in inventory and working capital. So I just wanted to get some color there, please. The second one is on your portfolio services EBITDA margin, which is broadly flat year over year, maybe down ten basis points. How should we think about the scope for improvement over the coming quarters, please? Thank you.

Colin Smith:
Morning, Suhasini. Nice to speak with you. I mean, I think look first on installs as you would expect. You know, we will not be providing any guidance on Q4 installation volume expectations. I think what we have focused on this morning is providing a latest view on the 2026 outlook that includes ARR at 9% to 9.5%.

So, that is what I would like to say. On that one. And can you just repeat your second question, please?

Austin Lally:
Adjusted EBIT margin.

Colin Smith:
Yeah. On portfolio EBITDA margin. My apologies. So, we are at 74.4%. I think first things first.

That is a very strong monthly contribution on average across our customer portfolio. I think if we look at the RMC side of things, you'll note that we were up by 3.5% on a y/y growth basis. I mean, there is an opportunity here in that the inherited cost base from Mexico is significantly above the group average. Now, we acquired the Mexican business a year ago, and it's going to take us a little bit of time to implement the processes, the systems, and the know-how, frankly, that we've deployed over the rest of the business over the past ten years. So we do see that as an opportunity, and that's a very specific country item.

I think the broader opportunity here, as we have talked about many times before, is what we can do with AI, particularly in certain pockets of our RMC cost pool. So we are focused on customer care and field maintenance. So, this involves sending engineers out to fix a problem. And what we're doing with AI is we are entirely reimagining the customer process. We are not just using AI to automate certain tasks within that process that used to be carried out by humans.

Instead, we want to rethink the entire workflow. I think, look, this isn't going to happen overnight, of course, but we're excited about the opportunity that it can bring. As I have said before, out of our total RMC, those two areas, customer care and field maintenance, make up around one third of our RMC. So there's plenty to go for there in terms of opportunity.

Suhasini Varanasi:
Thank you.

Colin Smith:
Pleasure.

Operator:
The next question comes from James Rowland Clark from Barclays. Please go ahead.

James Rowland Clark:
Hi. Good morning. Two questions, please. So, my first question is on the quality of customer intake. You've spoken a lot about it today.

I just wondered how you explain the upfront fee still coming down. Further than I think it has over the last few quarters. I think it's down just over 10%. How do you measure that customers are high quality at this sort of installation stage? So what are the sort of KPIs that you are looking at when you haven't actually seen whether they are going to churn as a cohort at this point?

Secondly, on attrition, that is nudging up year-on-year by nearly 20 basis points on your Q3 annualized figure. I think last quarter, you were very pleased with how you were managing that to flat year-over-year despite ADT, Mexico. So what has changed regarding attrition; is that Mexico seasonality, or is there more attrition coming through in those weaker markets at the moment, like France and Argentina, or is there something else to speak of? Thank you.

Austin Lally:
We regard the attrition change as being a little bit of a blip. It is a relatively small change. I think the absolute level we still believe is best-in-class in the industry. And we are within the corridor.

There is always a bit of country mix in this. You know, there is definitely a Mexico-like effect in this. Remember, that was an attrition profile that was in line with the rest of our Latin American business, but it was a bit higher than the group average. Now, in terms of the management systems to keep this under control. I think the first thing I would say is that the level of upfront investment that the customer makes is always sufficient to qualify the customer.

Okay. We don't give away alarm systems for free. The customer still has to make a decent contribution to the cost of the system. I think one of the misunderstandings people sometimes have is they wonder if there is a linear correlation between the upfront revenue and the attrition profile, as if that were the case. If that were the case, there would be no attrition in Belgium, right?

Because the upfront revenue in Belgium is the highest in the company. Actually, the attrition profile in Belgium is bang in line with the group average. Bang in line with what we would do in a market like Spain. So what we control is making sure that there is always a qualifying level of investment for the customer.

Number one. The second topic is our policy of not discounting the ARPU. A salesperson, for example, who is sitting in front of a customer does not have the authority to discount the recurring revenue. Recurring revenue is sacrosanct in the model; we may offer, for example, a sharper price on the upfront if we are facing a competitive bid for the customer, but never at a level where we would put the quality of the customer at risk. The other thing we are doing on an ongoing basis is looking at the early behavior of the cohorts who are joining the portfolio.

And we are comparing those early behaviors to previous cohorts and previous years. So, the 15-year customer lifetime is not some theoretical extrapolation. It is actually something that we have observed over time by studying different vintages of customers. The reason we do it is that it is obviously super important to us. In a portfolio of nearly 6.5 million customers, if you were blending poorer quality customers into the portfolio, it would take you a while to see it.

If you weren't vigilant and really checking those early behaviors and those signals all the time.

Colin Smith:
I think James, just to add, on the upfront, we've talked about this before. Firstly, the upfront in the quarter was €362 on average, which is well within the comfort corridor that we have around this metric. And Austin talked earlier about the fact that this is an important qualifier for quality. Again, something else that I have mentioned before is the apartment mix. So as of today, we have a portfolio that is made up of approximately 25% apartments.

Our acquisition mix in the quarter was around 35% apartments. Clearly, an apartment typically has fewer components than a villa and consequently has a lower upfront. Now, what we do and what we

have talked about is that we try and preserve as much of the ARPU as we possibly can. So the delta in ARPU between villas and apartments is actually quite tight. But we do have a lower upfront.

So I just wanted to add that additional color. Very good.

James Rowland Clark:
Thank you. Sorry. Just a follow-up there. What are the early behaviors you are looking at on these new cohorts to compare to old cohorts?

Austin Lally:
Well, the first basic indicator would be early cancellation. So somebody who contacts you in the first two, three, or six months and basically says, you know what? I think I've made a mistake. That's the first one. The second would be things like usage behavior.

Someone who has bought the system and does not really get into a good usage pattern. That is one where we feel quite disappointed, because that basically means we have not done the right job. Part of our process is the early contact with the customer to get them into the right usage habit. It is worth contrasting that to cameras, for example.

We get asked about camera competitors because, obviously, there are a lot of lower-cost cameras out there. What you discover is actually that within 1 or 2 months of someone installing a camera app. Only about 30% of these cameras are still active. It is a solution where there is a big drop-off, but we just don't have that.

James Rowland Clark:
Great. Thank you very much for the color.

Colin Smith:
Thank you. Thanks, James.

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

Andy Grobler:
Hi. Good morning. Just one from me. If I may, just in terms of some of the regional differences in installations you called out, France and Argentina have been particular outliers within the group. Can you talk through in fairly broad terms about how far down those countries are and also kind of the offsetting growth rates in other countries that are doing a bit better at this stage.

And I guess, just as a bit of a follow-up, you have touched on some of this through the call. Is there anything that makes you think that any of these metrics are going to change over the next 3 to 6 months? Thanks very much.

Austin Lally:
Well, I don't want to be Nostradamus on the economy. I am not an economic forecaster. We are obviously watching this in real time just as you are. We are looking at all the consumer confidence indicators. If you stand back, it all still adds up to 9% portfolio growth.

I think in a more difficult environment, our portfolio is up strongly year on year. That is what I am pleased about. We noted France, obviously, because it's a big country and there is quite a bit of discussion about the consumer position, the debt, and the upcoming election. What I would say in

France is that we see customers sitting on their hands. France tends to be, if I look through history, one of the markets where, it's a bit like a canary in a coal mine, where the French consumer, for some doubt, sorts of delays.

Now, we know that business will come back, as we are already seeing some positive news on bookings there. I think, again, without getting into too much color, I have been very pleased with the momentum in markets like Iberia, Italy, and the U.K. They have been a strong contributor to our growth rates in recent years as part of our 'Other Europe' segment. So part of the message I want to get across is that the macro effect is limited to a few markets.

It is not something that is consistent right across the footprint. We have actually got plenty of bright spots.

Andy Grobler:
Okay. Thank you very much.

Operator:
The next question comes from Virginia Montorsi from Bank of America. Please go ahead.

Virginia Montorsi:
Good morning. A quick follow-up to James's initial question on lower installs, if I may. Can you help us understand this? I think we are all appreciating the focus on customer quality, the discipline on discounting, and the quality of the cohort that we have observed. But if I look at the upfront revenue per install, which has been down year on year in Q3, I think I struggle a little bit to reconcile it with the focus on the quality of the cohort.

So, can you help us better understand how these two elements can coexist, given the decline in upfront revenue and our deliberate pricing strategy? Is it more mix-related? How should we think about payback? Because when we think about the focus on quality and yet the lower installs.

I am just struggling a little bit to go through the moving pieces, if I may.

Austin Lally:
It is also worth pointing out that when you assess the payback on a customer investment, a small change in upfront revenue does not make much difference to the calculation. It is basically the amount of earnings per customer per month, times 12 months, times 15 years. That is the power of the portfolio.

Colin Smith:
Virginia. It is Colin. As I noted earlier. I think the one point I would focus on upfront is the fact that it is still €362 in Q3, which is strong. But the movement is really driven by the fact that we have a higher proportion of apartments in our acquisition mix, and apartments typically have a lower upfront.

However, we do. And to Austin's point, we preserve the earnings per customer from an apartment customer at almost the same level as we do for a villa customer. I think the returns that we make on customer acquisition are still very strong. And clearly we are updating this on a month-to-month basis. We have a highly disciplined focus on returns, and that speaks to the fact that we are not going to do things that are uneconomic to get an extra couple of thousand installations because we have a high bar.

We see all of these as individual investment decisions. We are investing €1,600 in a new customer, and we want to make sure that that customer has the same characteristics as the other 6.5 million. And they are going to be with us for an average of around 15 years. So, the logic remains solid. We are still at the IRR of around 20% measured over 15 years.

And frankly, when we look at it on an apartment basis and a villa basis, it's actually quite similar. Not quite as high as a villa, but very close.

Austin Lally:
It remains the best in the industry. I would just repeat something I have said in previous calls: we do not guide on volumes. One of the reasons we don't guide on volumes is I don't want to create, inside Verisure, pressure for people to go out and just chase installations. We could sell more alarms. We know that instead of going for €48 of ARPU, if I were selling alarms at €30, I would sell more.

You know, my conversion from booked meetings would be higher, but I would be giving up. Effectively, that is €18 of Adjusted EBIT per customer per month for 15 years. That would be, I think from an economic standpoint, a bit silly. Priority number one is making sure the customers that are coming in are basically going to have the same economics as the company and the portfolio so that we do not regret it later.

Virginia Montorsi:
Thank you.

Operator:
The next question comes from Jane Sparrow from JP Morgan. Please go ahead.

Jane Sparrow:
Good morning. Just one question, please. Just on the dynamics of alliances and partnerships, which you called out as having accelerated in growth. I know obviously in the presentation you highlight that they deliver lower than average CPA. Can you clarify whether there are any other dynamics of growth from that particular channel that we should be aware of?

Do they affect other key metrics, working capital dynamics, etc. Anything to highlight there?

Austin Lally:
No, not really. I think that what you typically find with high-quality alliance partners is that it is actually, on average, a higher-quality customer because they may have a well-established banking relationship and a strong credit history with the institution. It is often bundled with a mortgage or an important insurance policy. Again, one of the reasons why the CPA is often better is it is not being driven by the same level of high marketing investment that our traditional field model would involve. There is usually a commission to the alliance partner, but that is effectively replacing what we might have spent, for example, on marketing expense or perhaps even on higher levels of sales commission.

So, it is really a kind of win-win for the alliance partners. It is not only revenue for them, but it can also help them with the stickiness of the core offering they have, particularly regarding products like mortgages and insurances. Now it is over 10% of our sales today, but we actually think that it has the potential to grow significantly over time. I mean, one example, you know, we partnered with Masorange. So number one telecom provider in Spain that has opened access to a customer base of more than 30 million subscribers in our largest market.

And we are only a few months in, but we are already pleased with the annualized run rate that we are seeing. If I look at the 23 alliances that we've signed across the group, many of them are actually quite immature, quite young, and quite small, with the opportunity to scale up. I gave an interview this morning to Bloomberg and we were chatting about alliances. I was asked where I thought there were big opportunities? One market I highlighted was Italy, where we now have half a million customers.

And we've built every single one of them ourselves organically with no help. Yes, but now we have a national footprint. I mean, a precondition of doing an alliance is you have to have national coverage, and you have to be the number one brand because alliance partners, when they work with you, are putting their reputation on the line. So I am glad you asked about this because it is one of the key topics. It is one of the things I talk a lot about in the company as a growth factor.

Jane Sparrow:
Thanks very much for the color.

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. Thank you for your questions and your continued interest in Verisure, as we think Q3 was another proof point of how we drive Verisure's quality growth, delivering strong cash generation and margin expansion ahead of our expectations. We remain convinced by the scale of our structural opportunity that lies ahead, and our conviction in our ability to execute on that is unchanged. Now, Colin and I look forward to meeting many of you in the coming weeks. So thanks.