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Vivint Smart Home, Inc. (VVNT)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for attending today's Vivint Smart Home First Quarter 2022 Financial Results Conference Call. My name is Nate and I will be your moderator for today's call. All lines will be muted during the presentation portion of the call with an opportunity for questions and answers at the end. [Operator Instructions] .

I would like to pass the conference over to our host, Nate Stubbs with Vivint. Nate, please go ahead.

Nate Stubbs
Vice President-Investor Relations, Vivint Smart Home, Inc.

Good afternoon, everyone. Thank you for joining us to discuss the results of Vivint Smart Home for the three months ended March 31, 2022. Joining me this afternoon are David Bywater, Vivint Smart Home – Home's Chief Executive Officer; and Dale R. Gerard, Vivint's Chief Financial Officer.

I would like to begin by reminding everyone that the discussion today may contain forward-looking statements, including with regard to the company's future performance and prospects. Forward-looking statements are inherently subject to risks and uncertainties that could cause actual outcomes or results to differ materially from those indicated in any such statements. We describe some of these risks and uncertainties in the Risk Factors section in our annual report on Form 10-K, which was filed on March 1, 2022 and in other filings we make with the SEC from time to time.

The company undertakes no obligation to update or revise publically any forward-looking statements whether as a result of new information, future events or otherwise. In today's remarks, we will refer to certain non-GAAP financial measures. Reconciliation of these non-GAAP financial measures to the most comparable measures calculated and presented in accordance with GAAP to the extent available without unreasonable effort are available in the earnings release and accompanying presentation which are available in the Investor Relations section of our website.

I will now turn the call over to David.

David H. Bywater

Chief Executive Officer & Director, Vivint Smart Home, Inc.

Great. Hey, thank you, Nate, and good afternoon, everyone. We appreciate your ongoing interest in the Vivint story. We continue to work hard every day to earn your confidence and your support. To that end, I'm pleased to report that our strong track record of execution as a public company continued through the first quarter of 2022 as we grew total revenue by nearly 15% and adjusted EBITDA by almost 26%. We originated over 66,000 new smart home subscribers, which was a record for the first quarter period.

Our last 12-month attrition rate was 11.2%, which was a 15 quarter low and a 60 basis point improvement versus the prior year. We believe our attrition rate is the lowest among national smart home companies by a significant margin. Our improving customer retention is a result of years of work and collaboration to improve the overall credit quality of our customers, as well as performance enhancements across our portfolio products and services.

We ended Q1 with net service cost per subscriber near all-time lows, a strong indication that we are operating the business efficiently and effectively while delighting our customers. Our recurring revenue model has proven resilient during challenging economic times and we believe the peace of mind and security we provide is relevant in any environment. We believe the momentum in the first quarter sets the stage for us to meet our full-year targets for total subscribers, revenue and adjusted EBITDA that we committed that we communicated to the market in late February.

Given the challenges presented by rising interest rates and supply chain constraints, we are lowering the bottom end or of our guidance range for free cash flow while leaving the top end of the range unchanged. Dale will speak the specifics of this change in his remarks.

We are focused on redefining the home experience with technology, products and services that create a smarter, greener, safer home while saving our customers money every month. Our integrated platform is the core enabler that allows us to deliver on this mission. We processed more than 1.1 billion events per day across our subscriber portfolio. Our average customer has about 15 devices in their home and interacts with their system nearly 11 times per day and stays with us for approximately nine years. Our proprietary platform allows us to not only protect our customer's homes and families, but to make their homes more enjoyable and intelligent as we integrate solutions with artificial intelligence to make smart decisions on their behalf.

As we work to also bundle Smart Energy and Smart Insurance, we will leverage our integrated, easy-to-use operating system to help customers save money on their electric bills and insurance premiums. We believe our strategy provides distinct advantages that will allow us to increase the lifetime value of our customers, which in turn should drive strong economic value for our shareholders. We expect that the unit economics of our customers should also improve, further enhancing the cash flow generation of the company and allowing us to reinvest in compelling value accretive initiatives.

We are confident in our strategy as our data indicates that, at scale, a customer who bundles smart home with Smart Energy and/or Smart Insurance has a greater lifetime value than a smart home customer alone. Moreover, the lifetime value of a smart home customer increases by $200 to $400 with each additional year they remain on the platform. And we believe that customers who bundle services will remain with us longer than the current nine-year average. We believe our broader platform strategy will further cement Vivint as being in the category of one. And as we leverage the advantages from our intelligent and integrated platform, we will further extend our leadership in the do-it-for-me smart home segment.

Of course, executing on our strategy of making smart home smarter, greener, and safer requires us to focus on operational excellence, continuous product innovation, and a commitment to enhancing the experience of our customers. I'm pleased to welcome Rasesh Patel, our new Chief Operating Officer, to the Vivint team. Rasesh will join us in mid-May, and he brings to Vivint 20-plus years of experience in building technology service businesses, driving innovation, and improving the customer experience, most recently as the Chief Product and Platform Officer of AT&T business, a segment with $35 billion in annual revenue. He will oversee all of our customer-facing operations, as well as our technology and product platform. We look forward to Rasesh helping us refine our approach to expanding the lifetime value of our customers.

Turning to our key strategic adjacencies, as one of the first smart home companies to expand into smart energy, we are very encouraged by the momentum we saw in the first quarter. Due to the seasonality of our business, we would expect the majority of our sales to come in the back half of the year, and we remain on track to double the 45 megawatts we sold in 2021.

Our Vivint sales force and strategic partners, who seamlessly bundle a Vivint smart home system with solar, are seeing a considerably better sales realization rate than those who are only selling solar. This is an incredible demonstration of the power we bring by offering a bundled solution, and it strikes directly at one of the issues the solar industry struggles with: wasted upfront costs on the sales of a solar system that never get installed. Our long-term vision is to combine energy production and consumption into an integrated platform that uses data infused AI to manage power consumption more intelligently.

Our nationwide footprint and ability to install our award-winning smart home solution within a day or two of customers signing up for solar, we believe was a game changer for the industry and for our customers. We believe that as we grow and solidify our go-to-market partnerships, we will prove to be a powerful and differentiated combination to grow and retain Smart Home customers. Evan Pack, who I worked with for several years of Vivint Solar joined the Vivint leadership team a few months back to lead our Smart Home Energy Initiative and to manage our relationships with these key partners. I'm confident he is the right person to lead our Smart Home Energy business in this next phase of growth.

Surveys show that less than 4% of the addressable homes in the US have adopted solar at this point. With our nearly 1.9 million customers across North America. We believe there is a significant opportunity to provide bundled Smart Energy to our existing customers, as well as the hundreds of thousands of new subscribers we add to our portfolio every year. Now, to briefly discuss our Smart Insurance initiative, we continue to believe that our data rich platform can help better price the risk of a customer who has professional installed and actively monitored Smart Home system that can potentially mitigate the severity of loss events. We believe Vivint customers present a lower risk than homeowners without a Smart Home system or with an unmonitored DIY system that was inadequately scoped and poorly installed.

We continue to invest in this initiative and in March, we welcome Ron Davies to a newly created role as the Chief Insurance Officer. In this role, Ron leads all aspects of the Smart Insurance business, including the development of our marketing strategy, as well as the process of becoming a managing general agent which will allow us to develop specific homeowner general agent which will allow us to develop specific homeowner coverages and enables us to provide proprietary insurance offerings. Ron is a proven leader that has showcased his ability to transform and build insurance companies over a career spanning more than two decades at universally recognized brands such as Progressive, Allstate and most recently SafeAuto, which was recently purchased by Allstate.

In closing, we're extremely pleased with our performance in the first quarter of 2022 and we're excited about the future. The markets in which we operate are large. They're growing and provide significant headroom for growth. Our business model provides a platform for growth in smart home, as well as adjacencies like Smart Energy, Smart Insurance and more. We believe that we continue to grow at a much faster rate than our do-it-for-me peers. And do so in a profitable way while generating positive free cash flow that we can invest in value-accretive opportunities.

With that, I'll turn the call over to Dale to further discuss our first quarter results and our outlook for the year.

Dale R. Gerard

Chief Financial Officer, Vivint Smart Home, Inc.

Thank you, David. Good afternoon, everyone. My comments will refer to information in our earnings presentation that was posted to the Investor Relations section of our website at vivint.com prior to this call. Following my prepared remarks, we will open the call for a Q&A session. Our key subscriber portfolio metrics continue to perform well and showed year-over-year improvement in the quarter. During the first quarter of 2022, we had growth in total subscribers of 9.6% versus the prior-year period, increasing from 1.71 million to 1.87 million.

Our average monthly recurring revenue per user, or AMRRU, in the first quarter increased 3.1% year-over-year to $67.87. The average in AMRRU was driven by customers purchasing incremental smart home products at the initial point of sale, a trend that we have seen over the past several quarters. The year-over-year growth in total subscribers and AMRRU drove a 12.9% increase in total monthly recurring revenue for total MRR. For the first quarter of 2022, total MRR was $126.5 million, up from $112 million reported in the prior-year period.

Moving on to revenue and adjusted EBITDA. Revenue grew by 14.7% to $392.7 million in the first quarter of 2022. The growth in revenue was attributable to the previously mentioned double-digit increase in total subscribers and the increase in AMRRU, as well as a solid contribution from our Smart Energy initiative. We are very pleased with the first quarter's revenue growth and we remain on track to meet or exceed our revenue guidance for the full year.

Like revenue, adjusted EBITDA grew nicely in the first quarter of 2022, finishing at $202.3 million, up 25.9% from the same period in 2021, with a margin of 51.5%. The scaling of service cost and lower G&A expenses were the primary drivers of the 25.9% year-over-year increase. I would note that in the first quarter of 2021, we incurred a one-time legal expense and this was the primary driver of the decrease in the year-over-year G&A cost. We're happy with the growth in adjusted EBITDA and our ability to increase adjusted EBITDA in the face of continuing economic challenges and supply chain strengths.

Next, I will highlight a few metrics on subscriber originations in the first quarter of 2022. Led by 8.9% year-over-year growth in our National Inside Sales, we installed a first quarter record of 66,734 new subscribers. Additionally, our smart energy partnership continued to show the benefits of bundling smart home with solar, adding 2,940 new Vivint Smart home subscribers in the quarter. Nearly all of the customers originated in the quarter, either paid in full or financed the purchase of their equipment through one of our financing partners.

As we have discussed on prior earnings calls, the timing of the payment of fees to our primary financing partner has changed from over the term of the loan to upfront and netted from the gross proceeds received from that partner. Due to this change, we are updating how we report average proceeds collected at point of sale and net subscriber acquisition cost per new subscriber.

These metrics will now include the fees paid to our financing partners for all periods shown, whether the fees are paid over the term of the loan or upfront at the point of sale. Net of fees paid to our financing partners, average proceeds collected grew by $93 from $1,556 in the last 12-month period ended March 31, 2021 to $1,649 in the same period in 2022. Average proceeds collected at point of sale, excluding finance fees, increased from $2,067 in 2021 to $2,185 in 2022.

I will next cover our net service cost per subscriber and net subscriber acquisition cost per new subscriber for the quarter. We continued our trend of year-over-year improvement in service cost per subscriber, dropping from $10.77 in the first quarter of 2021 to $10.18 in the first quarter of 2022. Our net service cost per subscriber for the first quarter remained near an all-time low. Our net service margin remained strong at 78.2%. These results reinforce the advantage of Vivint's fully integrated platform, which encompasses the entire customer journey, as well as the constant feedback loop that enables us to continuously improve the performance of our products and platform.

Before I discuss net subscriber acquisition cost per new subscriber, as I mentioned earlier, we are now including the fees paid to our financing partners in the reporting of this metric, whether those fees are paid over the term of the loan or upfront at the point of sale. Including financing fees, net subscriber acquisition costs for a new subscriber for the last 12 months ended March 31, 2022 was $618, up slightly from $577 in the prior-year period, but down $635 or approximately 50% from the same period in 2019. The marginal year-over-year increase was primarily driven by higher equipment and housing-related expenses. Net subscriber acquisition cost per new subscriber excluding financing fees was $82, up slightly from $66 in the prior period, but down $878 from the same period in 2019.

Our customer financing model Vivint Flex Pay has been instrumental in our transition from using cash and taking on debt to grow the business to producing cash, reducing debt and having the flexibility to invest in new initiatives that we believe will be value accretive to our shareholders.

Another metric we are happy to report is our last 12-month attrition rate. For the period ended March 31, 2022, our attrition rate improved for the eighth consecutive quarter to 11.2%, a 15 quarter low. Our enhanced underwriting standards, improved product and service performance, and the high level of customer engagement with our platform continue to drive what we believe is the lowest attrition rate among national smart home companies.

In terms of net cash used in operating activities, we used $36.1 million during the first quarter of 2022, up $21.9 million from the first quarter of 2021, which was primarily driven by a change in the timing of interest payments due to the refinancing of our debt last year and a change in the timing of finance fees paid to our lead financing partner. We finished the quarter with $153.2 million of cash on hand and a very strong liquidity position of approximately $510 million.

In conclusion, we are proud of our consistent execution across our key financial and operational metrics, particularly since becoming a public company in January of 2020. The fundamentals of the business remain strong. We are pleased with our momentum going into the second quarter and we are bullish about the opportunities that lie ahead of us. We are also aware of the continuing supply chain disruptions, inflationary pressures, rising interest rates and challenging labor dynamics.

Taking all of these into consideration, we are reaffirming our original guidance issued during our fourth quarter of 2021 earnings call for total subscribers, revenue, and adjusted EBITDA. And we are lowering the bottom end of our guidance range for a free cash flow by $17 million to $50 million, while leaving the top end of the range unchanged at $77 million.

We expect to end the year with total subscribers within the range of $1.95 million and $2 million; total revenue within the range of $1.6 billion and $1.63 billion; adjusted EBITDA within the range of $725 million and $745 million; and free cash flow within the range of $50 million and $77 million.

This concludes our prepared remarks for the first quarter. Operator, please open the call for Q&A.

QUESTION AND ANSWER SECTION

Operator: Absolutely. [Operator Instructions] Our first question goes to Rod Hall with Goldman Sachs. Rod, your line is open. Please go ahead.

Max Gamperl
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thank you for taking my question. This is Max Gamperl on for Rod. First question would be on just – if you could just elaborate on the attrition trends in the quarter, and kind of how that compares to your expectations heading into the quarter. And from a longer-term perspective, where we should expect the attrition to go from here for the rest of the year and maybe even beyond some of the older cohorts come to an end? Thank you.

Dale R. Gerard
Chief Financial Officer, Vivint Smart Home, Inc.

A

Yeah. I'll start with that. This is Dale. And then, David, you can jump in here and add anything. I think we're continuing to see attrition – or retention of our customers perform really well. They're probably ahead of our – again, our expectation in the first quarter. But, again, we think when you have the interaction, 11 times a day that individuals are acting with our system – interacting with our system, they're using the system, they're finding value in it, they're more likely to keep staying with the system that they're paying for it. And I think that's what we're seeing. And I think over time our product and our service also continues to get better. And there's more functionality that they're able to get out of it. And so, that's leading to, again, customers that are wanting the system and wanting this service that we provide.

In terms of what we see, I think, we've said guidance-wise, we expect attrition to probably be in the 12% range for the full year. And I think that's what we said coming into this year in terms of guidance there, I think we still expect that. We're cautious – I mean, there's lots going on in the economy, as you know, Max. And why we think the attrition will continue to perform really well and we believe it will. I think for guidance-wise, we'll say we're expecting. A part of that is we have, we know that the end of term, percentage of customers will go up from where it is today. We go through renewals here later in the year. I think we're at 10.2% of customers that are at their initial end of contracts for this last 12-month period. We expect that to go up and higher than that as we go through 2022. And so that's why we're saying, hey, based upon the hydraulics, when you have more customers at end of term, the attrition usually of those cohorts at that point in time are higher than we would expect, 12% or somewhere in that range for full year guidance.

The one thing I would point out, and David, you can jump if you have anything else, is, the last time we were at this type, this low was in, I think, the second quarter of 2018. And we had 10.8%, like I said, of customers after end of term. This period, it was 12.2% or 12.3% that way. So, we've got – we're performing better across the board. And so, we're really excited about where that is and continue to perform better than what we expect and we continue to think that will happen throughout the year.

David, I don't know if you have any [indiscernible] (00:24:55)

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.

A

No, I think point you just made is one I wanted to make. The other thing is, Max, I do think this is a good illustration of the integrated model. I see the collaboration between our operations teams and our innovation teams. And we own the product, we own the IP and seen those two teams work well together to root cause anything that is causing friction with the customers and how they collaborate to knock down those issues proactively is great to see. And those two teams work really, really well together. It's very close. So it's not a – this large, disparate set of solutions from across a large array of party that's the majority of which what we own and do internally.

So, I think we're really pleased with the results coming from the integrated model. So, so far, so good. And I think, as I mentioned in my comments, If you remember, we can see I think we're materially ahead of a lot of our peers and we're proud of that. And we'll continue to work hard to continue to widen that gap.

Max Gamperl
Analyst, Goldman Sachs & Co. LLC

Q

Got it. That's helpful. Thank you very much. And then another question would be just from a macro perspective, how are you thinking about direct-to-home sales heading into the summer with COVID largely in the rearview mirror for the first time in, I guess, two years? I guess that should probably help your direct-to-home sales, but we also have a tough operating environment with a thriving labor costs. So wondering about your direct-to-home sales strategy for this year.

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.

A

Yeah. No. Great question. Direct-to-home is a very important channel for us. We launched this summer, about two-and-a-half, almost three weeks ago. We're off to a great start. Actually, we've been very pleased with the first few weeks. They're performing better than we expected, and [indiscernible] (00:26:52) our best launches in years. So we're very encouraged by that. It's a collaborative cell. It's an informative cell. And so, we're very good at this. I think we're best in class at this. We've been doing this for decades now and our teams know how to sell, where to sell. They're very pleased with the platform of services that we have to offer.

And I think our productivity, we're very encouraged with what we've seen these first few weeks. So we're very bullish and I'm very, very encouraged by the results we've seen. You usually know within the first four or five weeks of the summer how the summer trend out. And thus far, all the data seems to be very strong so much for us. So very, very encouraged. So, COVID [indiscernible] (00:27:47)

[indiscernible] (00:27:47)

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.
A

...behind us, yeah. Having COVID behind us is a great thing but also, we're not seeing – we're seeing the sales productivity hasn't really been hurt by kind of the economic chaos going on. So we're still cautious, but so far, so good. So let's see how the more weeks stack up and we'll report in August, but feeling good about it.

Max Gamperl
Analyst, Goldman Sachs & Co. LLC
Q

Got it. Thank you very much.

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.
A

Thank you.

Dale R. Gerard
Chief Financial Officer, Vivint Smart Home, Inc.
A

Thanks, Max.

Operator: Thank you. Our next question goes to Ashish Sabadra with RBC Capital. Ashish, your line is open. Please go ahead.

Ashish Sabadra
Analyst, RBC Capital Markets LLC
Q

Yeah. Thanks for taking my question. So maybe just a quick question on the free cash flow guidance. I was just wondering what takes you to the high end versus the low end of the guidance range? And maybe just a follow-up question there. Like, we – why do we see that impact on the free cash flow, but I haven't really seen those headwinds impacting the EBIDTA or other line items? So any color there will be helpful as well. Thanks.

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.
A

Yeah. So with the rising interest rates, we have two pieces of kind of debt, I would say, we have the term loan that's on our balance sheet. And then the bigger component is really the citizens financing. As you know, we offer that to consumers for 0% APR. And so the – our cost associated to do that as rates rise will increase. And so, we're trying to do some forecasting there around what we think will happen around rates and the different swap curves. And so that's why we've said, hey, based on where we see rates today and what we expect the increases will be at the next two or three or four Fed meetings. We factor that into kind of our estimates and said, hey, we think that there'll be a potentially a greater use of cash than we originally anticipated when we did our models for the beginning of the year.

The reason why you don't see that into like EBITDA, for example, is when that comes through, it comes through a reduction to revenue. And so, as we put it on – so if you take the gross amount, [indiscernible] (00:30:13) that net amounts what we put in the deferred revenue, we recognized over say 60 months of period of the loan. And so while it will be a lot could be $10 million, $20 million of incremental cash depending on what happens with rates there, it's very small when you look at it on a revenue basis because it gets spread out over, think about it, five years.

So in one any one period of time for revenue, it's not going to be material to change the numbers. But on a cash basis, because of the cash that we get this period related to those new sales, it will have some impact there. So that's why we're just – we're being realizing what's really happening in the economy. We're seeing these rates go up and they're going up a lot faster. I think, I think maybe when you look at the yield curves in the out two or three years, you got to remember, most of our loans we put on the citizens are 60-month loans.

And so that that cost – while the rates of that increase that dramatically when you look at it just quarter-over-quarter with heard one-year rates but the calculation used to figure out what our cost is – it uses longer-term periods and those rates have went up higher than what they were the last time when we put out our guidance.

Ashish Sabadra
Analyst, RBC Capital Markets LLC

Q

That's very helpful color. And maybe just on my follow-up – thanks for that disclosure and the smart energy partners, the new subscriber, which are generated from that channel. And just given the high energy prices, there seems to be a strong demand for solar energy. So, I was wondering, what are you seeing on that front, and how should we think that partnership helping drive accelerated subscriber growth going forward? Thanks.

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.

A

Yeah. We are seeing obviously some strong demand there. I think the work that the team did two years ago when we got that partnership that we really brought to market last summer was fortuitous because we knew that there was a strong desire to bundle the two. We've known that for years, but we really saw the benefits of it the end of last summer and then throughout this last fall and winter.

We have forecast that we think we'll double our megawatts. We may do more than that. We also see that there are some challenges on the solar side. There are some challenges with regards to supply constraints that are on panels that is causing some concern. And so we're also just being realistic around the access to panels there, and there's also financing costs that impact solar, just like there is across all solar products.

But having said that, those headwinds are real. There's some that we see on the smart home side. But there is this desire, obviously, to control your energy costs. And I think with the rising cost of petroleum, there are people who are saying, hey, net-net, long term, I want to be able to be in control of that. And so I think that they have that longer vision, and they are pushing forward to adopt solar. There is a strong desire there. And as we mentioned, we're seeing a very a much higher pull through of those sales that actually go to install, which in the day is what really matters when they bundle smart home. We knew from the work that we had done, from all of the survey work, that there was a strong desire to bundle them. And in fact, in practice we're seeing a materially higher pull-through rate.

So we think we're on to something pretty special and our partners agree. And so there's a yin and yang and a pro and a con in the current environment. But net-net, we think that the demand for solar will continue to be strong and the demand to bundle what we have will be even stronger. And those that provide the bundled solution will delight the customers even more and provide them more value. And as a result, we think we can actually do a better job in winning in that working space. But yeah, as you know, we continue to be very, very strong this quarter.

Ashish Sabadra
Analyst, RBC Capital Markets LLC

Q

That's great color. And again, solid results, and good to see the great momentum in both subscriber and revenue growth. Thanks.

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.

A

Yeah. Thank you. It was a great quarter. And we're optimistic for the whole year.

Operator: Thank you, Ashish. Our next question goes to Erik Woodring with Morgan Stanley. Erik, your line is open. Please proceed.

Erik W. Woodring
Analyst, Morgan Stanley & Co. LLC

Q

Hey, guys, just want to want to echo the congrats, really strong quarter across the board really. So that kind of gets to my question, which is, you just saw a nice upside in 1Q, kept your full year guidance and change. Just want to understand, is that more a function of you're trying to embed some conservatism in the model for the rest of the year given what's going on or has there been any change in outlook as we think about the remainder of the year? And then I have a follow-up.

Dale R. Gerard
Chief Financial Officer, Vivint Smart Home, Inc.

A

Yeah. Yeah. Hey, Erik. Thanks for the question. It's really betting conservatism. I don't know if its conservatism or if its being cautious to what we're seeing in the marketplace is frankly right. It was a great first quarter. And as David just mentioned, we were bullish on the full-year prospects. But we're also – there's lots of things going on in the economy that we just don't know how consumer behavior, if it will change. We haven't seen it to-date. And as David – we're feeling good about the start of the direct on-sale season. It's a couple of weeks in.

But – so where we are today, we're five months into the year. I think we feel pretty good saying, hey, that's where we think we'll be. And as we get deeper into the year and you get second quarter credit, if there's a need to make any revisions, then – we'll I'm sure we will. But it's really just thought so about everything that's going on up there with – supply chain – David, you can jump in now. But everyone – I think everyone thought supply chain in 2022, like we went through 2021 and like, oh, [indiscernible] (00:36:18) you can't get any worse than that, so it's going to get better. We're now – we're still seeing it. It's – every day, it's a battle to make sure we're – we got de-commence from subcomponents and suppliers and we've got to go work with them to get those components, recommend it or we got to go out and find other suppliers to bring us those components.

You've got – they've got labor constraints. I think you've got China shut down, which is where a lot of subcomponents actually come out of. We don't really manufacture finished goods in China, but a lot of the subcomponents that go into our finished – cameras and panels and so forth, come out of there. And so, that's a disruption. We don't know what – I don't know what's going to – how long that's going to go on or what that really will look like. And it's not only in just timing, it does but it's also in cost, because there's going to be more cost? We have to use more airfreight.

It's going to be higher manufacturing cost because they're going to have to use more labor and overtime to catch – keep the volumes that we need to come in for production. So there's just lots of things out there that we see but don't have like full visibility to what those could – how those could impact us. And so that's why we're kind of giving...

Erik W. Woodring
Analyst, Morgan Stanley & Co. LLC

Q

Sure.

Dale R. Gerard
Chief Financial Officer, Vivint Smart Home, Inc.

A

...that full year, kind of where it is today from what we know and what we do. David, I don't know if you say anything else.

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.

A

No, I agree. We have a gentleman entrusted that runs the direct-to-home. And we're talking to him, it's interesting to think about this year, we're encouraged by the start of direct-to-home this year. And the reason why I bring that up is because I think the solutions that we have this year that we're bringing forth with our sales force and to our customers, it resonates. These bundled solutions, they resonate. The fact that we're trying to make homes safer, more efficient and also more cost effective, they resonate.

We talked about the roadmap of our company, we're trying to extend how long we are with the customers to pull our high service margins we have in our current business plus bundle an incremental margin and we're trying to create more value for our customers. When you take all of that and we're encouraged by the year, so – and Q1 was a great manifestation of that. I mean, the work we're doing with our inside sales, our direct-to-home really kicks off in the spring and summer but our inside sales was relatively strong.

So, we feel good about the refinement of our strategy and our execution of our strategy. Our operations teams, I mean, they continue to dial in on their ability to execute, even in a more subtle way than they have in the past. So, we're encouraged. But yeah, to Dale's point, I'm not sure the Ukrainian conflict with Russia, I'm not sure where oil prices going to end up, just being concerned about these supply chain constraints and then interest rate when we have the three-year curve, not exactly sure [indiscernible] (00:39:23) So it's that unknown we just thought it's prudent just to hold where we are. And our goal with you guys is give it to you how we see it. You know, we've done a really good job performing ever since we did the IPO. We don't want to blow that. We want them to believe in what we say. And, you know, that's kind of how we roll. So that's who we are.

Erik W. Woodring
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. I appreciate all that color and I think you're taking the right strategy. So kudos to you. Maybe just my follow up, David, I think you mentioned or comment earlier where you said the customer stays for nine years. Is that just a subtle hint that you think, your long-term attrition rate, which was originally thought to be closer to 12%, could actually be lower than that? Because you now see customers staying kind of nine years versus the high end of seven or eight years? That was kind of the prior estimation. I just want to make sure if that was a comment in passing or if that's, something that you think has fundamentally changed where now the long-term attrition rate might now be lower than it was then you were thinking maybe 3, 6, 9, 12 months ago.

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.

A

No, Erik. We're very explicit about this. I mean, our aspiration is very much to turn long-term customers into life time customers. I mean, it's very aspirational. But our goal here is to have it be 12 years, 15 years. A solar relationship is 35 years. If you rooting to them a better insurance solution that they benefit from because of their smart home solution, why would they go anywhere else? If we can continue to make their homes more efficient today and more enjoyable and they interact with that home more and more, why would they do any round?

So it very much is our stated desire and objective to bring them value, so that it goes from 9 to 12 to 13 and that would very much reduce attrition. I talk about this internally at fair but we're trying to have the entire bundle solution be a lower cost than they have today. And when you do that and you help educate the consumer about the value you're bringing, I really do hope that we're dropping out hundreds of basis points of attrition over time. And by math, you extend that relationship.

It's still interesting, 10 years ago when you were just in the security business, you saw that system. And, people hope that they never had to use it. They hope they never had an instance where they had an alarm go off. By default, they never knew it was really working and we've completely flipped that. We are trying to drive interaction with them every day. We're reminding them every day the value that we bring. So we always talk about that 11 times per day. We hope that we get that to 13 times a day, 15 a times a day where you're so integral into their family. It's so funny. My wife, she hates it but I will often get on my phone. I will see her on our – my cameras in the house and I'll talk to her over the phone and she's like, David, I hate this you can now see what I'm doing at home. But I'm interacting with my family at different times but I'm late for dinner. I'll actually they'll be having dinner and I'll be talking to them.

There's new ways that I'm interacting with family that I never even thought about a year ago. So we're always trying to think about ways that we can become more central to who they are, so that they can't live without us. So, yeah, very much, Erik. I hope that that average lifetime continues to go up. And like I said, on just the smart home alone, not even including insurance or so, just the smart home, for every year we extend it, it depends on how big your package is, it's $200 to $400 more of lifetime value. And then when you add in solar and you add in insurance. My goal here is to show you guys over time the lifetime value of the customer is expanding nicely. So you as investors are saying, wait a minute, this is the superior investment option for us. So that's what we're trying to prove to you.

Erik W. Woodring
Analyst, Morgan Stanley & Co. LLC

Q

Perfect. I love that answer. Thank you so much, guys.

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.

A

All the best. Thank you, Erik.

Dale R. Gerard
Chief Financial Officer, Vivint Smart Home, Inc.

A

Thank you, Erik.

Operator: Our next question goes to Paul Chung with JPMorgan. Paul, your line is open. Please go ahead. Paul, your line is open. Please proceed.

Paul J. Chung
Analyst, JPMorgan Securities LLC

Q

Sorry about that. Thanks for taking my question. So, just on 1Q, what kind of drove the big uptick there, typically seasonally slower. What were some pockets of demand, what regions you saw strength? And then how's competition kind of faring? Are more and more people becoming aware of your brand?

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.
A

Hey, Paul. It's David. In Q1, most of that was driven through our inside sales. So the seasonality of our direct-to-home, they really kick in as we've diversified our channels. You really see the strength of direct-to-home in Q2 and Q3 and then part of Q4. But – so really Q1, the majority of that is from inside sales. And I'd really think that's a function of many things. One, once again is I think our product is getting better. And so that's folks who are researching our product. They've seen the accolades that we have from our product. We call ourselves the category of one. We really do think that we have the best product out there for the money. And so I think people see that.

The success of our direct-to-home, you see all the advertising, all the homes that have the signs out front, that we benefit from that. So there's a symbiotic relationship there between the two. But that was really around just digital marketing and the effectiveness of that and just brand awareness. We've done a fair bit of survey work around our brand awareness. It's surprisingly high for how little we spend on brand and we think that's earned brand. That is – that's from doing this now for 20 years and really earning that on a word-of-mouth basis, which is the most valuable brand awareness you can possibly have. So, once again, it's hard earned and that was largely from inside sales, which I think stands on the merit of the efficacy of the product.

Dale R. Gerard
Chief Financial Officer, Vivint Smart Home, Inc.
A

The other thing I'll just layer in that period of instances, really, really strong performance. We did pick up almost 3,000...

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.
A

That's true.

Dale R. Gerard
Chief Financial Officer, Vivint Smart Home, Inc.
A

...additional new subscribers from that partnership that we've created. As David said, groundwork was laid 18, 24 months ago, really started coming to fruition in 2021 and we're continuing to see that really come full circle, so to speak, in 2022. And so, you've got almost 3,000 new [indiscernible] (00:46:54) smart homes from a channel that didn't exist previously. And we think there's lots of...

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.
A

Because sold – largely sold year round, you're right, and the team has helped them understand the value of bundling as we've trained them and they've seen the benefits. That engine has also helped us, yeah, so inside sales and that new channel coming online.

Dale R. Gerard
Chief Financial Officer, Vivint Smart Home, Inc.
A

Yeah. Good point. Yeah. I do see that in the numbers...

Paul J. Chung
Analyst, JPMorgan Securities LLC

Q

[indiscernible] (00:47:15) right. Yeah.

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.

A

Go ahead.

Paul J. Chung
Analyst, JPMorgan Securities LLC

Q

On the solar – yeah, the solar stuff, so nice momentum there. How do we think about kind of the new subs growth relative to the doubling of the megawatts you mentioned and kind of the revenue and margin contribution for sub kind of moving forward on that that basis? And then I guess the same kind of question for Smart Insurance, kind of the unit economics per sub there.

Dale R. Gerard
Chief Financial Officer, Vivint Smart Home, Inc.

A

Yes. So I'll start with Smart Insurance and work my way back while I was there. What we've got – we're not really giving that. We haven't give out. I think we're still very early into the lifecycle of the insurance business and billing out. I mean, we've – we get 7,000 or so policies last year. So that's very early. We continue to build out. We're not spending – investing there. That's one of the investments we're making in 2022 to build out the MGA that we're working on.

Ron's been in place around [indiscernible] (00:48:21) we believe it's been in place for 60, 60 days, I think at this point. So, very early there. We think – we definitely believe it's accretive to our, to our EBITDA margins and definitely drives extended and increased lifetime value of the customer. But we'll get those out when I think it's appropriate when we have a better feel for what those really look like because there's a lot of movement there still today.

I think on the Smart Energy side, I think that 45 megawatts that we did last year would be, that was probably 5,000 homes or so. So if you double that this year, you get to 90, you're probably in the 90 to 2,500 or 10,000 homes. And we believe that we'll be able to drive incremental value and margin out of that business. And then what I think comes – there's two pieces of that, right? There's this – the revenue that's generated from the selling of that solar to that customer and we get the margin from that. And then there's also from this partnership, the development in increased Vivint Smart Home customers that have very strong margins in terms of lifetime value for the – so there's kind of two pieces to that.

I think we want to make sure we think about it that way. I think we can drive – I think we can drive 10,000-ish or more new subs from there, smart home subs. And then you'll have – last year, I think we said that 45 megawatts was about $45 million to $50 million of revenue. And so, you can kind of back in that we're doubling where we are this year and then we're probably looking at somewhere between $85 million and $95 million of revenue from that fact.

And then, we're still working. It's early. I think we feel good about where our cost structure will come out there, but it's probably a little still early but I think it will be somewhere north of 10% with what we'd say was the margin on that. And I think our goal is to get into the mid to high teens but there's – we're still working on that. Some investments – we're making investments now to make sure that we scale it largely.

And again, I think, Paul [indiscernible] (00:50:38) incremental to what we did today. So it's positive to whatever we've done today in terms of EBITDA we're getting from that. And I think it's really about, as David said previously, it's about the lifetime value of customer. And if you can take that customer that has a 75% to 80% service margin from the smart home side, you can add incremental revenue that you're getting from that customer related to a solar sale or the annual insurance premiums coming in from that customer. It really expands out, we believe, the lifetime value of that customer And, Paul, the margin from smart home and [indiscernible] (00:51:17) so that's really quite powerful.

And we saw some people were saying, hey, the margin is dilutive. And I'm like you got to open your aperture. If you're running this business on your own, you make your investment because you're protecting and elongating and adding. And most importantly, you're adding value to the customer, which makes you much known asset. So as you open your aperture and think about value of the customer, defending your base, and incrementally adding margin on a very risk-adjusted basis, it is a no-brainer to do.

And the way we're doing it in an asset-light [indiscernible] (00:51:57) friendly way is very, very [indiscernible] (00:51:59)

Paul J. Chung
Analyst, JPMorgan Securities LLC

Q

Thank you so much.

Dale R. Gerard
Chief Financial Officer, Vivint Smart Home, Inc.

A

Thank you, Paul.

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.

A

Thank you for the question, Paul.

Operator: Thank you, Paul. Our next question goes to Brian Ruttenbur with Imperial Capital. Brian, your line is open. Please proceed.

Brian Ruttenbur
Analyst, Imperial Capital LLC

Q

Yes. Thank you very much. First of all, in terms of second quarter, can you talk a little bit about where you see G&A going because you had a dramatic drop in G&A year-over-year sequentially in the first quarter. Where do you see that going in the second quarter?

Dale R. Gerard
Chief Financial Officer, Vivint Smart Home, Inc.

A

Yeah. Yeah. It will – so sequentially, it will go up from Q1 to Q2 will go up. I think when you look at it on a year-over-year basis, it's going to be, call it, 5%, 6% growth. So, again, one of the things we've really focused on is really trying to drive efficiencies out the dollars that we're investing. And G&A is an investment. I mean, it's like –

it's a capital allocation like anything else, whether it's new subscribers or technology or products. And so, we're really focused on that, Brian, making sure that where we're spending our dollars and G&A, whether that's in finance, legal, operations, or our marketing, exactly wherever that at that we're actually getting a return on those dollars. So there will be some year-over-year.

I mean, there's going to be some, as you know, Brian, there's got to be some inflationary pressures just on some of the...

Brian Ruttenbur
Analyst, Imperial Capital LLC
Q

Right.

Dale R. Gerard
Chief Financial Officer, Vivint Smart Home, Inc.
A

...core things that we have in that, whether it's travel, there's – we're starting to see a little bit more travel. David and I have been to conferences and so forth. So there are certain things like that that we're starting to see. But we're going to try our best to maintain and really drive scale, scale across the G&A.

Brian Ruttenbur
Analyst, Imperial Capital LLC
Q

Okay. Very good. The other question is more macro. It's kind of your roadmap. Can you talk a little bit more about the insurance offering, where you are now in terms of the roll out? Are you going to be farming this out? Are you self-insuring your customers here? How – what's the structure? And then maybe what other offerings could you potentially be selling through your channel?

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.
A

Right. Brian, thanks for the question. I think so – so, yeah, first and foremost, we believe this is a platform play. And we're really seeing that come to fruition last year and then this year. So this ecosystem we have in the home, relationship we have with our customers, they're asking us to say, hey, bring us other solutions. So, we've talked about sort of the insurance is a great manifestation of that. So where we are, this last year and a half, we really were working on just making sure that we could actually be relevant and the customers will buy some. We've just been actually just selling policies, or reselling policies. So making sure the systems in place, the compliance apparatus to be able to sell to our 2 million customers.

And so there wasn't anything terribly creative about that. It was just trying to get the ability to sell directly through an agency. We've been working actually to develop an MGA model where we can then take the data that we have and underwrite with partners with the reinsurer to actually be able to have them underwrite a lot of the risk to actually bring data to bear that the customers have on their behalf to underwrite a product that would benefit them.

And so, this year, our goal is to be in the three states. We should be into our first stages in MGA later this summer, and then hopefully be in two more states by the end of the year. And the states we're going into is a function of where our partners want us to go, where we have a large customer base, and the risk profile works for our product.

So, yeah, we're going to be thoughtful. Dale mentioned this. This is not going to be a material piece of our economics probably for a year or two. What we're trying to do now is just make sure that we do it correctly, methodically working with our partners. There is a very large interest level because we own the data. With our customers, we have the platform. And so we're just making sure we're doing it correctly. We're not relying upon this to be a large revenue lift or a large EBITDA lift or large cash lift or drain. We're doing this to be able to prove out value to our customers, and this will be a nice growth engine in the years to come. But most importantly, it's a great manifestation of the platform play, and that's what we'll do.

The second part of your question, so to answer your question there, Brian, we're partnering with some large, large industry players. We're making sure the risk falls appropriately where it should be, relying upon their expertise and our expertise. We're not trying to play in areas of risk that we're not competent in. We're relying upon them, and we're relying upon what we're really good at to do our part. And that really is the data we have, the insulation we have, and the servicing we have and they're helping make the lead, price the [indiscernible] (00:57:14)

With regards to where else we can go? We've done work on this – on one of the platforms. We feel right now our plate is pretty full, not only was the continued expansion of smart home and energy, smart energy and smart insurance, but also the expansion of channels and how we bring these to market. [indiscernible] (00:57:35) our plate and for the next 18 to 24 months, really digesting and scaling that.

But we've mentioned in prior calls that we're interested in aging place. It's an area in the marketplace we think we have a really strong product offering to bring to bear there. And we can really drive out a lot of costs and bring a lot of comfort and value to folks who want to age in their home, where they are happier, healthier and do it in a much more cost-effective way to connect their family. So, that's an area that we're doing some work around and I could see that being an area that we'll probably invest in the future. But right now, we're focusing on what we have.

Brian Ruttenbur
Analyst, Imperial Capital LLC

Q

Great. Thanks very much.

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.

A

And that might be the partnership, that may be through organic. We're still trying to manage exactly how we want to approach that marketplace and when we'll do it. But that's another example of where the platform will most likely go down the road.

Brian Ruttenbur
Analyst, Imperial Capital LLC

Q

Great. Thanks.

David H. Bywater
Chief Executive Officer & Director, Vivint Smart Home, Inc.

A

Thanks, Brian.

Operator: Thank you, Brian. All questions have been exhausted, so I will turn the conference back over to David Bywater, closing remarks.

David H. Bywater

Chief Executive Officer & Director, Vivint Smart Home, Inc.

Great. Thank you. We appreciate you guys' interest, like I said. I think we had a great Q1. We're looking forward to a solid year. We appreciate guys' ongoing interest in us. We're focused on delighting the customers, taking care of our shareholders, taking care of our employees. I did want to mention to all of you guys that we really appreciate our employees. We think they're world class. I hear often from our customers how well our employees take care of them, whether it's how they sell or how they service them on whether it's calls over the phone or when they're in their homes. And I'm very proud of our employees. And I appreciate how they innovate. I appreciate how they take care of each other and how they've come through this COVID crisis with respect for one another and how they treat each other and how to treat our customers.

So once again, thanks for your time, and your interest, and we look forward to [indiscernible] (00:59:44) together our next call. Take care.

Operator: That concludes today's Vivint Smart Home first quarter 2022 financial results conference call. Thank you for your participation. You can now disconnect your line.