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Vivint Smart Home, Inc. (VVNT)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the Vivint Smart Home Inc. Fourth Quarter 2021 Earnings Call. My name is Emily, and I will be coordinating the call today. [Operator Instructions]

I now have the pleasure of handing the call over to our host, Nate Stubbs, VP of Investor Relations. 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 and fiscal year ended December 31, 2021. Joining me this afternoon are David Bywater, Vivint Smart Homes Chief Executive Officer; and Dale R. Gerard, Vivint 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 is expected to be filed on or about the date of this earnings release and in other filings we make with the SEC from time to time.

The company undertakes no obligation to update or revise publicly 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.

Thank you, Nate, and good afternoon, everyone. We very much appreciate your ongoing interest in Vivint. We work hard every day to earn your confidence and your ongoing support. I'm excited and encouraged by the ongoing momentum we are building here at Vivint. We delivered a strong year in 2021, exceeding our full year guidance on total subscribers, revenue, and adjusted EBITDA. Our revenue growth was more than double the growth rate in the prior year, reflecting robust demand for the products and services we deliver, along with early positive results in our smart energy initiative.

The key metrics in the business continue to demonstrate strong improvement as well on a year-over-year basis. Notably, our last 12-month attrition rate is 11.3%, which is a 14-quarter low and 110 basis point improvement versus the prior year. This improvement reflects not only the stronger credit quality of our customer portfolio, but also the focused improvements across our product and service offerings as we deliver on our mission of providing value and peace of mind to our customers.

We believe our attrition rate is the lowest within the national do-it-for-me smart home segment by a 100 basis points and 200 basis points. We once again achieved our stated goal of operating a business on a cash flow positive basis, generating over $65 million in free cash flow. Additionally, we ended 2021 with net service costs near an all-time lows and indicated that we are operating the business efficiently and effectively in delighting our customers. I want to take a moment to point out that our team has met or exceeded the targets for total subscribers, revenue and adjusted EBITDA that were laid out in late 2019 as the company was preparing to complete the merger with Mosaic Acquisition Corporation and become a public company though we exceeded our stated goal of becoming cash flow positive, two years earlier than we had forecasted.

Given the significant headwinds over the past two years, this is an incredible demonstration to me that the Vivint team does what they say they will do. I believe that bodes well for our future as we continue to pursue very ambitious goals.

On the strategic front, we're laser focused on growing faster than our peers by building out our integrated smart home platform to bundle smart energy, smart insurance and intelligent smart home devices together in a single, elegant solution. We believe we have distinct advantages that will allow us to delight and increase the lifetime value of our customers by driving strong economic value for our shareholders.

As we execute our strategy, we believe we can extend the average duration a customer stays with us well beyond the current nine-year relationship. We expect that the unit economics of our customers should also improve, further enhancing the cash flow generation of the company. We should also allow us to reinvest in compelling value accretive initiatives. We believe this broader smart home platform strategy will further cement Vivint as being in a category of one, from a financial and a strategic point of view. We will do this while also being the preferred place for our talented employees to build their careers in a safe, collaborative, high energy and an industry leading, compliant manner. That is our focus and our commitment.

As I mentioned on our last earnings call, 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. Our integrated platform is the core enabler that allows us to deliver on this mission.

The vision is to help customers not only protect their families and homes, but to make their homes more enjoyable and intelligent as we integrate solutions with data infused artificial intelligence to make – to make smart decisions on their behalf. As we work to also bundle smart energy and smart insurance, we will utilize our integrated, easy to use ecosystem to help customers save money on their monthly electronic bills and insurance premiums.

These bundled solutions deliver more value and as a result, we believe, will expand the lifetime value of our customers. We believe that as we perfect the advantages from our intelligent and integrated platform, we will further extend our leadership in the do-it-for-me smart home segment. As one of the first smart home companies to expand into smart energy, we are very encouraged by the momentum we are seeing. We sold over 45 megawatts in 2021, bringing smart energy to roughly 5,000 homes, and we expect to do much more in 2022.

Our salesforce and strategic partners who bundle Vivint Smart Home with solar are realizing a considerably higher sales to install ratio than those who are only selling solar. This is an incredible demonstration of the power we bring by offering a bundled solution. Our vision is to combine energy production and consumption controlled by 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, is a game changer for the industry and for our customers.

We believe that as we grow the number of companies that partnered with us to bundle smart home with smart energy, it will prove to be a powerful one-two punch to grow and retain smart home customers. We continue to work closely with our partners at Freedom Forever, Mosaic, and Sunrun to provide industry-leading solar financing and installation solutions.

The growth opportunity for Vivint in the solar market is significant. Less than 4% of the addressable homes in the US have adopted solar to this point. Given that we have nearly 1.9 million customers across North America, we believe we have significant opportunity as a solar to our existing customer base, as well as drive bundled smart home and smart energy solutions to the remaining addressable homes.

Now, to briefly discuss our smart insurance initiative, we believe our data-rich smart home platform can help insurance companies better price the risk of customers who have professionally installed and actively monitored smart home systems in their home to mitigate the severity of claim events. We believe we can prove to insurance providers that Vivint customers present a lower risk than homeowners without a smart home system or with the DIY system that is – that was inadequately scoped, inadequately installed, and not professionally monitored.

Currently, we continue to operate as an agency reaching on insurance products for a few large carriers, and we are pleased to note that we sold nearly 7,300 insurance policies in 2021. We continue to invest in this initiative and are hiring seasoned insurance executives to help us build out our abilities to become a managing general agent or an MGA, which will allow us to develop specific homeowner coverages for our customers and enable us to continue to grow smart insurance in 2022 and beyond.

We plan to thoughtfully and deliberately expand as we demonstrate to our customers that benefits from Vivint can provide them in protecting their homes, their families and their savings accounts. We expect to begin offering policies through our MGA in a few states by the end of the year. The property and casualty market is a $600 billion opportunity that has been seeking an auto-like telematics solution for the home for years. We believe that we can be that solution and that we can positively disrupt the industry and drive growth in customer value due to our integrated ecosystem in the home.

When turning to our thoughts on smartphones, according to industry reports, the do-it-for-me segment in which we operate is growing total subscribers at approximately 2% per year while we are growing at four times that rate. The do-it-for-me segment is where a large majority of the profits in the smart industry reside.

Meanwhile, the do-it-yourself segment is growing a bit faster with a very low or a negative margin profile and still represents less than 4% of the total smart home and the security market. We believe that if it continue to grow faster than our segment average while expanding our margins and improving our cash generation each year, given that we operate in a huge market with low penetration, we believe we have a lot of headroom to grow.

Like virtually every company, we continue to battle challenges related to COVID-9 pandemic, as well as inflationary pressures due to labor, material and supply chain constraints. We believe these trends will continue throughout the year. There are also important and real concerns related to geopolitical unrest and consumer sentiment that we continue to navigate.

Given these uncertainties, we are tempering our growth expectations for 2022 relative to 2021. Though, we still expect to grow much faster than our DIFM peers while expanding profitability, expanding our cash flow generation and the lifetime value of our customers.

With that, I'll turn the call over to Dale to further elaborate.

Dale R. Gerard

Chief Financial Officer, Vivint Smart Home, Inc.

Thank you, David and good afternoon, everyone. Before I go through my prepared remarks on our results for the fourth quarter and fiscal year 2021, I would note that I will be referencing slides from our earnings presentation that we have posted to the Investor Relations section at vivint.com. Following my remarks, we will open the call for a Q&A session.

Starting on slide 9, I will highlight a few key subscriber portfolio metrics that show year-over-year improvements across the board. We finished 2021 with 1.86 million total subscribers, up 9.4% from December 31, 2020. Our average monthly recurring revenue per user or AMRRU in the fourth quarter increased by 4.4% versus the prior year period. The key driver of the increase in AMRRU was customers purchasing more smart home products at the initial point-of-sale. The year-over-year growth and total subscribers in AMRRU drove a 14% increase in total monthly recurring revenue. Total MRR was $125.2 million during the fourth quarter of 2021.

We are very pleased with the year-over-year growth in revenue for the fourth quarter and full year, as shown on slide 10. The company recorded $396.2 million of revenue during the fourth quarter. During the quarter, we had strong year-over-year growth in total subscribers and AMRRU as well as a solid contribution from our strong energy initiative, which drove a 19.7% increase in revenue from the same period in 2020. For the full year, revenue grew 18.1% to $1.48 billion, a new record high. Similar to the fourth quarter, the full year increase was driven by total – higher total subscribers and AMRRU, along with a solid contribution from smart energy.

Moving to slide 11, we cover adjusted EBITDA for the fourth quarter and full year 2021. Similar to revenue, adjusted EBITDA for the fourth quarter and full year grew by 23.4% and 15.6%, respectively, from the same period in 2020. Adjusted EBITDA for the fourth quarter was $178.4 million, with a margin of 45%. Adjusted EBITDA for the full year was $669.1 million with a margin of 45.2%.

We are happy with the growth in adjusted EBITDA in the fourth quarter and our ability to maintain margins in the mid-40% range, despite inflationary pressures that we experienced around labor, product components and supply chain disruptions throughout the year.

I will now cover a few metrics associated with the new subscribers that we originated during the fourth quarter and full year of 2021 on slide 12. New subscriber originations for the fourth quarter of 2021 increased by 10% versus the prior year period to 64,403. We continue to see solid growth from our national inside sales channel, which originated 51,209 new subscribers during the fourth quarter, up 16.5% versus the prior-year period. We'd also note that our strategic solar partnerships that started to ramp up in the fourth quarter and the benefits of smart home with their solar offerings produced 2,592 new Vivint Smart Home subscribers.

For the full year, we originated 360,509 new subscribers, up 5% versus prior-year. We continue to focus on underwriting high quality, profitable customers. For the year, nearly all of our customers either paid in full or financed the purchase of their equipment through our financing partners. While average proceeds collected at the point-of-sale before the payment of fees to our financing partners increased from $1,998 in 2020 to $2,192 in 2021.

Now, moving to slide 13, I'll provide an update on our net service and net subscriber acquisition costs for 2021. Net service cost per subscriber for the full year 2021 was $10.41, remaining at near all-time lows. As compared to 2019, net service cost per subscriber has decreased $3.32. Net service margin for the year remains robust at 78.1%. While we have seen a rebound in customer interactions from the abnormally low levels that we saw during the height of the COVID-19 pandemic in 2020. We've been able to effectively control costs while continuing to provide the high level of service our customers have come to expect from us.

The introduction of the Flex Pay model in 2017 has allowed us to achieve a significant reduction in net subscriber acquisition cost for our new subscriber. As a result, net subscriber acquisition cost per new subscriber for the full year of 2021 decreased by 58.3% to $58 compared to 2020. That is an $81 reduction from the prior year and just under $1,000 less than in 2019. I would note that subscriber acquisition cost per new subscriber is presented before the payment of fees through our financing partners.

Another metric that we are very happy to report is our last 12-month attrition rate shown on slide 14. As of December 31, 2021, we had a 14-quarter low attrition rate of 11.3%, which was 110 basis points lower than last year. We believe the continued improvement in attrition is related to our enhanced underwriting standards, improved product and service performance, and the increase in customer interactions with our platform.

In terms of free cash flow, for the full year we generated over $65 million despite inflationary pressures across the organization, a change in the timing of payments to one of our financing partners and investments in smart energy and smart insurance initiatives. As a reminder, as part of a three-year extension signed in early 2021 with one of our financing partners, the timing of fees we pay related to the financing of new customers changed from being paid over the term of the loan to being paid at the point-of-sale. For new customers financed in 2021, we paid 50% of the fees at the point of the sale, and the remaining fees will be paid over the term of the loan. In 2022, for new customers financed by this partner, we will pay 100% of the fees at the point-of-sale, leading to a reduction in the up-front proceeds collected from the financing of the customer's equipment and installation.

Before I provide our thoughts and guidance for 2022, I would refer you to slide 15, where we show our key results over the five – past five years. As David mentioned in his remarks, when we are preparing to complete our merger with the Mosaic Acquisition Corp. and become a public company, we provided a forecast for total subscribers, revenue and adjusted EBITDA for the 2019 through 2021 periods. A little over 2.5 years in a global pandemic later, we have met or exceeded that forecast along with achieving our goal of being cash flow positive nearly two years ahead of time.

On slide 16, we lay out our guidance for the full-year of 2022. We expect to end the year between 1.95 million and 2 million total subscribers, to have total revenue between $1.6 billion and $1.63 billion, our adjusted EBITDA between $725 million and $745 million. And finally, we expect free cash flow to be between $67 million and $77 million.

To reiterate, we expect to grow at a much faster rate than our DI – do-it-for-me peers while expanding profitability, cash flow generation and the lifetime value of our customers.

This concludes our prepared remarks. Emily, please open the line for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you very much. [Operator Instructions] Your first question comes from Rod Hall from Goldman Sachs. Rod, your line is open.

Max Gamperl
Analyst, Goldman Sachs & Co. LLC

Q

Hi, there. This is Max Gamperl on for Rod. Thank you for taking my question. I just have one question on your subscriber growth going into fiscal year 2022. It seems like you have some pretty solid traction in your national inside sales channel. But the direct-to-home channel, we're just wondering how you're viewing the macro environment with potential labor shortages in the summer. And wondering your outlook for the year for your direct-to-home sales channel. Thank you.

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

A

Okay. Great. I appreciate the question. Yeah, I think well, first off, [indiscernible] (00:23:00) the direct-to-home trends of this past year, you see that it's come down a bit. And that's a function of a few things. I think first and foremost, as we dealt with some compliance issues and some certain teams, we got rid of them. And so, that was a good thing. It was a good thing, appropriate thing as we continue to drive stronger compliance across the organization. I think secondly, we also looked at some of our contracts that we weren't making as much profit on or were below our threshold. And we also rationalized that. So, I think it's part of kind of just to get healthy campaign, driving strong unit economics and intelligent growth, [ph] instead of (00:23:39) a bit of a reset.

And then, there's also just ongoing competition for direct-to-home to sell solar or other things, and so I think, we're really excited about our smart energy solution and especially the value proposition will receive a significantly higher sales to install ratio than you see without bundling smart home. So, those solutions are both offensive and defensive. And I think we now have a great proposition to our salesforce to sell both smart home and solar and to see the benefits for their customers and for themselves.

So, it's a mix of both, and then just the general labor market, a lot of people are just opting out of being in the labor market. Those are a lot of factors that we're managing through and navigating through. And as a result, we're pleased with the overall growth, but there has been some challenges specifically within the direct-to-home given decisions that we made and macroeconomic challenges.

Max Gamperl
Analyst, Goldman Sachs & Co. LLC

Q

Now, that's very helpful, and maybe, if I could have – just maybe ask one more follow-up here for your smart energy solution, you mentioned you have a lot of – you have some traction and new subscribers wondering how you're doing on penetrating your current install base with this new energy solution? Thank you.

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

A

Yeah, it's been great. As we mentioned, we have almost 2 million customers. We're going back to those customers and definitely helping them understand the value of solar and helping them understand [indiscernible] (00:25:18) roadmap around the integration. So it's – they're great customers. As we mentioned, we have an average of a nine-year relationship with them. They know us, they trust us. They respect our ability to deliver on what we say we're going to do. So they're by far our most viable customers [indiscernible] (00:25:37) these customers to help them see the value we're doing. So, we're making a lot of progress. And that's both folks who go back through direct-to-home, as well as folks that are approached through NIS. As well as folks who call in to us that on their own initiative. So, as we continue to expand our outbound marketing campaigns and knowledge campaign to them, to help them understand what we're doing. We've been very pleased with the progress thus far.

Max Gamperl
Analyst, Goldman Sachs & Co. LLC

Q

All right. Thank you very much.

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

A

Thank you, Max.

Operator: Our next question comes from Erik Woodring from Morgan Stanley. Erik, your line is open.

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

Q

Hey, guys. Good evening and congrats on the 4Q results. You know, I wanted to dig in David to the comment that you made earlier. You know, you just mentioned a handful of challenges ahead in 2022. That somewhat tamper your expectations for growth. So, maybe if you could just elaborate on, which you expect to have the most significant impact and why? And, I guess, what I'm getting at is your subscriber growth forecast is obviously, for a deceleration. And so, which of those factors really impact – are going to impact your subscriber growth and why? Thanks.

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

A

Well, I appreciate the call and the question. I think, you know, there's a macro challenge which is supply chain, right. So, we've been working – we worked through it effectively in 2021. We believe that we'll work through it effectively in 2022. But if the factory gets hit with COVID or we have, ongoing delays, I mean, it's just a macro concern. And like I mentioned, I feel relatively good about it but that's just a real concern that we [indiscernible] (00:27:32) manage. And then the cost, And then the cost, the cost of doing that and as we try to offset that a little bit even there, it had some impact on the price to the customers. So that's a real concern that I try to be thoughtful of and be a realist about.

You know, there's also just a general concern around the economy. You know, there was so much government aid last year that seemed to be available to so many of our customers and potential customers and that has been pulled back. And so, you just look at the consumer confidence indices and they have moved. So, you'd be a fool not to recognize that and plan for that. So, that's another large thing around just the funds in the market and the confidence that customers have on spending in their homes. So that's a real concern.

And just obviously considering our interest rates and other things. So, we haven't shaved much off our growth prospect. We shaved off a little bit, just trying to be thoughtful. Hopefully, we'll exceed it. But we're just as we plan our costs, and as we plan our capital budget for the year, I think we'll see some degradation there and hopefully we're wrong. But I think it's prudent for us to do that. Hopefully, a theme that you'll always get from me is that we say what we're going to do, and you don't have to really question that much.

So we thought a slight reduction there was prudent and we'll see how the euro enfolds and we'll update I'm sure throughout the year.

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

Q

Okay. Thanks.

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

A

But from a capital deployment and planning perspective, that's what we're thinking.

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

Q

Okay. Thank you. And then maybe just on the free cash flow guide, you gave a narrower range for free cash flow than you did for both revenue and adjusted EBITDA.

So, just curious what kind that gives you the confidence to have such as a narrow window, and maybe any commentary on puts and takes that we should think about in 2022 relative to 2021.

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

A

I'll let Dale handle that one.

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

A

Thank you. Sure. Thanks, Erik, for the question. Yes. I mean, free cash flow, we – again, if you go back and think our model was 70 – 95% of our revenues is kind of this recurring revenue. So, we were – we know kind of going into this year kind of on a revenue basis, we can anticipate what the cash flow is from that. So that's kind of how we go build this up along with – as David said, we factor in some of these inflationary pressures we're seeing and so forth.

I think the other thing I would point out is, in 2022, I call this out in my prepared remarks is that's the second year of phasing in the upfront payment to our – one of our main financing partners. And so that we know what that is, we know what the impact of that is. So that's kind of the final. And part of that was in 2021 that impacted kind of where our cash flow grew to in 2021, and then we see the second part of that in 2022.

So that's kind of how – we take all those things. We build it together. We're pretty confident where we are around that cash number. As David said, just like subscribers, our goal is to try to exceed that, but we feel pretty good about that range that we've provided.

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

Q

Great. Thanks, guys.

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

A

Thanks, Erik. Have a good evening.

Operator: Our next question comes from Brian Ruttenbur from Imperial Capital. Brian, please go ahead.

Brian Ruttenbur
Analyst, Imperial Capital LLC

Q

Yes. Thank you very much. Just a question in terms of price increases, can you talk about how much you've increased prices in 2021, and what your plans are moving forward? How much of these higher costs are you passing along or plan to pass along to the consumer?

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

A

Yeah. Hey, Brian. Thanks for the question. This is Dale. So, in terms of our monthly service revenue, I think we're – we're trying to push through our different channels, and it depends on the channel, but somewhere between $1 to $5 increase in those for the monthly service piece. And then, when it comes to the products that we're selling, it really is, we're proactively looking at different products that we see higher cost, component costs. For example, like we have to go to the spot market by chip or component to go into one of our, whether it's a camera or our smart hub it goes in the home or other devices. So we're evaluating that along with the shipping cost and so forth, the higher cost that we're seeing there. And then, we're pushing that out across those different products.

So we have not done a, what I would say, is we've not done a wholesale. It's more of like, let's look at which products are impacted and what we want to do to maintain our margin on those. But also looking at, hey, we know there's probably – and this goes into a little bit of what David said around growth. The more we charge, it will affect how much we can grow and what the customers are willing to pay. So we're balancing that to say, hey, what do we think customers will pay? We think it's a great value and great product, but in reality, it's discretionary spend becomes as customers look at that more and more, we're paying for that also.

So it just, again, depends on the product and we're trying to be thoughtful around it, to try to maintain our margins across those products.

David, I don't know if you [ph] have anything else (00:33:10) to add.

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

A

No. And my goal is to not increase it at all, but we're trying to be thoughtful and be prudent there. But the one thing I'd say, Brian, is that that's why with this bundling concept that we're really driving with smart energy and eventually with smart insurance. Why we think that's so important, because we can – even if we have to charge a little higher for our product or service, if we can provide a bundle where they see savings from some of the other valuable services that we can bring to them, that'll help offset any of that and actually eventually will save them money each month.

Brian Ruttenbur
Analyst, Imperial Capital LLC

Q

Okay. And so as a follow-up to that, just so that I get the numbers down. It seems like your monthly service has gone up, at least in the ballpark kind of 5% to 10% on average while your products, you didn't have an exact number, you're just kind of trying to pass along a lot of the cost for those increased products. Is that a summary, a good summary?

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

A

That's a good summary.

Brian Ruttenbur
Analyst, Imperial Capital LLC

Q

Okay. Thank you.

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

A

Okay. Thanks, Brian.

Operator: [Operator Instructions] Our next question comes from Ashish Sabadra from RBC Capital Markets. Ashish, please go ahead.

Ashish Sabadra
Analyst, RBC Capital Markets LLC

Q

Thanks for taking my question and congrats on a solid results here. A question on attrition, again very favorable trends there, 14-quarter low. I was just wondering if you could comment on how we should think about attrition going into 2022 and how do we think about the percentage of subscriber at end of initial contract terms in 2022 and over the midterm. Thanks.

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

A

Sure. This is Dale. So in terms of subscribers at the end of their initial contracts, we'll see that again go up into the middle teens. So if you look at the last few quarters, we've kind of hovered around 10% of our customers who are at their initial end of term. You'll see that go up into the mid, mid-teens or so. And so with that again, the hydraulics of our attrition, our cohort attrition is performing really well, right?

It's a hydraulics that when you have a cohort or a higher percentage of cohorts that are at the end of term, which historically have seen higher attrition that'll fold up the overall portfolio attrition up. It's not an indication that the portfolio attrition is worse. It's just mathematics, right. It's hydraulics of that. And so, I think you'll see attrition go up into the high 11s low 12s percent range is what will impact – what we think that impact will be from pulling that up.

So, the one thing I would note is this is the first year that we will start seeing our initial cohort that we put under a Vivint Flex Pay. And that if you recall, Vivint Flex Pay is where we broke out, sold them the hardware separate and from the monthly service subscription amount. And so, this is the first year that's happened. What we have an opportunity to do this year because of our financing partners and our flexibility there is to go to those customers that are coming to the end of term and refresh their hardware or give them the opportunity to refresh their hardware if they so desire, which will allow them to – which will allow us to sign them up for another 36, 42 or 60 months. Put new hardware in their home and thus maybe still save them on their monthly to us, because they don't need all of the hardware. They're just getting repriced, whether that's cameras or smart hub. So, that's one piece that we don't know how that will factor into attrition.

A little bit. The second piece of this is now that as they've got to the end of that 60 months, they've paid off their hardware. [ph] They are out of our (00:36:54) pocket. So, if they were paying $60 a month because they're paying back the financing piece for their financing partner and $40 month to us, let's say $20 of finance support and $40 to us, that $20 goes away that automatically gives them savings on their budget, which you don't find in any other consumer subscription model anywhere. I mean, every script I have seems to go up every year. This would lower their monthly out of pocket. So, we think that'll have a positive impact on attrition also.

So, again, this is the first really year we'll see start to play out, and we're – that's part of our focus in terms of how we're thinking about looking at these customers that are after initial end of the term here and how do we proactively make sure that they continue to extend the life with us. I mean, we already have an average life of nine years, which we think is industry leading for a large national player like ourselves, but we think we can actually extend that longer with some of the new options we have around financing and upgrading of people's hardware in their home.

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

A

Ashish, this is David. I'll add one thing. As you know, I used to be the Chief Operating Officer of this company six years ago from 2013 to 2016. And I focus a lot on attrition, and obviously how we will service our customers, and how well the technology worked, and what was causing attrition. So, I had a PhD [indiscernible] (00:38:25) time I lost a little bit since then.

But what I find really intriguing is that the last time we had attrition this low I think we had around 30% less customers in the renewal window, and that's really insightful, right? So, I think the teams, what they've done over the years to fortify the mesh ecosystem and how they service customers, [ph] which is easy (00:38:51) with customers, they've really done a good job. And so, they have our attrition to be at 14-year – 14-quarter low when a substantially larger percentage of our customers are in that new window, I think, speaks well to the progress that we make every week, month, quarter on [indiscernible] (00:39:10) the customers better. So, I think some of the things you're talking about play on it. I think our technology has gotten much better and I think our servicing unit segment's got a lot better. So, those are all really positive things that I've discovered as I've come back to the company.

Ashish Sabadra
Analyst, RBC Capital Markets LLC

Q

That's great, David and Dale. Thanks for that color. And maybe just a quick question on the AMRRU, the average monthly recurring revenue per user. As we think about the pricing tailwind, as well as your ability to attach more products into the existing customers, should we think about that growth profile improving going forward in 2022 but also over the midterm? Thanks.

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

A

Yeah. I think, we would like to see that continue to go up as we attach. As customers take more products, we have more products to offer them, more services to provide them in their home. Just on – as we talked about pushing some of these pricing through on the subscription amount that will over time increase that. So, definitely, we would expect to see some improvement there or increase there over time.

Ashish Sabadra
Analyst, RBC Capital Markets LLC

Q

That's very helpful. And congrats once again. Thank you.

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

A

Okay. Thank you, Ashish.

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

A

Thanks, Ashish.

Operator: [Operator Instructions] We have a question from Paul Chung from JPMorgan. Paul, your line is open.

Q

Hi. This is [ph] Trina (00:40:53) on for Paul Chung. A quick question on seasonality. So, we've seen that 4Q and 1Q are typically cash use quarters. Just wanted to ask if that's something that we can continue to expect in 1Q or any deviations from that?

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

A

Yeah. No, I mean, you're right. I mean, the seasonality of cash usually Q1, Q4, are cash use quarters, two and three are cash source quarters, that seasonality won't be the same in 2022.

Q

Got it. That's it for me. Thank you.

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

A

Okay. Thank you.

Operator: We currently have no further questions, so I'll now hand back to David Bywater to conclude today's call.

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

Thank you, appreciate that. I think we had a great year, a great Q4. We're looking forward to 2022. We'll continue to work to gain your guys' confidence and support. I think we have a great team. They're managing through all of the challenges and the opportunities, I think we've got incredible opportunities and the shift that we're making towards this integrated platform play to bring more value to our customers, it's significant, it's material.

I've been in this industry now on both sides of the solar and the smart home for eight years and I've never seen a team this compelling. It is phenomenal, just the opportunity for us to really go disrupt in a very positive way and do really good things for our customers. It's hard for me to express my enthusiasm because I think we have something really special here. And we, as a company, are excited to perfect it, to refine it, and to scale it, and to grow the company faster than our peers, scale our costs, generate more cash and deliver greater lifetime value for our shareholders.

So, we're excited about the path we're on and we appreciate your guys' interest. So, we'll catch you in the calls later on. Thanks, guys.

Operator: Thank you, everyone, for joining us today. This concludes our call. Please now disconnect your lines.