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Vivint Smart Home, Inc. (VVNT)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

Good morning, everyone. Thank you for joining us to discuss the Results of Vivint Smart Home for the Three and Nine Month Periods Ended September 30, 2021.

Joining me on the conference call this afternoon are David Bywater, Vivint Smart Home's Chief Executive Officer; and Dale R. Gerard, Vivint's Chief Financial Officer.

I would like to begin by reminding everyone that the discussions 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 the 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/A for our fiscal year 2020, in our Form 10-Q that will be filed today, and in other filings that 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 also refer to certain non-GAAP financial measures. The 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 on 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 morning, everyone. I've enjoyed talking with many of you since our last earnings call, and I really appreciate your interest in the company. Today, we are excited to give you an update on our strong performance for the third quarter, remind you of why we are a leader in the smart home, and provide additional insight on two of our strategic initiatives. After my remarks, I will turn the call over to Dale to take you through the finer details of the third quarter along with our guidance for the remainder of the year which we are updating given the positive momentum in the business.

If [indiscernible] 00:02:15 is a strong results for the quarter that reminds you of why we are a leading smart home company what differentiates Vivint from others in the marketplace. Our missions is redefine the home experience with technology and services to create a smarter, greener, safer home that saves our customers money every month.

What is a smart home? We know the single device, which is the doorbell, camera or thermostat doesn't make a home smart. Rather, a smart home has multiple devices, properly located and installed, all tied into an expandable platform that incorporates AI and machine learning in its operating system.

Similarly, we don't believe that having a smart speaker in the home is the same as having an AI-driven machine learning operating platform like Vivint. While DIY products and companies get a lot of press, and many believe that DIY is a faster growing segment of the industry versus the professional install and the monitor segment, survey show that many DIY products purchased never get installed. And over 20% of the products that do get installed by someone other than a purchaser.

While DIY might have higher sales growth, we believe it represents only a small percentage of the profit pool. Meanwhile, our growth, which we believe is seven to eight times greater than the professional installed and monitor segment's annual growth, is delivering 40%-plus adjusted EBITDA margins.

I'm very pleased with our third quarter results as we had double-digit year-over-year growth in both revenue and adjusted EBITDA. Our revenue growth was more than double the growth rate in the prior year period, reflecting the robust demand for the products and services we deliver. Many of the underlying metrics of the business showed strong improvement year-over-year.

Our last 12-month attrition came in at 11.4% which was our 13th quarter low and 140-basis-point improvement versus the prior-year period. While the enhancements in our underwriting criteria and product performance are part of the story, I believe our lower attrition rate is also driven by our Smart Home platform, delivering our mission of providing value and peace of mind to our customers.

Another metric we are pleased with is the nearly $78 million in net cash from operating activities during the quarter offering the business with positive net cash from operating activities has been a focus of the entire organization and we expect to achieve that goal again in 2021. Our belief is that Vivint's business model is superior to others in the industry both in terms of unit economics as well as the ability to adapt to the changing economic environments including the recent pandemic and the current labor and supply chain challenges.

We believe Vivint is truly in a category of one. What do I mean when I say we're in category one? We believe Vivint is the only company with a proprietary cloud-based platform, a differentiated end to end distribution model, strong growth with compelling economics and multiple levers for sustained profitable growth. Expanding on that, our proprietary cloud-based AI and machine learning platform that we designed, engineered and continue to hone forms the nerve center of a truly differentiated end-to-end platform.

We believe we can integrate new customer offerings from large adjacent markets that logically lead back to our Smart Home platform compounding the value that we already delivered with 1.8 million customers with an average of 15 devices installed for home, we own a rich, first-party data environment that helps us not only protect our customers, but also improve the efficiency in homes and elevate their peace of mind.

Our confidence in our strategy stems from those who need to focus on the importance of owning the entire technology stack and coupling it with an end-to-end distribution model that leads to an exceptional customer experience. We believe this is absolutely critical by continuously enhancing our platform. We can delight our customers at every point of interaction with them. And [indiscernible] 00:06:30 customer satisfaction increases, their trust in us builds. And this creates multiple potential levers for sustained profitable growth for years to come.

Our strategic priorities are focused on leveraging the trust to redefine the home experience with best-in-class technology and services to create smarter, leaner, safer home that will save our customers money every month. As we do this, we believe we can transform long-term customer relationships into lifetime of relationships. We believe this will allow us to extend our average customer life of more than eight years today to something much longer in the future. Even moderate success in that transformation has the potential to meaningfully decrease the attrition of our customer base and increase the lifetime value of our customers.

We have a layered strategy for pursuing growth and achieving this vision. Our flagship product offering is remarkable. Over the years, we have developed a best-in-class solution that levers what we believe is the premier smart home offering to the masses in a world where competitors' definition of a smart home begins and ends with a do-it-yourself doorbell. We know it is so much more. DIY customers end up with homes that are [indiscernible] 00:07:27 protected by partial solutions, and that isn't smart. We believe customers are better served by having the right system scopes installed and monitored to protect their homes and families. But to be in a true Category 1, the platform within the home must allow homeowners to do much more. It should enable them to benefit from new products and services that leverage the smart home ecosystems. That is why we are investing in the development of two lead markets; smart energy and smart insurance. Until now, we've been light on details surrounding these growth opportunities. Today, I hope to expand your understanding of why we do believe smart energy and smart insurance are perfect extensions to our smart [indiscernible] 00:08:23 and was our focus investment.

As the first company – as the first marketing company to expand smart energy, we are working to deliver deeper customer value by offering a comprehensive bundle that subsidizes the cost of smart home and helps protect customers from rising energy costs while being better stewards of the environment. The vision is to create bundled offering of smart home and smart energy that integrates energy production and consumption needed in the Vivint app, allowing customers to intelligently manage their homes energy use.

A study performed previously by energy consulting firm shows that many homeowners are interested in bundling smart home and smart energy, and we are seeing that with our customers as well. We are approaching this opportunity through a dual path strategy that is asset light and sells [indiscernible] 00:09:26. Back in July, we announced a partnership with solar finance partners Sunrun and Mosaic, as well as with Freedom Forever, one of the country's largest and fastest growing solar installers.

This partnership will enable Freedom Forever to include a Vivint smart home system with each other source cells, which will deliver immediate value to the customer. And of course we expect this to lead to more smart home installs for Vivint.

In addition, through our partnership with Freedom Forever and with other solar installers, we can offer smart energy to our current customers, and as well as new customers. We are on pace to generate nearly 45 megawatts of installed solar this year, bringing smart energy to about 5,000 homes. And, in some markets, we are seeing many instances of smart home customers bundling with smart energy.

We believe that we can do significantly more in 2022 as we methodically expand our bundled solution in the markets where the customers benefit from residential solar. Over time, as we integrate the production data from the solar panels with the customer behavior patterns, we believe that smart energy can drive a material savings that will reinforce the value of the Vivint platform. And, as this catches on, we believe that the consumers across the country will view our bundled solution of smart home and smart energy as a clear differentiator.

I would note that the adjusted EBITDA margins in smart energy are lower than in smart home. So, while we will see an incremental growth in adjusted EBITDA dollars, the overall margin percentages will be a bit lower as the revenue from smart energy comes in a lower margin.

We are okay with this as we believe our ability to leverage the subscriber acquisition costs and increase the lifetime value of our customers by addressing an obvious market demand to bundle these two solutions presents a very compelling growth opportunity.

Another benefit is that our bundled and differentiated smart home and smart energy offering will provide our sales channels with the ability to offer a greater value in the products that they sell and provide more opportunities to interact with current and potential customers. We will share more details on this opportunity in the upcoming months but, trust me, we believe that this is a good adjacent market for us to invest in.

Now, let me discuss smart insurance. We have been selling our insurance to a limited number of customers for a while now.

The logic we mentioned here is that the $600 billion-plus property and casualty insurance market has been looking for homeowners' analog to the smart driver discount that auto insurance carriers delivered through their telematics solutions in automobiles.

We believe that Vivint has that [indiscernible] 00:12:07 given the rich first-party data that comes from our average customer interaction with our system over 11 times per day and the 15 smart devices in their home that protect them against water damage, fire, and theft. As we have worked with several leading insurance carriers, we have been encouraged by their eagerness to help us create this home insurance solution that leverages our smart home ecosystem.

We believe our platforms in health insurance companies better price the risk of a customer and as a professional install system in their home that is monitored and used consistently to mitigate the severity of claims events. In short, we should be able to demonstrate to insurers that Vivint customers present a lower risk than homeowners without a smart home system or a DIY system that was [indiscernible] 00:12:59 scoped and installed.

To date, we have been operating at the agency reselling insurance products from a few large carriers, and we're on pace to sell approximately 8,000 insurance policies in 2021. To better leverage our smart new platform and provide the opportunity for additional savings for consumers, we are working to become a managing general agent, which will allow us to develop specific homeowner coverages for our customers. We believe we can potentially double the number of policy sold in 2022 and provide a higher level of customer-specific coverages through our [indiscernible] 00:13:27 insurance offerings in some of our larger space.

As we demonstrated the savings and benefits of our proprietary coverages, we believe we can expand into most states over the next several years. We will expand in a thoughtful and deliberate manner as we prove to our customers the benefits Vivint can provide in protecting their homes, their families, and their wallets. We are focused on accelerating long-term growth for each of these adjacencies. Meanwhile, we will maintain a sharp focus on our core smart home business. We consider these opportunities a natural extensions of our core smart home offering. We believe we have the tools, technology and capabilities to not only deliver value through an elegant smart home experience, but to save our customers money through innovative, energy management solutions.

Our vision is to be the preferred operating system in the home and a true platform play. We believe customers trust us to protect their homes, their families and the environment while also helping them save money. As we do this, we believe we will benefit from scaling subscriber acquisition costs, increasing the lifetime value of each customer and increasing the number of years customers run the Vivint platform.

We are excited about the road ahead and remain confident that the robust growth potential of our core business model, along with the adjacencies we're pursuing will put us in a position to deliver long-term sustainable value for our shareholders.

I will now turn the call over to Dale to discuss the details of the third quarter financial results, as well as our updated guidance for the full year. Dale.

Dale R. Gerard

Chief Financial Officer

Thanks, David. Good morning, everyone and thanks for joining the conference call. This morning, I will provide details of our third quarter and year-to-date operating and financial results. I will also provide updated thoughts on our guidance for the full year.

We will open the call for a Q&A session after my prepared remarks.

Before I dive into the numbers, I want to address the delay in reporting our third quarter results. While we're gaining certain customer contract transactions during the quarter ended September 30, 2021, we identified a material weakness in our internal controls on our financial reporting related to the timing of the revenue recognition, resulting in certain immaterial errors in the previously reported amounts of revenue.

Specifically, we found that we did not properly design and maintain effective controls in that quarter ended September 30, 2021, and as well as prior reporting periods to accurately determine the appropriate period to recognize revenue associated with certain transactions.

These transactions primarily related to monthly service charge adjustments in contract qualifications, which resulted in errors in the reporting of revenue and in other income and balance sheet items in certain prior periods.

The company assessed the material [indiscernible] 00:16:37 of the misstatements by both quantitatively and qualitatively and determined that the correction of these errors to be immaterial to all prior consolidated financial statements. Taken as a whole and, therefore, [indiscernible] 00:16:47 previously filed reports to correct the errors was not required.

However, the company concluded that the cumulative effect of correcting the errors in the quarter ended September 30, 2021 would materially misstate the company's unaudited [indiscernible] 00:16:58 consolidated financial statements for the three and nine months ended September 30, 2021.

Accordingly, it's something that reflects the corrections of the immaterial errors in the results for prior periods included in the financial statements, in its unaudited earnings release company presentation, and as well as in its quarterly report on Form 10-Q that will be filed today. The company will also revise this information in the future filings to reflect the correction of the errors. I refer you to our Form 10-Q that will be filed today for more details.

In conjunction with this call, we posted a presentation to our Investor Relations' website to provide additional context on the quarter. On slide 10 of the presentation, we highlight a few of our key subscriber portfolio metrics. Total subscribers grew nicely from September 30, 2020, up 9.2% to $1.84 million as of September 30, 2021.

Average monthly reoccurring revenue per user or AMRRU, increased by 4.7% versus the prior-year period, driven by customers purchasing more Smart Home and security products at the point of sale. The combination of the growth in total subscribers and the growth in AMRRU, along with a few other items, listed total monthly reoccurring revenue by 15.1% year-over-year to $121.5 million.

Now, moving to revenue for the three-month and nine-month periods ended September 30, 2021 on slide 11. For the third quarter of 2021, revenue was $386.7 million, a 21.3% increase from the prior-year period. The primary drivers of the year-over-year revenue growth were increase in total subscribers, an increase in the average monthly reoccurring revenue per user, and contributions from our smart energy and smart insurance initiatives.

The 21.3% revenue growth in the third quarter of 2021 was more than double the 9.6% growth rate in third quarter of 2020. Revenue for the 9 months ended September 30, 2021 was $1.08 billion, an increase of 17.6% from the nine-month period in the prior year. Similar to the third quarter, the key drivers of growth in the nine-month period were growth in total subscribers, growth in AMRRU, and contributions from our smart energy and smart insurance initiatives.

Now, turning to slide 12. I will discuss adjusted EBITDA for the third quarter and year-to-date periods. For the third quarter, adjusted EBITDA grew 10.7% to $170.4 million with an adjusted EBITDA margin of 44.1%. I would note that adjusted EBITDA margins with smart energy and smart insurance are lower than our smart home margins. We are very pleased overall with the solid EBITDA margins achieved in the face of inflationary pressures in today's economic environment. I would note included in the third quarter results are approximately $9 million of investments in brand awareness, new product and service innovation, and IT enhancements.

Moving to the nine months ended September 30, 2021, adjusted EBITDA grew 13% from the same period in 2020. This includes approximately $20 million of investment spend associated with brand awareness, new product and service innovation, and IT enhancements. Since 2020 results have a lot of noise related to the COVID-19 pandemic, we believe it's instructive for investors to look at the comparison of adjusted EBITDA growth in the three and nine months of 2021 versus the same period in 2019. Adjusted EBITDA in the three and nine months of 2021 grew by more than 64% compared to the same period in 2019.

We have also been able to expand our adjusted EBITDA margin from the mid-30% range in 2019 to the mid-40% range in 2021.

Now moving to slide 13. I'll highlight a few batches around new subscriber originations. New subscriber originated during the third quarter of 2021 were 114,056. Our direct-to-home sales channel was lower than the previous third quarter, driven largely by the impact of COVID that COVID had over the timing of the selling season in 2020 as the 2020 selling season was extended through September of last year.

Our national inside sales channel or NIS at year-over-year growth of 7.6% in the third quarter of 2021, compared to the third quarter of 2020. For the nine-month period in September 30, 2021, NIS originations grew by over 18%, and the company added 295,782 new subscribers, up 3.8% from the same period in 2020. We are pleased with the consistent growth in the NIS channel over the past few years and believe it is a strong indicator of the value that customers see in the Vivint Smart Home platform.

Within all of the origination channels, we continue to focus on underwriting high quality, profitable customers. For the third quarter of 2021, more than 99% of the new subscribers either paid in full or financed the purchase of their equipment through one of our financing partners.

I will now cover the net service and the net subscriber acquisition costs on slide 14. The net service cost per subscriber for the third quarter of 2021 was $10.49 per subscriber, up slightly from our record low in the third quarter of 2020, but down almost $4 per subscriber from the same period in 2019. The net service margin in the third quarter of 2021 remained robust at 77.7%. I'm pleased that our customer experience and build operations groups have been able to provide our customers a delightful experience while managing the costs as the customer interactions in our call centers and [indiscernible] 00:24:07 service business rebounded from the abnormally low levels during the height of the pandemic last year.

The introduction of the Flex Pay model has allowed us to achieve a significant reduction in the net subscriber acquisition costs per new subscriber over the past few years. The net subscriber acquisition costs per new subscriber for the period ended September 30, 2021 decreased by 52.2% to $100. This is a $109 reduction from the prior-year period while the average proceeds collected at the point of sale increased to almost $2,200.

Moving to slide 15, our last 12 months attrition rate was 11.4% for the period ended September 30, 2021, 140 basis points lower than in the same period last year and is at a 13-quarter low for customer attrition. We believe that the continued improvement in attrition is related to our enhanced underwriting standards and in the increased interactions Interactions of our customer with the platform.

In terms of cash for operating activities, we had another solid quarter at nearly $78 million. I would note that our cash from operating activities in the quarter in the nine-month period includes impact with the change in the timing of payments to one of our financing partners as well as our investments in brand awareness, new product and service innovation and IT enhances. At the end of the quarter, we [indiscernible] 00:26:00 liquidity good position of approximately $635 million.

In July, we completed a global refinancing of our existing debt structure, which decreased our total debt outstanding by approximately $90 million, lowered our average cost of debt by nearly 200 basis points and increased the revolving credit facility from $334 million to $370 million. We expect the refinancing to save the company approximately $50 million in annualized interest expense.

Before providing an up-to-dated [indiscernible] 00:26:40 on guidance, I want to get a little bit more perspective on our expectations for cash flow from operating activities. As we have discussed over the last year, we plan to operate the business on a cash flow positive basis. We will use the excess cash flow to, among other things, bond sales growth initiatives, pursue new adjacencies such as smart energy and smart insurance, invest in new product and service innovation and reduce outstanding debt.

When comparing cash flow in 2021 to 2020, it's important to note that cash flow from operating activities in 2020 benefited from COVID induced cost reductions some permanent and some temporary. In 2021, we have seen many of the temporary cost reduction [indiscernible] 00:27:43 come back to our run rate. And we have seen inflationary pressures and labor and material costs.

We also push through a price increase on our starter pack at the beginning of the pandemic in 2020. Another significant change in cash flow from operating activities from 2020 to 2021 has to do with the change in the way we pay financing fees and anticipated credit losses to one of our financing partners., switching from paying over the term of the loan to upfront at the time of the finance. This will also have an impact on cash flow from operating activities in 2022 as we layered the full impact of the change in over 2021 and 2022.

Finally, in terms of guidance for the full year, we believe there's a lot of positive momentum in our business and we remain very optimistic about the rest of the year despite notable headwinds related to supply chain disruptions, inflationary pressure and labor constraints.

We were up in our guidance for the year as follows. Total subscribers in the range of 1.84 million to 1.85 million versus previous guidance of between 1.8 million and 1.85 million. Total revenue in the range of $1.4 billion to $1.46 billion above the previous guidance between $1.38 billion to $1.42 billion. And finally, adjusted EBITDA in the range of $650 million to $660 million versus previous guidance of between $640 million to $655 MILLION.

Robin, this concludes the prepared remarks. Please open the call for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Rod Hall from Goldman Sachs. Rod, please go ahead. Your line is open.

Q

Hi. This is [indiscernible] 00:30:00 on behalf of Rod. Thanks for taking my question. Nice job on the results and all the color on the smart energy and smart insurance. So I want to start there. I wanted to ask on the economics of the smart energy offering. How exactly will you generate the smart energy revenue? And how much lower are the margins? And on insurance, can you also talk about the business model you considered? Are you offering Vivint-branded insurance? Or will this be more of a partnership with third-party providers? And I have a follow-up. Thank you.

A

Yeah. So I'll [indiscernible] 00:30:34 the margin stuff, and then David can jump in here around how we're thinking about, whether it's a Vivint branded or not on the smart insurance. In terms of margins, as any kind of new initiatives that you go into, you start out, you've got to build some scale on those, be able to come up with those margins. So we expect margins in smart energy and smart insurance to improve as we continue to build those out. What I would say is the revenue associated with kind of those two initiatives in the third quarter was approximately – help contribute probably 5% to 6% of our revenue growth of the 21% was related to those initiatives.

And, again, we're not probably ready to tell you all the economics around those. But as we continue to build those out, we will expand those. But as you can imagine, solar industry, this is kind of common. [indiscernible] 00:31:29 across this. Those margins But as you can imagine, the solar industry, this is kind of common. If you all look across us, those margins are less than what we would see on our smart home industry. And I think it's also important to realize, we've been an asset-light business here. We're not doing solar installs. It's more of a sales approach as we're generating leads. And so, we're getting paid for the leads that we generate across our platform and so forth. So, I don't know, Dave, if have own anything more on one of those two topics.

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

A

No. I like our approach there. I mean, the customers are interested in bundling, too. I'm excited to see a scale acquisition cost more and, frankly, just give customers more value because they definitely see them as a bundle solution for many of them, too.

I think with regards to the second question around the branding, right now, it is branded Vivint Energy and Vivint Smart Insurance and Smart Energy. We'll continue to evaluate that and see [indiscernible] 00:32:25 branded anything differently. But as of right now, just given where it is in the incubation cycle, we've kept [indiscernible] 00:32:31 Vivint brand , and we'll evaluate if that makes more sense or less sense over time. But as of right now, they are in the branded with the option to change it if it makes sense.

Q

Thank you. Appreciate all the color there. And on the quarter itself, I wanted to touch on new subscriber growth. It's down 10% year-on-year, and you mentioned that it's a difficult comp for DTH. So, can you comment on linearity and how should we think about a normalized rate of growth for new subscribers? Thank you.

A

Yes. Yeah. I think – so, again, direct to home, I think when you go back and kind of do comparisons year-over-year, direct to home is a difficult comparison because, again, we got started late last year in terms of [indiscernible] 00:33:16 May extended all the way through September kind of had a full season which, normally, that season ends towards the end of August. And I think there's also a lot of pressure around you know, differences in 2021 and maybe 2022 or, excuse me, 2020, was also the period [indiscernible] 00:33:39 average, you know?

You get – you see kind of [indiscernible] 00:33:43 average drop come back to kind of what we saw historically, back in 2019 versus 2020, which was slightly higher. And, again, I think that was related to the fact that you had more people over at home, both the home – both the decision-makers are in the home – were at home in 2020 versus 2021 where people started to go back into their offices and go back just to work from home locations.

So, all those kind of come together. What I – well, I think, what we would expect to see out of both our channels is kind of a 10% plus growth on an annualized basis. That's what our targets are, kind of continuing to grow those channels.

And so, you know, we've seen a really good growth in NIS and we've actually seen a good growth in the direct to home and in different periods. But when we look at this and think about 2022 and beyond, we'd like to see again a 10% or greater annualized growth in both those channels.

Q

Thanks, guys. Appreciate it.

A

Thanks, [indiscernible] 00:34:43

A

Thanks. Have a ghood day.

Operator: Thank you. Our next question comes from Paul Chung from JPMorgan. Paul, please go ahead. Your line is now open.

Paul Chung

Q

Hi. Thanks for taking my questions and a very nice top line here. So, on your average monthly revenue, you know, it's trended quite nicely this year. So, you know, what's – what are the customers buying more of today, any kind of driven strength there? And then, as we think about insurance and solar initiatives, how does that monthly revenue, you know, kind of per user accelerate from here? And then, are there any price increases that we should think about in the near-term as well?

A

I'll take the first part and then, Dale, you can help in the second half.

We continue to see a really strong demand for cameras in particular in the Smart Home and our core business. We've invested heavily there, and we think that the experience we have, our cameras are quite unique. I'm not sure if you've seen them or not, but they not only focus on recording events, but they also focus on deterring negative events.

This morning, as I came into work, I had my camera, I thought it was an intruder because it was – I was moving around my house earlier and outside my house earlier than normal. And it's a very smart – [indiscernible] 00:36:09 AI and just a smart camera. When the light come on, when it whistles and records you, and it gives you a diagnostic – as I was driving to work, I saw – [indiscernible] 00:36:20 my phone, it helps summarize that there might have been at my house because of [indiscernible] 00:36:26.

So, that, plus other things, there's just been a much higher appetite by our customers for our cameras. So, you've seen that average device in the home increase. So, we're really focused on making sure that we deliver what they want but also property scope at home and install all the devices appropriately. But definitely, cameras is really driving that nicely year-over-year.

A

Yeah. In terms of the way we'll recognize the smart insurance and smart energy revenue, currently, that would be recognized in period that's not reoccurring revenue. That's kind of onetime revenue associated with those kind of

[ph] hardware 00:37:05 business models that are out there. So, I think that addresses that question. [indiscernible] 00:37:14 question, Paul?

Q

Okay. Yeah. No. That's good. And then just to follow-up on the insurance, how large can that business kind of contribute over time?

Insurance, you know, how large can that business contribute over time. You know, your date is there so the cost doesn't seem too incremental, but, you know, how the margin, in this part of the business, how material can this be as a part of your overall user base?

A

You know, [indiscernible] 00:37:43. Yeah. So, as I mentioned in my comments, right now we've just been doing an agency model then helping them, you know, work with the right customers make sure they got the right best price solutions out there as we move towards this MGA model where you actually leverage the ecosystem that we have. Meaning that, you know, with all the sensors we have in the home, we can tell the state of the home better than anyone else around. We're on occupancy and then just the how well developed our ecosystem is in the home, you know, around flood, fire or theft, we think we can protect it better.

So as the consumer has the right system, it's properly scoped and installed, they use our system, you know, quite a bit and then we know that their occupancy of the home which is determined [indiscernible] 00:38:29 of the time, you know, we believe that we can fundamentally change the risk profile of what they're buying around [indiscernible] 00:38:39 insurance.

So as we prove that out, we think that we can drive material savings to them. So I assure that because the adoption rate we think can be quite material. You know, once again, what's so beautiful about this is it's reinforcing as you show a customer that they use the system correctly, it should reduce their insurance premiums they'll use the system more. The more they use it, the, you know, more savings they have and the more likely that they'll remain a customer of us for a long time. So we really like that reinforcing mechanism between the two.

And I don't know. We'll know more next year. I like that proven before I talk about it. But we think it will be a pretty high – a pretty material attach rate as we demonstrate that [indiscernible] 00:39:41.

And what we've seen so far is a high appetite for customers, the ones that we've approached, that they trust us, that we're helping them make a better selection, and they see the logic in the connection with the smart home. How fast it will grow depend, as you know, state by state. It's a highly regulated industry. And so, you got to roll out state by state correctly with great controls, and we'll be thoughtful. We'll go to our biggest states first and then we'll work across the entire country. So, we believe that over the next three to four years, we should be in most, if not all, states.

Paul Chung

Q

And last one for me. I mean, it's a similar question for the solar, what penetration rate do you expect for your existing subs and new subs over time? And then, [indiscernible] 00:40:14 made a large acquisition here, so we're seeing this kind of secular shift with you guys and your competitor for bundled solution here. So, how can you capture share to the more competitive environment? And then how are you making the purchase decision very simple for a customer which sometimes can be somewhat complex? Thank you.

A

Thanks, Paul. Great question. On the smart energy side, we think that we were the first one out there in a material way with what we announced with Sunrun, Mosaic, and Freedom. We've had a very strong demand for that with our customers. I know the solar industry quite well, obviously given my five years over at Vivint Solar before we sold that to Sunrun. And you have to be really mindful of the economics of the customers. Unfortunately, solar doesn't pencil nicely in every state.

nice in every state. There is, you know, 20-or-so states that it pencils and [indiscernible] 00:41:25 you know, good way for the customers. So we're going to focus on those dates. We're following, obviously, [indiscernible] 00:41:34 and Mosaic and [indiscernible] 00:41:37 It's around 25 states today. It's growing as we continue to reduce the cost and the customer acquisition cost. You can make it pencil nicely individual states.

So, you know, I think that your first guide there should be kind of where states that those were sort of [indiscernible] 00:41:55 today, it's roughly 24, 25 states. We're differentially focusing on the states where you have to keep the savings. But, you know, we have a very large customer base in the southern states, which is also a nice overlay where it makes a lot of sense for solar.

And once again, we think the penetration there, the bundling there can be, you know, material for us, you know, is probably going to be, you know, less than 50%, but definitely more than 10%. So we'll be in that range and we'll have more detail as we prove it out over time.

But the momentum we've seen thus far has been nice. It's only been with a partial focus on it. We really haven't opened it up for broad-based adoption with our sales force. We'll see throughout 2020 to open it up more and more and more. And what we're seeing is, as people deal with smart home and [indiscernible] 00:42:39 smart home loving [indiscernible] 00:42:40 clothes are easier to set in clothes on the solar side, and the combination of those two is resonating with a fair number of our customers.

Do you want to add on that, Dale?

Q

You know, one thing I would add is like our partnership with Freedom Forever, for example. Every one of their customers that solar, so they're actually selling the solar and then they're including a Vivint Smart Home system in that. So we would expect there'd be growth coming out of that. That's kind of driven outside of our sales force. But through that partnership, so we kind of see both sides where we can go to our current customers and potentially new customers that we're selling smart home plus pick up the smart home growth from previous solar to those customers, to other customers What's so compelling about this and we talk about these logical adjacencies, is and we'll share more detail in 2022, but we're seeing a substantial increase in the number of customers that stay sticky on the solar side when you do, we call it same-day solar. So what's so nice about this is they sell and then we install our Smart Home within a day or two of the setup and the customers [indiscernible] 00:43:57 from that and then we say, you know, the install have started and then when the solar is installed depend upon jurisdiction whether it's 30 days or 45 days or 60 days, they vary by state and by municipality. They get the second half of the install.

And so they're seeing value much earlier, their propensity fall through and that's much higher, the overall customer experience is much higher. So we're seeing material benefits from a customer perspective and when you think about that, when you have a higher yield on your funnel, you're able to subsidize the cost of that Smart Home. So we're seeing a true win, win ,win. It's definitely benefiting customers. It's definitely benefiting us through the cost of the company and obviously benefiting our shareholders. So I'm very encouraged by that. You'll definitely see it develop more. We feel like we've got a good lead on others that are trying to enter this space and we're very, very, very pleased with our partnerships and how they're evolving.

Q

Great. Thanks so much.

A

Thanks, Paul.

A

Thank you.

Operator: Thank you. Our next question comes from Ashish Sabadra from RBC Capital Markets. Ashish, please go ahead. Your line is now open.

Ashish Sabadra

Q

Thanks for taking the question and let me add my congrats to strong momentum in the quarter. Maybe just a quick clarifying, we've heard about the tight labor market and supply chain constraint. I was just wanted to confirm have you seen any impact on the your ability to add new customers, upgrade your customers because of the labor market and the supply constraints?

David H. Bywater

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

A

Ashish, this is David. So, they're definitely real while supply chain and labor constraints are real. So, I don't want to discount that at all. Our team has done a really good job of being proactive and thoughtful on both fronts. You know, we're up substantially on, for instance, our built professionals, our recruiting team and operations team. I think we're up 200 heads since we were at the end of the summer. So, they've really done a good job of working to make sure people understand our value proposition, what we stand for. And I think our mission of protecting families, protecting homes, protecting earnings in wallets is is resonating. And they like our platform and where we're doing. So, definitely – definitely a challenge. But that's what we get paid to do is to work through these challenges. And I'm really proud of our team on how they're managing through that.

On the supply chain, same thing. They're real. You know, we deal with this week-to-week. We've been going with our – with many of our suppliers and as we lay out for them our road map and where we're going, the product that we're bring to market, how innovative they are. Our vendors have been saying, hey, your purchase very differently. We love your road map. We love what you're doing and they want to partner with us in the future, which is not very far off. Our new products will come out in 2022 and that they're very excited. And I think that helps us get better [indiscernible] 00:47:13 with regard to current supply. So once again, there's real challenges I don't mean to discount that. But our team is exceptional. I've been very, very impressed with how they've managed to do this and continue to manage through it. They include me and Dale selectively with certain vendors. And those partnership conversations have been very, very positive once again, as you see our roadmap, our momentum, the robustness of our model, our growth. And it's really helped us achieve managed this better than I had expected when I first took over the last six months ago.

So we still have challenges in the future. It's not over. We think these challenges will continue to manifest themselves throughout 2022. I hope by – at some point in this next year, they'll be alleviated much where they are today. But our team, kudos to them. They've done an incredible job.

Q

That's very helpful color. And, Dale, a quick question for you on the cash flow. I understand there are some one-off items weighing on the cash flow into 2021, some investments and changes. And you talked about some of those changes in the financing agreement weighing on 2022. But as we think about the mid-term, is there a way to think about the EBITDA conversion or how do you think about cash flow from operations over the mid-term? Thanks.

A

Yeah. I mean, I think it's a good question. I think for 2021, you know, we just did $78 million in the third quarter. Fourth quarter, as you go back historically, [indiscernible] 00:48:48 always been a use of cash and that's when we pay our kind of backend commissions and so forth. I think for the full year, we're looking at that kind of probably full year cash flow from operating activities is in that kind of color, $60 million to $75 million range. And then I think we would look to grow that going into 2022.

Again, it's a focus of the overall organization. This is just a finance initiatives just across the organization. All of our leadership it's something that it's probably kind of like you sort of it's kind of our core DNA is that, hey, we want to operate our business, put on sustained profitable growth that generates cash flow from that. And so, that's kind of where our focus is as we look across whether it's investments that we're making either today or in the future, types of adjacencies. That's why we're so high on kind of the smart energy and smart insurance. And we believe these adjacencies both come with really good cash flow dynamics.

And so, they have their incremental or accretive, I guess, the cash flow not. And so, when we look at new adjacencies, new products, new services, those are the type of the – it's one of the factors that we factor in as we think about, A, where we want to go; what do we want to offer to our customers. And so, that's kind of where we are, right. To give you an update on kind of on cash flow from operating activities.

Yeah. [ph] Matt 00:50:10, a little bit.

A

Sure. I mean when you think about the – our DNA and what we focus on, you know, we're really focused on growth above market in our segments. So, there's professionally installed to monitor, market where we think the maturity of the profit pool is in this smart home arena is. We want to show consistent growth above market. We definitely want to compute the scale of the business. And so, you know, we're trying to help make sure that those economics flow through to the bottom line. We're very interested in growing the lifetime value of the customers, right, demonstrating the platform pleasure that we've talked about. It's very exciting for our company internally to see the platform play taking hold and growing. We love smart home. We love how well that's performing and in adjacencies, you know, was exciting for our employees as they see the platform [indiscernible] 00:51:15 manifests. It's [indiscernible] 00:51:15 through lifetime value to customer. And then the last point on, [indiscernible] 00:51:20, you know, cash flow generation.

Guys, you know, we can grow like crazy for unit economics and forecast generation. That's not how you want to grow a business, right? We want to grow the business but we also show you guys that the cash flow generation improves year-after-year-after-year as you get the machine stronger and stronger and stronger. So, you know, really is above market growth. It's really scaled business model. It's really LTV in the platform play and it's cash generation. Those are things that we're focused on [indiscernible] 00:51:54 as a company and I think as investors, those things who want us to focus on.

Q

That's very helpful color. Thank you very much and congrats once again.

A

Thank you, Ashish.

A

Ashish, thank you.

Operator: Thank you. Our next question comes from Erik Woodring from Morgan Stanley. Erik, please go ahead. Your line is now open.

Erik Woodring

Q

Thank you so much and congrats on the good quarter, guys. Just want to get to, you know, you guided the year roughly, you know, kind of early August. So what did you see kind of in the last two months of the quarter that allowed you to materially outperform, you know, and raise your full year expectations? And then I have a follow-up thanks.

Dale Gerard

A

Yeah. I think, Erik, this is Dale. I think, you know, as we said at the Q2 earnings call in early August that, you know, we were bullish on what the year would look like but there were still some headwinds out there around supply chain, labor constraints. I think, as David said, we've managed really well through those in the third quarter and even earlier in the fourth quarter. And so, you know, we were able to have what I think was a really good third quarter in terms of all of our performance across our metrics. And so that gives us kind of the insight as we're, you know, we're setting here, I guess, 55 days or whatever it is, 50 days from the end of the year. We feel really good about where we think the full year of [indiscernible] 00:53:21 that's why we took our guidance up. Again, you know, when you look at things, attrition continues to perform really well. So subscribers, sort of end-of-year subscribers, it's going to come in again at the high end of the range. We've been able to – even with all of the different things going on, you know, be able to keep our EBITDA margins in that mid-40s, 40%, which gives us what we see in the growth [indiscernible] 00:53:54 to go to increase those EBITDA ranges to up to $660 million.

So, again, revenue with the addition of the smart home continues to grow. I mean, we've seen really good growth year-over-year when you look at just smart home revenue. But from [indiscernible] 00:54:06 and then you add in these two adjacencies that are really starting to contribute to – in a meaningful way to our revenue, that allow us to, again, go back and look at that and say, based on where we are today, we feel very confident in increasing that target or that guidance also.

So just pulling all those things back together, I think where we were setting in August, again, David has been here at that point maybe 60 days, maybe 75 days, we still were thinking of our strategy of how we're executing for the rest of the year. Looking at some of those headwinds are out there, we've been able to navigate that and feel very good where we are for the rest of 2011. And frankly, you know, we're working on what we think 2022 will be. And we're excited where we're heading in terms of the momentum we have going into 2022.

Erik Woodring

Q

Okay. That's really helpful. And then obviously, amazing job on the attrition side. Where do you guys think that can end this year? And then, directionally, how should we think about that going into 2022?

A

There's two things on [indiscernible] 00:55:02. So our operations teams, There's two things. So, our operations teams, kudos to them. They've executed really, really well. I appreciate all they do. But, you know, there's always two big factors here. There's always where you are in the cycle with customers. So, what cohorts coming out of contract? What cohort is going into? What was the growth rate back then? So that's one thing.

And then the second thing is, what we're trying to do here which is, provide more value to those customers. The more you can provide value them, the better off you are. And the thing that our company is super excited about is, we've always been great. We've been phenomenal at protecting family and homes, right, just really, really good. But it came at a cost. And we think that we earned that better than anyone with the solution we brought.

But now, as we bundle in with other logical adjacencies that really fit nicely with the platform, you know, if you roll in solar, you should save your customers money. You roll on EV charger, you should save the money. As you roll in insurance and they to the benefit with our overall ecosystem in home, you should save the money.

So, you know, in some situations, you may offset a portion of that expense to save the family – to protect the family in the home. In other situations, you may [indiscernible] 00:56:28 see that. You're now in a very positive savings proposition. If you're in that situation where you're saving, protecting the family, the home, the earth and your wallet, they're not going anywhere. They shouldn't go anywhere, right ? If you execute well, you take care of that customer, [indiscernible] 00:56:42 protecting all of this and I'm better off financially.

So, you know, as we work better that into the overall portfolio and deliver it consistently across all of our customers, we hope that will have a great positive impact on attrition. But it will take some time.

I don't mean it has to be done overnight, but it will take some time. But the road map, as you help the customer see that, and we continue to execute nicely, we hope that the net-net of those two things will benefit us over time. So, it doesn't mean [indiscernible] 00:57:20.

A

I think that's exactly right [indiscernible] 00:57:24. That's kind of how – that's why we really feel that all of this customer interaction, the customer experience [indiscernible] 00:57:32 along with, as we mentioned, the enhanced underwriting and some of the changes we've made over the last few years. And, again, David said this earlier, we can open that underwriting funnel back up and grow multiples than the way we're growing today. But we don't believe that's the right thing for the business, for the shareholders. And so, we've continued to tweak that underwriting and make those investments around that.

When you look at attrition for the rest of this year, we're probably somewhere in the range we are right now, I would say. And then, as David said, attrition will probably go up a little bit as we go into 2022. When I say a little bit, probably gets into the high-11s, maybe low-12. Again, that's not a change in the --that's a cohort end of term. And so, your end of terms have higher attrition. That's – historically, that's across than what we've seen. But that's not – that doesn't – attrition is actually not changing. It's just the mechanics of where, as David mentioned, the cohorts are in end of term, what the number of cohorts that are active in the term because of the growth rate we've had in that year versus other years.

But we're really excited about where attrition is and where we think it can go, as David said, as we add these other adjacencies, bring more value to the consumer where Vivint is not only part of protecting their families, but it's also helping them get savings and insurance. It's bringing energy to their home and helping them manage their energy usage inside their home which drives out their savings. We think there's lots of benefits across this model and that – Dave said, we believe that over time that will prove out in our attrition rate.

A

Yeah. So, we're trying to inch in the structural changes that will help us over time materially impacts attrition. But you know, if you go back to the mission statement, right. We're trying to redefine the home experience with technology services. It's the both with technology services to create a smarter, greener, safer home that saves our customers money every month. Now, that's a fundamental shift of positive shift for our customers. And then, you've heard earlier, we're trying to transform which we already think our long-term customer relationships and the lifetime customer relationships. And that's as pretty aspirational for us. But that's what gets us motivated, right. We don't want have a – we think our customer right now of eight to nine years is remarkable when you contract expired. Awesome, so grateful for that.

But you know, as we execute on this, so you see our average life, I'm going up by a multiple of that that. Absolutely we're good. So, we've got to go, execute, we've got to execute flawlessly. We've got to make sure that we are bringing the right solutions and delivering every day. But as we do that, we think we truly will redefine this experience and as platform play in the home will actually vary immensely. And that is what got us as a company, everyone focused on making that happen on a scalable basis. So, that's [indiscernible] 01:00:27.

Erik Woodring

Q

No. That's great. I really appreciate the color, guys. Thanks again and congrats on a great quarter.

A

Thanks, Eric.

Operator: Thank you. Our next question comes from Amit Daryanani from Evercore. Amit, please go ahead. Your line is now open.

Amit Daryanani

Q

Yes. Thank you. Yeah, I guess, I have a couple questions. First off, you've talked about EBITDA margins were lower for new offerings like energy and insurance. Can you maybe just talk about where are they versus the 44% number you just [ph] sprinted 01:01:09? And then are they lower because these are subscale assets or revenue streams that you have or are they going to be structurally lower in [indiscernible] 01:01:16 scale?

A

Yeah. So, I think [indiscernible] 01:01:21 questions. But the margins from the revenue generated from the smart insurance and smart energy are included in the 44%. So, if we didn't have that, our Smart Home margins would have probably been a little higher. Again, we're building out these kind of new initiatives, and so, we're not scale. They're start-up costs associated with getting these initiatives up and going. And so, those are in the model today that we expect over time that you would see that we build scale and improve those margins associated from those businesses.

Again, I'm not going to go into the exact margins today. We're – what I will say is we're excited about where those adjacencies are taken. We think there's more value than just the margin to the bottom line in terms of the overall customer relationship. As David said, if we can extend the relationship with the Smart Home customer that has 78% service margins when we – whether it's a year or two, five more years, we think that incrementally adds to the overall business and the profitability of the business. So, I think that's kind of where we are. We'll get more details as we go. We continue to scale opportunities doing the initiatives around some of the unit economics.

But today we're going to – we're not going to give out any more than we already have. The LTV...

Q

Yes.

A

...well, it's really about the LTV, long term value, and that's really what you need to focus on.

Q

Yeah. And you – and, listen, I guess that the attraction of extending the duration of these customers by these new offerings, right, there's logic to that. But I'm wondering with you, as a company, you have finite resources and money to deploy, why not double-down and expand the number of subs that you have from 1.8 million to something bigger kind of in the core of what you do, which is going to adjacencies where it sounds like it's a more modern proposition, you know, [indiscernible] 01:03:22 and why not go after new subs more aggressively rather than expanding new offerings?

A

Well, we're not – we're doing both. I mean, absolutely, the smart home [indiscernible] 01:03:32 flagship business. We're absolutely doubling down. I mean, you hear about the new products that we're bringing out, absolutely doubling down. We're not taking out foot off of that at all. We think it differentiates us immensely and provides us a great opportunity to go, you know, to bring on more customers.

So, if we gave that impression, we didn't mean to. We're absolutely doubling down on the smart home and the product suite and the channels that we're going after and growth on every channel so, absolutely a full thrust.

Bu, at the end here, we're focused on delighting the customer. And when you think about the delighting a customer, they want to bundle more. And, we think, once we get this transition to be able to help them save money and protect their families and their home, the Earth, which are logical, and their wallet, we think it's a superior solution.

So, you know, we – with smart home, we love and we're investing in, absolutely growing, and these adjacencies not only make it easier for those customers, but also introduce you to more customers for smart home.

And so, solar is great. Solar helps it make stickier. Those are 32-year contracts, 35-year contracts of saving money. And as you're integrating your app and they see both, I mean, Both. Come to think about it, if you're in California, where time of use rates are changing all the time and our system can actually held that customer [indiscernible] 01:05:04 at home, they could use the math on how to use rates. We can help them consume better as they produce. Very powerful, very sticky, but also now you have customers that were just doing solar saying, wait a minute, I want smart home.

So it should be the and not or for us. Same thing with insurance. So like, wait a minute, I've got to get insurance. I need it forever, right? I want to protect my home as well, that's what insurance is about, why not protect it and enjoy it more? And why not leverage the ecosystem to allow me to get even a better rate over time? It's the and not the or.

So, definitely doubling down on the core. And we think these agencies are helping to sell roll value to customers, make it stickier and also introduce new stuff. So, thanks for that question. [indiscernible] 01:06:03.

Q

No. That's great. And just a final one for me, maybe it missed this, but new subscribers especially the direct-to-home piece was down quite a bit. Could you say we call it what drove that drop and how to – is it normalized? Or you know, maybe help explain what happened over there.

Q

Yes. We have tapped this a little bit earlier, covered it a little bit. It's really kind of the largely driven by the fact that you had in 2020, we started the selling season and later. We extended all the way through the end of September versus this year. We were kind of back to historical selling season, which really runs through the middle of April for kind of the mid to the end of August. So, that was really the big driver that on a year-over-year.

And again, what we want to – [indiscernible] 01:06:43 we're investing in smart home. We'd like to see both those channels continue to grow double digits. And that's really where we're focused to make sure that that's what we're seeing out of this smart home growth from direct-to-home and only ask one for it.

Q

Perfect. Thank you.

A

Thank you, Amit.

Operator: Thank you. And our final question comes from Brian Ruttenbur from Imperial Capital. Brian, please go ahead. Your line is now open.

Brian Ruttenbur

Q

Yes. Thank you very much. Congratulations on the quarter. I have a couple of questions around DNA as a percentage of revenue was about 39% this quarter, last quarter was around, you know, in the 40s, 42% last year was 45%. Is this decrease in DNA as a percentage of revenue due to the Citizens Bank agreement? And do you expect DNA to continue to decrease as a percentage of revenue at current levelss? And then kind of finally, just throw it all at you at once, in the last, you know, period, you provided the Citizens Bank fees, I think it was $10.2 million last quarter and how much of that this quarter?

A

Yeah. Brian, if it's okay, I'll have Nate follow-up with you on the percentage between DNA. I don't have all those data points in front of me to be able to give you that.

Brian Ruttenbur

Q

Yeah, that's fine.

A

So the answers correct. And then we can also follow-up on that in terms of [indiscernible] 01:08:19 which should [indiscernible] 01:08:20 that should be actually in the queue later today for everyone to have.

Brian Ruttenbur

Q

Okay. So then we can just follow-up with those and then let me just flip over then and ask a broader question. You talk about eight-year life and extending that eight-year life with these new offerings. What about going into existing homes and upgrading? Is there a process that your, you know, because eight years ago, technology was much different and I would imagine that's going to be the same thing, you know, eight years from now that those new smart homes are not going to be so new anymore. Is there a process where you go in and upgrade and charge more and provide the latest, greatest hardware.

A

Yeah. A great question, absolutely. It's our core business, we've been doing it for a long time. So, we have a systematic, methodical upgrade program today. We go after customers before. They get to end the contract and we work to upgrade them. Show them the latest and greatest. And that is a – it's a quarter of what we do. Our operations teams are very focused on that. They have been for a long time. It's part of the reason why we think that our attrition rate in the residential space we think is lower than our peers. So, we've very proud of them and that is a systematic program that we do and have been doing and will continue to do going forward.

A

Yeah. I'll just add. It's one of the actual benefits of the change we made in this businesses financing agreement was to move to that to the line of credit, which is it makes it a little easier for our operations team as they're reaching our previous customers so the customers can actually finance that the piece of the hardware that's part of the upgrades. And so, definitely it's focus and we've continue [indiscernible] 01:10:17 not only to do if from operational side to make sure that we've got the tools forefront that allow our customers to upgrade the platform at their home and be able to finance that through one of our financing partners, whether citizens support either.

Brian Ruttenbur

Q

Great. Thank you very much.

A

Thanks, Brian.

A

Thanks, Brian.

Operator: Thank you. This now concludes our Q&A session. I will now hand over to David Bywater for any closing comments. Thank you.

David H. Bywater

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

I appreciate that. Thank you so much for joining our call. Hopefully, this was helpful for you guys as you understand where we are and where we're going. We're very excited about the future. We got a lot of work ahead of us. We're focused on that. But you can also rely upon us to continue to be thoughtful, methodical and Strategic, as well as [ph] with operational licence 01:10:49 day in and day out. So, appreciate it, and we'll see you out there. Bye.

Operator: Thank you, everyone. You may now disconnect your lines.