03-Aug-2021

Vivint Smart Home, Inc. (VVNT)

Q2 2021 Earnings Call

CORPORATE PARTICIPANTS

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

Dale R. Gerard
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OTHER PARTICIPANTS

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Analyst, Morgan Stanley & Co. LLC

Brian Ruttenbur
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MANAGEMENT DISCUSSION SECTION

Operator: Good evening. Thank you for attending the Vivint Smart Home Second Quarter 2021 earnings call. All lines will be muted during the presentation portion of the call with an opportunity for questions and answers at the end.

I would now like to pass the conference over to your host, Nate Stubbs, VP of Investor Relations with the Vivint Smart Home. Thank you. You may proceed, Mr. Stubbs.

Nate Stubbs

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

Good afternoon, everyone. Thank you for joining us this afternoon to discuss the results of Vivint Smart Home for the three- and six-month periods ended June 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 CFO.

I would like to begin by reminding everyone that today's discussions may contain forward-looking statements, including with regards to the company's future performance and prospects. Forward-looking statements are inherently subject to risks, 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/A for our fiscal year 2020 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 also 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 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 afternoon, everyone. I appreciate your interest in our company. Given that this is my first earnings call as the CEO of Vivint, I plan to focus my comments on four topics. First, I'll provide my background and outline my deep relationship with Vivint. I will then outline why I'm so bullish in the company and what I've rediscovered about Vivint after being gone for the last five years next. Next, I'll outline my preliminary thoughts on where I believe Vivint needs to focus over the next few years, and why I believe that will position us to be an attractive differentiated investment. Finally, I'll touch upon a few key highlights of the quarter before turning the call over to Dale to take you through the details of the second quarter and our outlook for the full year.

I know Vivint very well. I joined the company in the summer of 2013 as the Chief Operating Officer and spent three years helping the company during those pivotal years of transforming from being a security company to a fully integrated smart home platform company. As a result, I was intimately involved in skilling the company, operationalizing our service and product offerings, skilling and maturing our supply chain capabilities, collaborating closely with our direct-to-home and national inside sales leadership to expand and grow, helping our many of the leaders that are still with the company and improving our installed service and customer care operations. It was an incredible time of innovation and maturation of the company.

In May of 2016, I was asked to be the CEO of Vivint Solar, our publicly-traded former sister company During my five years at Vivint Solar, we rebuilt that company across almost every sector. Key achievements including expanding our go-to-market strategy to be omni-channel, revamping our operational model to reduce costs materially improve quality. Establishing a customer-centric focus on delighting our customers and reigniting growth, while ensuring that our growth rate was accretive to shareholders by taking share in the most attractive Solar markets.

We sold Vivint Solar Sunrun in October of 2020, making the combined company the clear and dominant leader in the residential solar market. As a result, the market cap of Vivint Soar went from around $300 million in May of 2016 to over $5.4 billion on the last day of trading prior to closing the deal with Sunrun. Following the transaction, I remain on the board at Sunrun and invited the combined companies until rejoining Vivint Smart Home this past June. Prior to my time with Vivint, I spent 10 years running many of the largest service companies within Xerox, which were also tech-enabled and data driven. Hence, I feel right at home at Vivint and in this role as the new CEO.

I pride myself on being a straight shooter as a person who enables good companies to become great companies. I also pride myself on doing what I say I'll do and working to delight our customers, employees, partners and shareholders. I demand the very best from our employees and will work tirelessly to ensure that they help build a great company the right way and create value, while we protect our company, our reputation, our customers and our shareholders. As I've rejoined Vivint, it has been incredible to rediscover how amazing this company is. I was familiar with some of the advancements during my absence, but upon my return, I've been very pleased as just how much progress has been made and on so many fronts.

The transition from being a company that uses cash to one that generates cash through the consumer financing agreements we have with our banking partners is a game changer. And the team has achieved that while simultaneously improving our underwriting requirements and sales processes, all while delivering consistent revenue growth. That's an incredible achievement. The team has streamlined costs and redirected that spend to fund innovation and growth. The technology has gotten so much better as well.

And we believe that product and service offerings we provide to the market are incredible. I am more convinced now than ever that it's illogical for any consumer to trust the protection of their largest financial asset their home to inferior products that are often incorrectly scoped, improperly installed and other incorrectly or not monitored and maintained by DIY or mutant solutions.

Our fully integrated solution is intended to align every person within Vivint to ensure that the solutions meet or exceed customer needs that they are sold, installed and serviced correctly resulting in an average contract term of over eight years. And what we believe to be among the lowest customer attrition rates in the industry.

I've also rediscovered the incredible core asset we own with an average of 15 devices per home, we own a data rich environment that helps us not only protect our customers but also improve the efficiency of their homes and elevate their peace of mind. This proprietary solution that we designed, engineered, deployed and managed provides a platform upon which we believe we can continue to integrate and leverage additional solutions that logically link to our smart home platforms.

We believe this will lead to new solutions that will create deeper value and savings for our customers. Finally, it has been a delight to reunite with so many employees and leaders that I've previously worked with. They are professionals who share my deep conviction to delight our customers, to bring innovative solutions to the market that create more value for our customers to work in a respectful and professional environment that's all bridge each other and diversity and to do the right thing in every situation every time. Vivint isn't a perfect company. Like every company out there, it has room for improvement. But it is a company that learns and improves, one that has an incredible culture and DNA to win and win the right way. We will continue to learn from our mistakes and get better every day. I am so delighted to innovate forward with this company and with this team.

Going forward, we will aim to deepen our competitive advantage within our core smart home platform and business. We expect to continue to introduce industry-leading smart home products that our customers trust and value. We believe that these products and solutions will further entrench us in the homes of our customers and allow us to create more value than our peers. We will continue to work to strengthen our balance sheet, deliver smart growth, and invest intelligently to defend and expand our market position.

An example of this smart growth is the recent announcement of our strategic partnership with Freedom Forever, one of the nation's largest and fastest growing solar installers. This partnership will expand upon our smart home solution to include clean energy and will allow us to continue our exclusive arrangement with Sunrun for solar PPAs. The partnership will work to bundle a Vivint Smart Home solution with each new solar cell. We believe this is one of the most desired bundled solutions for solar customers and it allows a home to truly be smart by producing smart energy and consuming energy more intelligently through our integrated smart home platform.

Our goal is to enable consumers to make better decisions regarding their energy consumption as they better understand what is happening in their homes. We are just beginning to introduce this solution and to select markets. But given my experience and background in both smart home and solar, I'm confident this will be another game changer. More details will be forthcoming on future calls.

Another example of smart growth is our insurance pilot. We are working with a variety of large insurance companies to develop solutions for our customers that will leverage the data we have on their homes. We collect data around occupancy and other usage patterns derived from our smart home devices that will allow insurance carriers to underwrite home insurance policies more intelligently.

We believe a consumer that has our solution which includes significant home occupancy data and properly working sensors that reduce the risk of fire, flood or theft catastrophes, should pay less than a consumer without our solution. Our customers should save money on their home insurance because of our solutions.

This is another logical growth opportunity for us to leverage our core smart home solutions and expand the value we bring to our customers. More details will follow as we work to bring this solution to market in a controlled and effective manner.

Finally, wrapping up, we delivered a strong second quarter across all key metrics: revenue, adjusted EBITDA and cash. And we expect to deliver on our full-year guidance. The debt refinancing we recently completed underscores the strength of our business model and the confidence the capital markets have in our team and path forward. I appreciate the incredible teamwork across our company to deliver that result.

With that, let me turn the time over to Dale to take you through the details of the second quarter and the guidance for the full year. Dale?

Dale R. Gerard

Chief Financial Officer, Vivint Smart Home, Inc.

Thanks, David, and welcome back. This afternoon, I will provide an overview of our second quarter and year-to-date results as well as our updated thoughts on guidance for the full year. We will open the call for Q&A after my prepared remarks. I will be referencing the slides from our second quarter earnings presentation that was posted to our investor relations website prior to this call.

Turning to slide 6. We highlight a few of our key subscriber portfolio metrics. Total subscribers as of June 30, 2021 were 1.78 million, up 10.6% from June 30, 2020. Average monthly recurring revenue per user or AMRRU for the quarter increased by 2.6% versus the prior year period, driven by customers purchasing more smart home and security products at the point of sale. The combination of growth in total subscribers and growth in AMRRU lifted total monthly recurring revenue by 13.8% year-over-year to $114.8 million.

Moving to slide 7. We highlight our revenue for the second quarter and six-month period ended June 30, 2021. For the second quarter of 2021, revenue was $355.2 million, an increase from the prior period of 16.9% or $51.3 million. The primary drivers of the revenue growth were $34.5 million from the increase in total subscribers and $5.6 million from the increase in average monthly recurring revenue per user. Our sales pilot initiatives also contributed $9.5 million to the year-over-year revenue growth. The 16.9% revenue growth in the second quarter of 2021 was more than double the growth rate for the same period in 2020. Revenue for the six months ended June 30, 2021 was $698.5 million, an increase of 15.1% from the six-month period in the prior year. Like the second quarter, growth in total subscribers, AMRRU and sales pilots were the primary drivers of the revenue growth during the six-month period in 2021.

On slide 8, adjusted EBITDA was up 3.6% in the second quarter of 2021 versus the year-ago period. The adjusted EBITDA growth in the second quarter was in line with our expectations. As we have stated on previous calls, we plan to make investments in brand, innovation and information technology during 2021 with a large portion of the spin hitting in the second and third quarters.

The investment spending for the three aforementioned items in the second quarter was roughly $11 million. The other year-over-year anomaly when comparing adjusted EBITDA growth is the impact that the COVID-19 pandemic had on our second quarter 2020 results. As a reminder, we paused our entire direct-to-home sales program for six weeks, which delayed the normal start of the summer selling season.

Due to the noise in the second quarter of 2020 related to the pandemic, we believe it's appropriate to look at the comparison of adjusted EBITDA growth in the second quarter of 2021 versus the second quarter of 2019. Adjusted EBITDA in the second quarter of 2021 grew by 75.7% as compared to the same period in 2019, and our adjusted EBITDA margin expanded from 31.4% in the second quarter of 2019, a 43.9% in 2021. Adjusted EBITDA for the six-month period into June 30, 2021 was $318.1 million, up 11.4% compared to the same period in 2020 and up 62.6% compared to 2019. Adjusted EBITDA margins for the six-month period in 2021 remained strong at 45.5%.

Now moving to slide 9, we highlight new subscriber originations during the second quarter of 2021. Led by 22.4% year-over-year growth in our national inside sales channel, we installed 121,599 new subscribers during the quarter.

We continue to focus on underwriting high quality profitable customers. For the second quarter of 2021 more than 99% of new subscribers either paid in full or financed the purchase of their equipment. For the six-month period ended June 30, 2021, the company added 181,726 new subscribers, up 15% from the same period in 2020.

Turning to slide 10, I will cover net service costs per subscriber and net subscriber acquisition costs per new subscriber. Net service costs per subscriber for the second quarter of 2021 was essentially flat versus the second quarter of 2020 at $10.03. Our net service margin in the second quarter of 2021 remained robust at 79%. While we've seen customer interactions in our call centers and in-home service business rebound from the abnormally low levels during the height of the pandemic in the second quarter of last year, I'm pleased that our teams have been able to provide exceptional service to our customers while managing net service cost per subscriber to be essentially flat versus the same period last year.

I would note that given the seasonality of how we generally put on new subscribers, particularly in the summer, we tend to see an increase in service costs during third and fourth quarter of the year. On the right side of slide 10, we highlight the significant reduction in net subscriber acquisition costs over the past three years.

Net subscriber acquisition costs per new subscriber for the period ended June 30, 2021 decreased to $70, an 88.9% or $560 reduction from the prior year period, while the average proceeds collected at the point of sale increased to $2,144. For the period ended June 30, 2021, we are seeing the full impact of the changes we made in the upfront product and installation pricing in April of 2020, the reduction of risks to approximately 1% and the impact of discontinuing direct-to-home sales in Canada.

Moving to slide 11, our last 12-month attrition rate was 11.6% for the period ended June 30, 2021, 210 basis points lower than the same period last year and a 12-quarter low per customer attrition. We are very pleased with the resilience of our subscriber portfolio, and we continue to see favorable trends in key leading indicators.

In terms of cash from operating activities, we had another strong quarter, generating over $78 million. I would note that our cash flow from operations in the quarter includes the impact of the change in timing of payments associated with the New Citizens Agreement; the investments in brand, innovation and IT; as well as cash costs associated with changes in executive management. We finished the second quarter with over $345 million of cash on hand and a solid liquidity position of approximately $661 million.

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

Finally, in terms of guidance for the full year on slide 12, the top of the slide reiterates several of the attractive fundamental characteristics of our financial model, including monthly reoccurring revenue from long-term subscriptions, a highly predictable business model and the ability to thrive in all economic environments which we believe has been proven out during the past year.

As we have reviewed on this call, our second quarter results were strong across the board. We believe there is a lot of positive momentum in our business and we remain optimistic about the rest of the year despite a few of the falling headwinds: recent flare-ups of COVID variants across the US, continued disruption in the global supply chain and manufacturing environment, and inflationary pressures and hiring constraints. While any or all of the above mentioned factors could affect our performance during the second half of the year, we still expect to achieve the guidance we previously provided for 2021. As such, we are reaffirming our original guidance for the full year as follows: total subscribers in the range of 1.8 million to 1.85 million, total revenue in the range of $1.38 billion to $1.42 billion, and adjusted EBITDA between $640 million and $655 million.

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

QUESTION AND ANSWER SECTION

Operator: Certainly. We will now begin the question-and-answer session. [Operator Instructions] The first question is from the line of Rod Hall with Goldman Sachs. You may proceed.

RK Raghunathan Kamesh
Analyst, Goldman Sachs & Co. LLC

Q

Hi. This RK on behalf of Rod. Thanks for taking my question and nice results. David, could you talk about what are the areas that you think Vivint needs to improve the most?

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

A

Sure. Well, thanks for the question and the interest in the company. I think for us as a company, there are still a lot of ways that we can improve on around deepening the value for our customers. So, one of the key things that the team has done a great job on is – you can see manifesting the attrition and also the value that we're bringing the customers around the number of devices in the home and just – with a taste for that solution.

I think the thing I'm most interested in is continuing to figure out how we bring more value for them. So, when you think about the adjacent growth opportunities, they're all focused on helping consumers save more money. How did this happen? More solutions in the home, how to be more [indiscernible] (00:24:09) who they are. And then just enjoying the home, being safe in the home, how's the home be more efficient? And to me, it all withdraws upon this core asset that we have with the smart home platform which is proprietary to us. We own it. We [indiscernible] (00:24:24) the technology, but we own the install, we own the maintenance and servicing, it's a fully integrated package.

So, I'm really excited about the stuff that we've already got going. These pilots of insurance are very logical. It can really help our customers, see additional value in their wallets by leveraging on a system more. And this pilot with this partnership we have with Freedom is another extension and it makes a smart home that much smarter. And it will also bring additional savings to consumers. So, I think if we continue to push down that avenue, we'll bring more value to customers. I've been really pleased with how the technology suite and the focus on quality has really tried to manifest itself with the customers.

I mean, Dale talked about what our servicing costs are in Q2. If you can read into that, it's really incredible, to being flat to what we were last year despite the fact that call lines are up and kind of full costs are back in the system to service those customers, to see the manifestation in that low cost per month per subscriber. It's really incredible because there's a lot of things that have come to fruition around the technology stat being that much more effective under the number of calls that we're getting from consumers is much less than we had before around all the people that we've increased more cameras in their home.

So I think just the – just the operational and technical sophistication of our solution has improved, we still see room for improvement. The way we install our solutions day one and the reduction in number of issues that has to be resolved has gone down. There's always room for improvement. And then for us really articulate the value that we can share to our customers and they trust us as we expand our relationship with them will continue to improve.

And then we're also looking for additional ways to meet the customer on how they want to engage with us. So we love our direct-to-home team, it's phenomenal. It is the right answer for so many customers. We love our inside sales team. It is the right answer for so many customers and we're always looking at other partnerships in other ways that we can meet the customer. So a lot of room for improvement, but I'm really pleased with what I'm inheriting and what the team's already accomplished and the momentum we have.

RK Raghunathan Kamesh
Analyst, Goldman Sachs & Co. LLC — Q

Appreciate all that color David. Are you seeing any difference in the spending environment or attrition as we enter the reopening?

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

What do you mean, attrition with the customers or can you just elaborate a bit on...

RK Raghunathan Kamesh
Analyst, Goldman Sachs & Co. LLC — Q

Yes, just the demand environment in terms of new subscriber adds or attrition within your customer base, is there any change as we move into reopening?

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

It's – we're seeing more customers purchasing cameras. So, it's interesting. There's definitely been a shift to more and more of that adoption with our customers. And so, the number of devices we have in the home has been going up, not down. So, that's been very, very positive. And then we started to see more and more people pulling our solution for inside sales. So, you've seen – I mean, more people in the home thinking about their home – think that should stay. And so, we've seen some stronger demand. We see that inside sales really strong 20% growth. So, that's a very commendable thing. Once again, we're trying to be customer centric and give them a solution and meet them where they want us to meet. So, I think it's very positive.

So and in attrition, you've seen our trend there. They're actually going in the right direction. So, I think the model has been – has proven out to be very robust. It was robust before the pandemic. It's been very robust during the pandemic. And as we've emerged from the pandemic, it's very robust. So, I think there's a validation there of what we're doing.

And then for me, like I said before, I think the fact that we own the technology stack, both the back-end and solution stack and the installed service stack as we continue to refine that, we're delighting customers more at every point of interaction with them. So, I think that – I think that the customers are more pleased which bodes well for us around referrals and for them to continue to trust us. So, I'm seeing positive trends. I'm not seeing negative trends. I'm seeing positive trends.

RK Raghunathan Kamesh
Analyst, Goldman Sachs & Co. LLC

Q

Great. And last question from me, where you supply constrained in the quarter and how much cost inflation are you seeing? Thanks.

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

A

Yeah. I think I was [indiscernible] (00:29:21) 97% or 95% of all of the global Fortune 500 having some kind of supply constraints. [indiscernible] (00:29:30) we were – but the team did an incredible job of managing through it. And that's manifested in us maintaining our full year guidance.

So, were we impacted? Yes. The team work hard and with our partners to find solutions, they did it. Were we able or are we are confident that we're able to navigate through that in the mid-year? We are. We would not have reiterated our guidance in the full year. But it had been a challenge. Shout-out to our entire team who's worked tirelessly to make that happen. And to our partners. We really appreciate our partners that [indiscernible] (00:30:07) with us and helped us and support through the process. But I think it was a function of good planning and good relationships and also some just good old fashion grid by our team to find solutions. And so we've navigated through it so far to build consumer confidence for the balance of the year. But I think it was a function of good planning, I think deep relationships and also just some good old fashion grid by our team to find solutions. And so we've navigated through it so far to build consumer confidence for the balance of the year. So, impacted, but managed through, and that's what you guys pay us to do. That's the team delivered on.

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

A

And then RK [indiscernible] (00:30:33) the cost in terms of additional shipping costs and all of those are factored in to our full year guidance. So that doesn't change what we're saying for the full year.

RK Raghunathan Kamesh
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks, guys.

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

Thank you.

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

Thank you RK.

Operator: Thank you, Mr. Rod (sic) [RK] (00:30:53). The next question is from the line of Erik Woodring with Morgan Stanley. You may proceed.

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

Thank you, David. Very nice to meet you over the phone here. Looking forward to working with you into the future. I guess if I started just at the top here. So over the last few years you've generated about 48% of your annual revenue in the first half of the year. Right now, based on your annual guidance, you're trending about 50%, so a little bit more front-end loaded of a year. Is that how we should think about it, the front half of the year being more front-end loaded or would you say your guidance for the full year is a bit conservative and you think you can achieve that? And if so, what are the major constraints in the back half of the year, if any? And then I've a follow-up. Thanks.

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

Great. Erik, good to meet you. Look forward to meeting you in person and [indiscernible] (00:31:52) working with you. I think 48%, 50%, not a big difference but there is a difference. I think the key among that is our inside sales is a year-round model. So with that strong growth you see in inside sales price, we price a bit of that flat because we're working – the demand for our solutions isn't just a seasonal demand, it's a year-round demand. So I think with the growth there in inside sales, that's not surprising. So you might a bit more of a flattening between the first half and second year. But, Dale, I'd like turn to you to see if you have any [indiscernible] (00:32:31) on that but that's the natural hydraulic, so the mix of business.

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

Yeah, yeah. I think you're right there. I mean if you about, Erik, as we've said we've got this long term subscription business recurring revenue. So we come into the full year and to each year we know we've got 85-plus percent revenue for that year. And then as David said, because we're seeing kind of this more kind of ratable volume or new subscribers come on because of inside sales channel, we'll see just a little shift. But again I don't – 2%, it's – some of it by the way it's also related to the fact that we have these sales pilots and in previous years of sales pilots were kind of really insignificant in terms of the dollars that we said, we call out the sales pilots for the first half of the year were about $50 million of year-over-year increase. And some of these pilots that David talked about earlier around insurance and solar continue to grow, and we continue to look at other initiatives and adjacencies aside from kind of the, what I call, the core smart home, that net revenue mix may change a little bit in terms of whether the growth in the first half year versus the second half.

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

Yeah. I think one more thing is as Dale mentioned a bit on the adjusted EBITDA, we did have a bit of a delay last year in our direct-to-home. Yeah, the direct-to-home is supper important to us. It's a super viable channel. But it was a bit delayed last year. To this year, it went out on schedule. So, [indiscernible] (00:34:02). But I think we will evolve over time. Yeah, it will. But we think it's all good evolution where all of our channels will grow and looking forward to that.

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

Q

Okay. That color is really helpful. Thank you very much both of you guys. Maybe my follow-up will just be similar to RK just in terms of thinking about component constraints and supply – the supply chain. So, your inventory balance came down fairly considerably. This quarter, if we look back at the last two years, it's come up. Is there – or maybe I'd add to that. You see other companies trying to build inventory ahead of what could be costs – further cost inflation or further constraints. So just any thoughts there on how you expect your inventory on the balance sheet to trend over time. Are there any issues – or when it comes to issues procuring components, are they acute in any certain products or [audio gap] (00:35:06-00:37:13)

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

A

[indiscernible] (00:37:13)

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

Q

Okay.

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

A

[indiscernible] (00:37:15)

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

Q

No, that's great.

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

A

Thanks Erik.

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

Q

And maybe just – just a quick one to end it there. Dale, you were talking about servicing costs and how you guys have been able to basically serve the higher call volumes and maintain your higher service margins. So just curious, do you think high 70% is more sustainable now versus kind of mid-70s before or was mid-70s still how we should think about the more kind of run rate net service margins? And that's it from me. Thank you, guys.

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

A

Yeah. Thanks, Erik. I mean, I'm still – and the way I was and just the way I'm still modeling this on, I think our operations team, our innovation team and – I mean, it's really – it's because we have this integrated platform, we all are working together to make sure we're providing the best experience and the best products to the customers that we can. I'm still saying in terms of how I think about it, we're probably in that mid to maybe tweak out, maybe it's 76% or 77% service margin, but I'm still thinking. For your model, how I've been thinking about it is still kind of in that – kind of mid-70% range.

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

Q

Perfect. Thanks, guys and congrats.

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

A

Hey. Thank you.

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

A

Thanks.

Operator: Thank you, Mr. Woodring. The next question is from the line of Brian Ruttenbur with Imperial Capital. You may proceed.

Brian Ruttenbur
Analyst, Imperial Capital LLC

Q

Great. Thank you, guys, very much for taking my call. A couple quick questions. First of all, David, welcome. And I just have a couple of questions for you then maybe some questions that you may want to pawn off. But you mentioned attacking some issues facing the company as you step into this new role. Can you talk about maybe selling practices that Vivint has had in the past in terms of current and past lawsuits and other things like that and how you plan to address that? And then I have a follow-up.

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

A

Sure. So as I mentioned in my comments we're not perfect and no company is. All the companies are [indiscernible] (00:39:24) time and we always find areas for improvement and this is a scenario for improvement. The company actually addressed a lot of its issues and they've been working on it for the past several quarters.

So they are being proactive on trying to close some of those gaps that they had and have done a good job. They work closely with the government agencies to prove that they close those gaps. And we have an ongoing compliance that we've invested heavily to do that. So there is a regular cadence trust me where we have the [indiscernible] (00:39:58) and we have independent others working with us, and also build up our internal audit team. And they're very, very attentive to making sure we address the identified gaps and keep those gaps closed as well as [indiscernible] (00:40:15) forward.

So I think the level of investment there is significantly higher. And I'm very pleased with the results I've seen from all of our audits and appreciate all the folks that are involved. And I also think it's really important to mention this is a good company. We've got a really good people. Unfortunately, every company [indiscernible] (00:40:37) and you have to be diligent in making sure that [indiscernible] (00:40:43) company and you have to be diligent in making sure that you're always retesting, retesting, retesting.

And so I know the culture of this company, it's a good company and people are great. So I think we've got a really good job addressing those issues. We will continue to be very diligent about doing that. We just hired a new Chief Compliance Officer who will be joining shortly. Very excited about the résumé and background this individual will bring to further augment our efforts there. That Compliance Officer reports directly to our audit committee and also to me. So very excited to partner with this person to continue to elevate and [indiscernible] (00:41:24).

Brian Ruttenbur
Analyst, Imperial Capital LLC

Q

That's great. Thank you. And then...

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

A

But I hope that answered your question. But I think this is very serious, Brian. So maybe whenever you have any questions about that, talk to me personally. This is a very important matter and I know that [indiscernible] (00:41:42) my entire leadership team and our entire company.

Brian Ruttenbur
Analyst, Imperial Capital LLC

Q

That's great. Thank you. Maybe an easier question or harder, whatever way you want to look at it is attrition. Right now, you're at a record low, 11.6%. Where can this go? Can it hold fast here? Can you get below 11%? Can you get into the 10%? What is realistic over the next couple of quarters, next year?

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

A

I don't know. [indiscernible] (00:42:14) I'm actually really pleased where it's at. I was the COO of this company. People choose to go and we focus our attrition then. And I think where the company is right now, I'm really proud of what they've done. So [indiscernible] (00:42:31) this one and figure out what we want to do. There's always tradeoffs, so [indiscernible] (00:42:41) low attrition [indiscernible] (00:42:42) and obviously high attrition can be good and bad.

But we compare it to our peers and I compare it to [indiscernible] (00:42:49) attrition, some of our DIY competitors. And I think we're half of theirs. So – and compared to our peers, we're doing really, really well. So I think if you could get below 11% and then 10%, fantastic. You've [indiscernible] (00:43:06) cost are. So, I don't have a very good answer for you right now. I'll look into it, but we'll try to always make the right decision at the right trade-offs. Dale you've got anything to add to that?

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

A

No, I think it's good.

Brian Ruttenbur
Analyst, Imperial Capital LLC

Q

Great. Thank you so much.

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

A

Brian, I look forward to get to know you. Thank you.

Brian Ruttenbur
Analyst, Imperial Capital LLC

Q

Thank you.

Operator: Thank you, Mr. Ruttenbur. [Operator Instructions] The next question is from the line of Michael Fisher with Evercore. You may proceed.

Michael Fisher
Analyst, Evercore Group LLC

Q

Great. Thanks for taking my question. And I wanted to get a little more detail around the Sunrun deal, specifically looking at the go-to-market strategy there. There's going to be more Sunrun sales force selling Vivint's equipment or the other way around or a bit of a mix?

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

A

[indiscernible] (00:44:17) David. So, the relation with – we've always had in the last few years been selling solar in certain aspects. There's a bundled desire by our customers to do both. And so, we've been some [indiscernible] (00:44:34). The relationship we have with Freedom Forever, Freedom Forever announced is one of the largest installers in the country. Prior to this relationship, we have relationship with Sunrun, where we were selling some PPAs from them. But that relationship will continue to work with some PPAs with Sunrun. I know that company very well, they bought my old company. And I'm very confident in our ability to deliver and the quality parts they bring.

Freedom also sources their PPAs through Sunrun. And so, it's very natural extension [indiscernible] (00:45:11) partner with Freedom, with a very broad array of installation people across the country. And the key to this relationship is they are also very committed to installing a Vivint Smart Home package in each of their solar installs. We can get the true definition of a smart home. A smart home has smart production of power on the room and really intelligent consumption of power in the home. And our platform, I think, uniquely positioned us to do that. And the integration we'll do to the apps and the information we'll bring to bear for our customers, it's really compelling.

So, there is this – there is this group of partners that are working together around financing which is through Sunrun from PPAs, Mosaic for the loans. We're working with Freedom Forever on the installation and service at the solar piece. And of course, we will take all out to smart home the relationship with smart home. So, we think it's – we will sell that ourselves. And there are dealers that work for Freedom Forever and for someone who can also sell that [indiscernible] (00:46:25) because I think it's very compelling to the consumer.

So, we're excited about it. We're very measured in how we are investing to make sure we have a really good integration. We measured in how we'll roll it out which will delight our customers. There will be a learning curve to learn quickly and make sure we're delighting customers. But it is a very exciting partnership, I think it's with the right partners. We know that. And we think that it is going to address a very high bundling desire of consumers and I think they will go back to our key pieces which is having delight customers to add more value to the customers. So, [indiscernible] (00:47:07) and looking forward to it.

Michael Fisher Q
Analyst, Evercore Group LLC

Yeah. Great. Thanks for the color. And then the other thing I want to dig into a little bit was the national marketing campaign. I think it's been going around six, seven months now. And I was just curious maybe to reflect on it a little bit. Do you think it's been successful so far and how are you thinking about your marketing spend going forward?

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

Yeah. I'll take that one as well. Dale is a bit shy. He's afraid taking these harder question. So, I'll take them all.

No I think we're pleased so far. We're pleased so far with the results and early data. Marketing and branding has a long gestation cycle and long payback period. But we've seen – it's really interesting in the markets that we've over indexed on a lot of those national marketing campaigns. We've seen an improvement in our average sales per professional salesperson. So, we're still collecting all of the data. We're still working on validating all and making revisions to that. But these early days have been encouraging but we're still learning, but definitely are encouraged by what we're seeing.

Michael Fisher Q
Analyst, Evercore Group LLC

Great. Thanks for taking my question.

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

Thank you.

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

Thank you.

Operator: Thank you, Mr. Fisher. [Operator Instructions] There are no additional questions waiting at this time. I would like to pass the conference back over to David Bywater for any closing remarks.

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

Great. Appreciate that. Thank you. Guys, we appreciate your interest. We'll continue to grow the company and make good decisions and work to create value for our customers and our shareholders and our employees. I think it was a solid, solid quarter. If you think about it, growth and revenue near to 17%, subscribers up by 13%. That's really, really impressive. Attrition is at 12-quarter low. Our SAC is now sub-$100, $70. Amazing [indiscernible] (00:49:36) almost 90% from last year. Servicing costs are at $10 and that is with a fully normalized workload. And that's a function of the benefits from our innovation team and our operations team really working together to bring down costs. Our EBITDA growth, if you put on a true apples-to-apples campaign 2019 is up considerably. So I think the cost management really [indiscernible] (00:50:04) team and what they've done there, are quite incredible.

Cash is positive. It's accretive. It's pretty amazing. And once again if you normalize, I think it's a really impressive level. We've further the delevered the company. We're now at 2.9x, 2.8x [indiscernible] (00:50:24) continue to trend down which is nice. And the refinancing I thought was an incredible endorsement of what the team has done in the business model. And we've also we're reaffirming our full year guidance. We've done that while also advancing our strategic initiatives around logical course extensions of solutions to our customers that provided them and given our relationship. So pretty pleased with all that. We have a lot of work to do still. We'll keep our head down and keep driving forward. So thank you for your interest in the company and we'll talk again.

Operator: That concludes the Vivint Smart Home second quarter 2021 earnings call. I hope you all enjoy the rest of your day.