TRANSCRIPTION

Domestic & General Q3 FY25 Results Call

27 February 2025

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Domestic and General Q3 FY25 Results Conference Call. There will be a question-and-answer session at the end of the presentation. I will now hand it over to the CEO, Matthew Crummack. You may begin.

Matthew Crummack

Good morning. Thank you. Good morning, everybody. Thanks for joining us. It's Matthew Crummack here, CEO together with Joe Fitzgerald, CFO. Joe and I are speaking to you from our Wimbledon office here again, we'd like to welcome you to Domestic and General's results call for the third quarter of our current financial year. So we're going to do a brief overview this morning of the highlights, including a recap of the refinancing, which you know we completed in December. And I'll then hand over to Joe who'll walk us through the third quarter financial results in a bit more detail.

So turning to slide two, we have continued to grow revenue over the last nine months with revenue of £873 million for the year to date, which is up 7% compared to the equivalent nine month period last year. Within that total revenue figure, we recorded £778 million of subscription revenue, which represents an even stronger 10% growth rate as we continue to focus on high-quality subscription revenue in all of our markets.

Group Adjusted EBITDA, which is inclusive of the results of our US business, also continued to grow, increasing at 11% to £125 million, which highlights our quality of earnings and the benefits of our past investments.

Looking next at the balance sheet, as you know, we completed our group refinancing in December, which I'll go into a bit more detail in a moment. And that refinancing, alongside robust EBITDA delivery, allowed leverage to remain stable at 5.1 times at quarter end, notwithstanding the early settlement of accrued interest on the old debt and payment of deal fees. Overall, we are in a good state financially with now improved levels of liquidity and a solvency coverage ratio of 186% in our regulated business, which is well ahead of capital requirements.

Commercially, we are pleased to have agreed new contracts with several of our partners including Beko across Europe, AO and John Lewis in the UK and Worten in Portugal, continuing some successful long-term arrangements and in line with our usual practice of addressing contract extensions well in advance of legal maturity.

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Finally, on the slide our US business continues to perform well and grow, building further on the previously announced expansion of our partnership with Whirlpool, so that now we have just under 250,000 customers in the US, up from around 100,000 at the year end point. Now turning to the next slide, I'd like to recap on our refund refinancing process.

Following a marketing of the refinancing in which we talked to many of our existing and prospective investors and lenders, we were very pleased to successfully complete a refinancing process in December, which in effect extends our debt maturities to 2029. This eliminates any short-term financing risk, locks in favorable financing conditions from last quarter and provides a stable capital platform for us to continue evolving and growing the business.

Our outstanding bonds were repaid in full together with accrued interest and the old RCF was also repaid and cancelled. In their place we now have a £350 million bond at a fixed rate of 8.125% and a €545 million floating rate loan and a new revolving credit facility which was increased to £165 million and was undrawn as we closed the quarter providing us with reassuring levels of backup liquidity.

We took the decision to synthetically convert part of our Euro loan into sterling fixed rate debt with cross-currency interest rate swaps and we were able to roll over into the new swaps the FX rate implicit in our old swaps, which meant there was no cash flow on close out of the old swaps. The balance of that loan, an amount of €339 million, remains in Euros given our capability to lowest service lower cost Euro debt with the healthy cash flows being generated by our European business.

I'd like to say on behalf of all of us here at Domestic & General and also on behalf of our sponsors that we're very grateful for the support and trust placed in us by our many investors and lenders, a good number of whom will be listening to this call, and we look forward to the next stage of our relationship with you. So with that overview complete, I'll hand over to Joe to run through the financial results in a bit more detail. And after that, of course, we'll happy be happy to take questions, which you can either submit online through the portal here or verbally via Ludi, the operator at the end of the presentation. Over to you, Joe.

Joe Fitzgerald

Thanks, Matthew. Good morning to all of you listening and welcome to our Q3 results call.

Starting with slide 4, we show our usual KPIs which illustrates how our subscription model continues to deliver great results. At the top left of the side, the chart shows that we recorded 6.5 million subscription customers at the end of the quarter, on a basis which excludes the US,

and compares favorably to 6.4 million subscription customers a year ago. Our customer numbers are driven by the dual factors of new business sales, despite a continued downturn in the appliance market, and by our strong subscription customer retention rate which showed a slight year-on-year increase to 86% as you can see in the bottom left chart.

In the middle-left hand chart, you can see that the average revenue per customer continues to increase and now stands at £153 per annum, which is driven by pricing and gradual improvements in the average number of appliances that we cover for each of our subscription customers, as we've discussed previously. These factors have delivered growth in subscription revenues to 778 million for the nine month period as shown in the main chart.

Moving on to slide 5, we look here at our principal financial KPIs.

As I just outlined, subscription revenue for the period was £778 million up from £707 million in the equivalent period last year, whilst non subscription revenue reduced going from £108 million to £95 million. As we've been through previously, this reduction was largely driven by the runoff of legacy non subscription business, which we have talked about, and the continued shift to high quality subscription business which represents 89% of total revenue for the group.

The lower left hand graph shows the last 12 months' EBITDA margin, which improved versus the equivalent period last year to 13.5%, as we've protected margins, in parallel with continuing to invest in both the US and our established markets. The result was a nine-month EBITDA of £125 million.

Moving on to slide 6, here we review our revenue in more detail, breaking out the result by geography and by type.

As the table shows, growth in total revenues at £873 million included 8% growth for the UK and high early stage growth for the US, partly offset by 6% reduction in European and other revenue, which I will talk about in a moment. Within total revenue, subscription revenue in our UK business grew strongly at 8% while in our European business subscription revenue grew ahead of the UK at 9% and now represents around 73% of the division's revenue, as the European business continues to follow the UK's successful subscription model. US subscription revenue was just under £21 million for the nine months representing significant growth versus Q3 of FY24.

Non subscription revenue fell by 30%, which is mostly explained by the well-publicized reduction in revenue from European non-subscription business that we have talked about at length in our previous presentations. This represents the planned run-off of certain legacy

extended warranty term business, which is being replaced by high quality subscription business.

As a result, we expect total European revenue to reduce in FY25 compared to FY24, but for the European subscription segment to continue to grow strongly, as you are seeing here. Overall, for FY25, we expect group subscription revenue to grow in the high single digits as we have guided previously.

Moving along from revenue to EBITDA on slide 7, you can see here that the adjusted EBITDA for the nine months was approximately £125 million, representing a rise of 11% which includes a reduction in US losses as we get closer to break even in our US business. The EBITDA for the established UK and EU businesses grew well, coming up to £126.9 million for the nine month period and driving the EBITDA growth for the group.

As mentioned earlier, the last 12 months' EBITDA margin was marginally up year on year at 13.5% and we expect margin growth to continue in future years due to past investments and economies of scale. For FY25 and into future years, we expect EBITDA to grow ahead of subscription revenue growth, in line with trends from previous financial years, as the impact of operating leverage comes to bear in our results.

Now we'll turn to cash flow for the period.

On slide 9, we show our unrestricted cash flow, which analyzes the movement from opening to closing unrestricted cash over the nine month period. To recap the definition, unrestricted cash includes the solvency capital of our regulated business that's in excess of our solvency capital needs plus the cash and liquid investment assets of our unregulated business.

On the first line of the cash flow, you can see our group EBITDA excluding the US EBITDA element. We currently start the cash flow with this US exclusive measure of EBITDA to illustrate the performance of our longer established UK and European business, which drives cash flow generation for the group.

Next down from EBITDA, we show on consecutive lines the working capital outflow from our established unregulated business excluding in the Australian runoff and, below that, we show the amount of EBITDA from the regulated business, which exceeds the change in its surplus insurance capital. As we've discussed previously, this increase in insurance capital is measured under actuarial solvency rules rather than IFRS principles. And any increase in insurance capital will generally be lower than the equivalent regulated EBITDA, so you would expect to see an outflow on this line. Generally, we find it helpful to think of this line item as a quasi-working capital movement for the regulated business and to view the unregulated

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working capital and the excess regulated EBITDA land collectively as a group working capital type movement.

After these working capital and quasi working capital items have been deducted, we have a view of operating cash flow of the established business prior to capex, which in effect demonstrates the ability of our established business to generate cash to support debt service costs and investments.

As you can see from the slide, this measure of cash conversion was 71% for the nine month period. Generally, we would want and expect pre capex cash conversion to be less than 100% because that working capital strain is associated with ongoing growth. However, at this stage, the cash conversion metric continues to include the impact of running off certain legacy non-subscription business as I mentioned previously and this adversely effects working capital. This impact has reduced since FY24 and will continue to reduce over the course of this year and into the next, which will allow pre capex cash conversion to normalize into the expected 80 plus percent range in future years, as guarded previously.

After that measure of operating cash, we then deduct capital expenditure of £26.8 million for the nine-month period, which relates principally to tech investment to show a post capex measure of operating cash. After that we deduct £4.6 million of working capital flows associated with the ongoing funding of the Australian runoff which are analyzed separately for transparency, and are also on a downward trend.

Next, the net cash flow, next cash outflow for our US business is shown which includes both the small net US EBITDA loss for the period and more significantly working capital requirements as we invest in growing that business. We expect and plan for cash requirements for US business for FY25 and beyond to continue to be significant given the working capital strain associated with fast growth, as guided previously.

The deduction of these items results in our measure of operating free cash flow of £41 million, which is similar to the result for the equivalent period last year, notwithstanding the higher planned US spend this year.

This operating free cash flow amount is then reduced for debt service costs which are noticeably higher this period, as they include the accelerated payment in December of accrued interest which would otherwise have been payable in quarter 4, when we refinanced and repaid our bonds. Tax payments are shown next to arrive at a measure of free cash flow before funding M&A and significant items. And to close things off, we then show net incoming cash flows relating to debt funding and we show significant items related to one off costs.

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The net result is a closing unrestricted cash amount of £46.7 million. For the current financial year, we would expect operating cash conversion before capex to be higher than FY24, but we would expect an overall free cash outflow for the year as US growth continues, before cash flow turns positive again in FY26. We expect that the net impact of a free cash outflow and financing related inflows will mean that unrestricted cash ends the year around its opening position at the start of the year.

Finally, moving on to our capitalization slide, net debt and the total leverage ratio at the end of the period were £791 million and 5.1 times respectively, which is broadly in line with the leverage ratio from the previous quarter and takes into account the early settlement of the accrued interest and the payment of financing deal fees. We have shown on this chart for clarity the old debt which was repaid in December and the new debt instruments, including the hedged and unhedged portion of the Euro loans.

Overall, the group is in a strong financial position with a solid capital base, improved levels of liquidity and a strategy which is developing and delivering excellent revenue, EBITDA growth and cash conversion. Matthew and I would like to open the call now to any questions.

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Q&A

Operator

Thank you. And if you do wish to ask an audio question, please press *1 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing *2 to cancel. For those on the webcast, you may also participate by typing in your questions in the QA box. Once again, please press *1 to register for a question. There will be a brief pause while questions are being registered. And once again, please press *1 to register for a question.

Matthew Crummack

Thanks, Ludi. I don't see any questions coming up on the portal here on the web and you have no audio questions, correct?

Operator

We currently have no questions over the phone lines.

Matthew Crummack

OK. We'll just give it one minute or so and then we'll wrap up if nobody has any questions. Thank you. OK, well, thanks very much everybody. There are no questions come in. So we'll wish you a good day from Wimbledon and we'll speak at the next event. Thanks. Thanks, Ludi.

Joe Fitzgerald

Thanks, Ludi. Thanks all.

Operator

Thank you. And this now concludes our presentation. Thank you all for attending. You may now disconnect.

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