

EMEA MEMBERSHIP & HVAC

In EMEA Membership & HVAC, we are building multiple new opportunities and managing a productive transformation of our UK business.

The EMEA division comprises the established Membership & HVAC businesses in the UK, France and Spain, HomeServe's share of the joint venture operation with Mitsubishi Corporation in Japan and expansion initiatives into adjacent territories in Europe.

Each of the UK, France and Spain are pursuing a strategy to broaden their business to encompass the complementary offerings of Membership, HVAC and Claims Assistance.

£million	2022	2021	Change
Total revenue	698.5	667.2	5%
Adjusted operating costs	(574.0)	(547.7)	5%
Adjusted operating profit	124.5	119.5	4%

UK

Affinity partner households

FY22	24m
FY21	26m

24m -7%

Customers

FY22	1.5m
FY21	1.6m

1.5m -8%

Income per customer

FY22	£141
FY21	£144

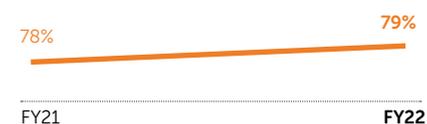
£141 -2%

Policies

FY22	4.0m
FY21	4.4m

4.0m -9%

Retention rate



79% +1ppt

The UK business made good progress in the early stages of the transformation plan set out in May 2021.

£million	2022	2021	Change
Revenue			
Net policy income	212.5	233.2	(9%)
Repair income	95.7	80.3	19%
Membership	308.2	313.5	(2%)
HVAC installations	17.2	12.1	42%
Other	12.1	13.3	(9%)
Total revenue	337.5	338.9	(0%)
Adjusted operating costs	(264.6)	(266.4)	(1%)
Adjusted operating profit	72.9	72.5	1%
Adjusted operating margin	22%	21%	+1ppt

Financial performance

As anticipated, net policy income declined 9% driven by the lower customer base. Notwithstanding the lower base of customers and policies, repair income grew by 19% on the prior year – largely reflecting the benefit of a five-month contribution from CET, which delivered in-year revenue (all captured in the repair income line) of £15.7m.

HVAC installation revenue grew 42%, largely reflecting a continuing recovery in installation volumes in the HomeServe branded business from a heavily pandemic-impacted FY21 as well as volumes from the first two acquired LBCs. In addition to this, average revenue per install also rose by 3%. There was a positive adjusted operating profit contribution from the LBCs, and the HomeServe branded business saw further progression in its turnaround.

Adjusted operating costs marginally declined on the prior year as an increase in volume-related costs was more than offset by lower amortisation following the full impairment of the eServe CRM system in FY21. Along with a profitable in-year contribution from CET, this drove a marginally higher adjusted operating profit than the prior year.

Operational performance

The UK business made good progress in the early stages of the transformation plan set out in May 2021. The plan has four key elements: deepening and digitising existing relationships with water utilities, establishing strong relationships with energy utilities to accelerate new customer acquisition, broadening the business into the complementary offerings of HVAC and Claims Assistance and, lastly, transforming operations and customer experience through technology.

Operating review continued – EMEA Membership & HVAC continued

In Membership, the solid foundation of relationships with water utilities was further strengthened during the year as partnerships with utilities covering 5m households were renewed, for an average of five-year terms. Since the year end, partnerships with utilities covering a further 6.5m households have been renewed, meaning that over 75% of water utility relationships by households have now been secured until at least 2026. Relationships were also deepened during the year, with sales introductions from partners' own call centres now live across all water partners.



The business continues to see the energy channel as a source of medium-term growth. Pressure on the wholesale energy market continues to mean consumer switching and propensity to take additional services is at lower levels than seen historically, but the business is well placed to scale up its initiatives as and when market conditions stabilise.

The net 2m reduction in affinity partner households reflects the ending of the Thames Water relationship (on 1 April 2021), partially offset by the signing of Shell Energy (in May 2021) as well as growth in both E.On and Shell's household coverage during H2.

The business continued to deliver high service quality to policyholders, despite additional complexity posed for field management during the second half due to the Omicron Covid-19 variant. With higher levels of homeworking now being established as a permanent feature of the post-pandemic landscape, claims frequencies stabilised, albeit at a slightly higher level than the pre-pandemic period. This has served to reinforce product value perception – with the policy

retention rate increasing to 79%, the first increase in seven years. The customer book finished the year at 1.5m (FY21: 1.6m).



The business continued to further embed service delivery improvements. More than 25% of claims notification calls are now automated through either digital or intelligent voice solutions, and the integrated claims and field management solution was extended to cover all contractor activity as the year closed. Following the year end, the business successfully migrated the last batch of policies back to its Ensura system from eServe. This gives stability for CRM activities and simplifies the operation of the business.

Consistent with the strategic direction of the EMEA division, the October 2021 acquisition of CET Structures Ltd ("CET") significantly grew the business's share in the UK Claims Assistance market, with CET providing Claims Assistance for one in eight UK households. CET continued to deliver high service levels in home emergency jobs on behalf of its roster of blue-chip UK home insurance brands.

In HVAC, the business acquired its third LBC as part of its buy and build initiative, further strengthening its coverage of the north-west of England. A strong pipeline is in place to extend the LBC network to other UK regions. In the existing HomeServe branded business, installation volumes continued to recover well from the pandemic impact seen in FY21, growing by 16%.

France

Affinity partner households

FY22	19m
FY21	19m

19m –

Customers

FY22	1.2m
FY21	1.2m

1.2m +4%

Income per customer

FY22	€114
FY21	€109

€114 +5%

Policies

FY22	2.7m
FY21	2.4m

2.7m +12%

Retention rate



87% -1ppt



Our French HVAC businesses are leading the way in the promotion of alternative sources of heating and cooling, with 60% of installations in the period being a low-carbon unit.

€million	2022	2021	Change
Revenue			
Net policy income	136.9	126.6	8%
Repair income	0.3	0.3	(19%)
Membership	137.2	126.9	8%
HVAC installations	36.2	17.9	103%
Other	6.5	3.7	77%
Total revenue	179.9	148.5	21%
Adjusted operating costs	(136.9)	(108.7)	26%
Adjusted operating profit	43.0	39.8	8%
Adjusted operating margin	24%	27%	-3ppts

€million	2022	2021	Change
Revenue			
Net policy income	116.2	113.0	3%
Repair income	0.2	0.3	(23%)
Membership	116.4	113.3	3%
HVAC installations	30.7	16.0	92%
Other	5.6	3.3	68%
Total revenue	152.7	132.6	15%
Adjusted operating costs	(116.3)	(97.0)	20%
Adjusted operating profit	36.4	35.6	2%
Adjusted operating margin	24%	27%	-3ppts

Financial performance

Net policy income rose by 8% to €136.9m as solid customer growth was combined with favourable pricing at renewal.

HVAC installation revenue again grew very strongly, more than doubling to €36.2m. Installation volumes rose by 77%, largely reflecting the annualisation of ten FY21 acquisitions, though there was also continued organic momentum in activity from LBCs owned throughout FY21. Average revenue per install also saw an 11% year-on-year increase, partly reflecting the greater exposure to higher ticket low carbon units.

Adjusted operating costs rose by 26%, ahead of revenue growth, as the business invested in key partnerships with water utilities and saw higher direct costs in HVAC from the annualisation of prior year acquisitions. The adjusted operating margin of 24% remains the highest of the Group's established Membership businesses.

Operational performance

In France, the business continued to pursue growth opportunities in Membership and build out its HVAC offering, whilst delivering continued revenue and profit progression.

In Membership, despite a second half impact from the Omicron Covid-19 variant on staffing levels in water utility partner call centres, gross new customers grew by 12% on the prior year – and were a record for the French business for the third consecutive year, with total customer growth of 4%. Digital sales through the base of non-utility partners, such as home moving aggregators and price comparison websites, were particularly strong – increasing 28% on the prior year.

The business delivered high levels of service to its policyholders, with a newly tracked customer satisfaction five-star rating measure producing a result of 4.56 for the year. In addition, the business was recognised for the sixth consecutive year with the Elu Service Client de l'année accolade. The slight decline in retention reflects the strengthening performance in recent years of new customer joins, with a resultant mix impact on the overall retention rate of a higher proportion of year 1 policies – on which retention

is typically lower. Policy retention in France nonetheless remains amongst the strongest in the Group.

The business saw further progress optimising its "on demand to policy" sales channel, which seeks to convert ad hoc repair job bookings lodged by non-policyholders into policy sales either preceding or following a successful repair. A 20% conversion rate (from booked job to policy) was achieved during the year, and attention will now turn to driving up the number of initial enquiries generated by affinity partners.

Claims and network management was successfully migrated to Salesforce during the second half and, along with previous migrations of CRM and customer complaints, means the business now operates with a single view of the customer from a flexible, cloud-based platform.

The business serviced claims and heating maintenance on behalf of its first customers in Belgium during the year, with the second half also seeing a second direct mail campaign with electric utility partner, Eneco. HomeServe's presence in Belgium was further strengthened through the acquisition of its first HVAC LBC in the territory during the second half, with a strong pipeline of further opportunities now also in place.

Across the Group, the HVAC business in France has the highest existing exposure to the installation of new heating equipment and technology, including heat pumps, and further developed its offer for consumers seeking to decarbonise their home heating during the year. 60% of HVAC installations was of low carbon equipment, with the typically higher price point of this equipment contributing to growth in the overall average revenue per installation. A further seven LBCs were acquired during the year in France, with two businesses purchased in the second half adding to the five acquisitions completed during the first half.

Operating review continued – EMEA Membership & HVAC continued

Spain

Customers



0.8m -5%

Income per customer



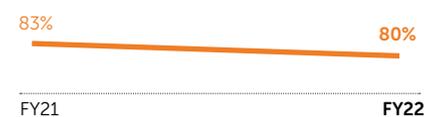
€57 -5%

Policies



1.0m -6%

Retention rate



80% -3ppts



In our Spanish business, adjusted operating profit growth of 24% to €24.6m (FY21: €19.8m) was driven by good progress in Claims Assistance in Spain and Portugal, and in HVAC, where our Iberian businesses are policy rich and therefore have attractive recurring revenue characteristics.

€million	2022	2021	Change
Revenue			
Net policy income	51.5	54.8	(6%)
Repair income	170.7	146.8	16%
HVAC installations	9.0	7.7	16%
Other	13.0	9.7	34%
Total revenue	244.2	219.0	11%
Adjusted operating costs	(219.6)	(199.2)	10%
Adjusted operating profit	24.6	19.8	24%
Adjusted operating margin	10%	9%	+1ppt

€million	2022	2021	Change
Revenue			
Net policy income	43.8	48.9	(10%)
Repair income	145.1	131.2	11%
HVAC installations	7.6	6.9	11%
Other	11.0	8.7	27%
Total revenue	207.5	195.7	6%
Adjusted operating costs	(186.7)	(178.0)	5%
Adjusted operating profit	20.8	17.7	18%
Adjusted operating margin	10%	9%	+1ppt

Financial performance

Net policy income decreased by 6%, with the impact of the run-off of the Endesa policy book partly offset by continued good growth in the stock of HVAC maintenance policies.

Repair income rose by 16% over the year, with good traction in both existing and new businesses. The HomeServe branded Claims Assistance business which operates in Spain saw a 7% rise in job volumes, with growth both from the bancassurer customer base as well as other partners such as energy utilities. There was an uplift in revenue contribution from Mesos year-on-year of c.€11m, reflecting a full 12 month contribution in the current year (versus just seven months in the prior year), with part of this increase drawing from its activity in Portugal. Additionally, Servitis, a Portuguese Claims Assistance business acquired during the first half, made a good top-line contribution.

HVAC installations revenue also rose by 16%. 11% growth in installation volumes was mostly organic, being in respect of those businesses owned throughout FY21, and there was also good progression in average revenue per install. Other revenue largely comprises non-installation jobs completed by the HVAC LBCs, with growth predominantly driven by annualising FY21 acquisitions as well as in-year contribution from FY22 acquisitions.

Adjusted operating costs rose by 10%, slightly behind revenue growth, mostly reflecting operating leverage in the HomeServe branded Claims Assistance business as well as a full 12-month contribution from the FY21 acquisition of Mesos.

Operational performance

The Spanish business saw significant operational and strategic progress in FY22, with its deep expertise in Claims Assistance seeing it develop a new service proposition that brings the potential of returning to Membership customer growth in the medium-term, alongside further developing its HVAC business.

The existing Claims Assistance business, which completes emergency jobs for homeowners on behalf of a largely bancassurer customer base, saw good volume growth during a year where homeowner behaviour was less influenced by pandemic restrictions. There were also strong activity levels from Mesos during its first full year under HomeServe ownership.

The 'service customer' model, in which key Claims Assistance competencies (including marketing, campaign execution and network management) are deployed for partners who continue to maintain ownership rights over the end homeowner, signed its first customers during the year from an agreement with a Portuguese energy retailer. A partnership was also struck with a large Spanish insurer under this new model, with a strong pipeline of further opportunities in place.

The Spanish HVAC business remains weighted towards maintenance (rather than installation) activity, with policies across the portfolio driving a good recurring revenue stream. Buy and build activity continued in FY22, capped by the acquisition of Grupo MH in the fourth quarter – a transformational deal which grows the policy count by 45% and enables further scale to be built in north-east Spain. Four LBCs were acquired in total during the year.

New Markets

In its third full financial year, HomeServe Japan saw further traction as it continues to invest to realise the significant market opportunity.

The New Markets division comprises the Group's initiatives to expand the Membership offering into new territories, and currently consists mainly of HomeServe's joint venture with Mitsubishi Corporation in Japan.

Emillion	2022	2021	Change
Adjusted operating loss	(5.6)	(6.3)	(11%)

Financial performance

The lower adjusted operating loss in New Markets reflects prospecting activity for new Membership territories that are not adjacent to established businesses having ceased at the end of FY21.

Japan

Affinity partner households



14m +94%

Retention rate



91% -2ppts

In its third full financial year, HomeServe Japan saw further traction as it continues to invest to realise the significant market opportunity.

Business development activity sustained its recent momentum, and a further two electricity utilities were signed during the year to give HomeServe Japan access to 14m households in total.

Provision of water in Japan has historically been on a municipalised basis, with all homes supplied by a municipal provider, of which there are in excess of 1,500. The business achieved its first municipal water partner signing during the second half, giving confidence to take the offering to other municipal providers.

Policy retention rates remained extremely strong at 91%, as total customers in Japan more than doubled to 41,000 (FY21: 17,000).

Other New Markets

During the second half HomeServe completed its first acquisition of an HVAC LBC in Germany. This establishes a presence in a large market with an attractive business that firmly fulfils the HVAC investment criteria set out in November 2021, as well as having strong expertise in the installation of low carbon units.