HomeServe plc

Interim Results

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Transcript

Richard Harpin: Good morning everyone and welcome to our first half results presentation. I'm Richard Harpin, Founder and Chief Executive of HomeServe. Welcome to those of you who are with us in the room, and also to those who have joined us online.

Richard Harpin: It's great to be able to report that we've had a very good six months, financially and strategically. At our full year results back in May, we set out three key priorities for this year, and we're making good progress on all of them. Tom Rusin is here to tell you about the outstanding growth we're delivering in North America. Ross Clemmow will report on early progress in broadening and transforming our UK business – as well as the great initiatives we have under way elsewhere in EMEA, and in HVAC. And I'll update you on Home Experts. We're also continuing to focus on our Responsible Business agenda. Tom and Ross will tell you more about the opportunities we see to help with decarbonisation. I wanted to call out the recognition we've received from Great Place to Work, and thank all our people for their continued engagement and commitment. First, let me hand you over to David to review the Group's financial performance and prospects.

David Bower: Thanks Richard, and good morning everyone.

David Bower: Looking at our group financial performance, we saw very good revenue growth in the first six months of the year … up 14% in sterling terms .. of which 8 percentage points were organic .. and this translated into adjusted operating profit growth of 24%. The markedly stronger position of sterling relative to other currencies, notably the dollar, is a key feature of this set of results. In constant currency terms revenue growth was 20%, while adjusted operating profit growth was 33% .. a very good result. Adjusted EBITDA growth at 6% is lower than the growth rate of adjusted operating profit as we book amortisation on a straight line basis, so the move away from eServe in the UK had a more pronounced effect on EBITDA in our seasonally quieter first half. For reference, if we stripped out all of the COVID-related effects like reduction in marketing spend and Checkatrade discounts, as well as FX and eServe amortisation, adjusted operating profit growth would have been in the region of 11%. Given the very good first half performance and continued confidence in the group's growth prospects, we've declared an interim dividend of 6.8 pence per share, up 10% on the prior half year. Looking out over the rest of the year, with the position of sterling as at today, any further FX impact during the second half is expected to be immaterial when compared to the same period last year. Let's now take a look at financial performance in our three divisions.

David Bower: In North American Membership & HVAC, our outstanding performance, particularly at constant currency, continued to demonstrate strong execution of our proven strategy, with revenue up significantly and double digit growth in adjusted operating profit. In EMEA Membership & HVAC, there was good top line growth of 8% in constant currency terms…and good growth in adjusted operating profit mainly driven by home emergency assistance in Spain. Drilling down slightly…performance in the UK was in line with our expectations back in May…with lower revenue driven by lower customer numbers in the Membership business…offset by the removal of around £4.5m of eServe amortisation, as well as operational cost savings, such that operating profit was broadly flat half-on-half.n Home Experts, one of the highlights of the half was seeing the division move into profitability. The key driver of this change was a sharp rise in Checkatrade revenue… around two thirds of which was driven by trades being back at full pricing, with the balance being due to the good work in delivering additional value to existing trades, for which they are paying more, and the benefit of the additional trades signed in the second half of last year.

David Bower: Looking at group organic revenue growth – this increased from 0.6% to 8.1% - with the basis of the calculation now only including those businesses owned throughout the whole of the comparative period. Looking at the divisional breakdown…in North America we saw strong double digit organic growth…while in EMEA … the UK and France are on an improving trend…and the Spanish business has a tough comparative where you will recall we saw a number of new insurer relationships commence last half year. Meanwhile in Home Experts, the revenue bounce back at Checkatrade, and the inclusion of eLocal, have driven a strong recovery in organic growth. Turning now to look at cash flow and leverage.

David Bower: Operating cash flows of around £97m point to the continuing cash generative nature of the business model. First half capex of around £37m was broadly in line with the prior first half….while M&A spend of around £51m was mainly driven by the HVAC buy-and-build strategy, as well as increasing the Group's stake in eLocal from 79% to 90%. With the impact of tax, interest, dividend payments and foreign exchange movements, net debt stood at 2.1x EBITDA at the seasonally high half year. The acquisition of CET occurred after the half year, and so the impact of this is not included in these numbers. However, we continue to target leverage in the range 1-2x at each full year.

David Bower: I'll conclude by summarising our full year guidance. Everything we've seen in the first half just serves to strengthen our conviction that we will see an acceleration in performance for this full year, such that the Group returns to its pre-pandemic trajectory of strong growth. First half / second half seasonality of adjusted operating profit continues to follow the significant skew seen historically. Over to Tom to take you through our North American business.

Tom Rusin: Thanks David. The first half in North America was about outstanding execution against our proven model. What we focus on most is policy growth and customer satisfaction. Policy growth – whether it be from existing or new partners and customers – drives revenue and profit growth. Customer satisfaction drives retention, which is another key component of our model. It is great to see strong organic policy growth in the first half, with policies up 12% to 8.5m. And despite high claims volumes, customer satisfaction stayed strong at 4.8 out of 5 stars, which contributed to a 3 percentage point improvement in retention to 86%. The first two inputs to our Milestone 2 targets are growth in customers, and growth in net income per customer. The 8% growth in customers in the first half to 4.8m was just about all organic, and came from continuing our tried and true marketing with our existing partners. We saw 4% growth in policies per customer from 1.7 to 1.8, and this in turn drove a 7% increase in net income per customer to $111. In addition, we delivered on the strong pipeline of new partnerships which I told you about in May, which means that we have 6.1m new households to market to – just slightly less than we added in the whole of last year. We are seeing a return to normalcy around the sales process with some in-person conferences reappearing, as well as in-person prospecting meetings happening again. Our pipeline remains strong, and while you never know with utilities, there is the potential for this year to be very strong with respect to the number of new households added.

Tom Rusin: There are still policy book acquisition opportunities out there as well. You can never forecast policy book acquisitions, but there is a focused team on this, and if and when we get them done, they will be further *accelerators* to our plan. Utility prospects are responding well to our new products - Electrical Vehicle Charging, Solar Maintenance and Energy Efficiency, and especially HVAC as a service, as they deliver strengthened customer relationships and help utilities deliver against their ESG goals. The picture on the slide is of a public co-branded electric vehicle charging point we installed a couple of weeks ago in Texarkana, which is a city right on the Texas Arkansas border. This charger was installed in partnership with Southwestern Electric Power, and is part of the launch of our Electric Vehicle program together. I want to delve a bit deeper into HVAC, which has continued to deliver outstanding performance.

Tom Rusin: Firstly, our buy and build strategy is working well – the build element, as well as the buying. Adjusted operating profit in the period grew 86% to $13m, more than we delivered in the whole of last year. You've heard me say many times before that everything we work on in Membership and HVAC should contribute to the same overarching goals – to sell and service more policies, and improve income per customer. HVAC is becoming an increasingly important channel for policy growth. We added 13,000 policies through our locally branded HVAC companies in the period – which is a 29% growth in policies through that channel. HVAC also complements Membership because HVAC technicians employed by our locally branded companies are doing jobs for our members – 8,500 of them in the period, up 28%. Every job we do with our own technicians improves our net income per customer. We are also gaining operational efficiency in HVAC by rolling out the Service Titan CRM system to help our acquired companies operate more efficiently. Service Titan is now used in 8 out of our 12 companies, and all of them will be on the platform by the end of this fiscal. Lastly, bear in mind that every installation and repair we make creates energy efficiency and carbon savings.

Tom Rusin: And this is something I am really excited about. Most consumers want to be more energy efficient. And virtually every utility has a public goal for making their customers more energy efficient, or lower carbon producers, or both. Additionally, almost every state regulator has a required energy efficiency goal for all the utilities they regulate. As a result, US utilities are spending over $9bn a year on energy efficiency. We are uniquely positioned to drive a significant amount of these efficiency upgrades for consumers and utilities, due to our ability to do HVAC installs. HVAC accounts for around 40% of a home's energy use. However, the higher the efficiency, the more expensive the install. But what if consumers could lease their HVAC equipment? We are about to test a new proposition in New York called, HVAC as a service. For a monthly fee, customers will get a brand new high-efficiency HVAC system, all their maintenance, filters, tune-ups and any service required. The consumer saves money on energy and gets complete peace of mind on their HVAC. The utility delivers against their regulated goals. HomeServe gets both an install and a new policy, with financing arranged via a third party. And the earth gets significant carbon savings. We've been sharing this proposal with prospect utilities and all have been very interested. I hope that gives you a sense of the positive contribution HVAC is making to our progress in North America.

Tom Rusin: To conclude, I'll give you my perspective on where we are on our journey to Milestone 2.

We've delivered revenue growth in the period of 35%, to 354.2 million dollars, and adjusted operating profit growth of 11%, to 45.1 million dollars.

And remember that the comparable period last year benefitted from a reduction of $7m in our marketing spend, and other reductions in business-as-usual expenses like travel.

There's definitely still scope to keep improving our operating margin, through operating efficiency as well as economies of scale. We're continuing to expand our use of technology, which means that we can deploy our people to handle more challenging customer situations, and improve our customer service and our margin as our business grows. Our new Call Center Enterprise platform has launched, we have now routed almost 2 million calls through Google Dialogue Natural Language Processing, and our SalesForce product spine is live for all of Membership. We are on a journey to enable a fully digitized member experience.In North America, the flywheel is certainly turning, and we've got plenty of scope to accelerate further. Bringing all of this together, we expect to continue to deliver high teens growth in adjusted operating profit for the next few years, which means that we are doing better than our original plan to achieve our Milestone 2 operating profit target of $230m … which I think puts us ahead of some of your expectations, too. As I've said before, Milestone 2 is precisely that – a milestone – with plenty more growth beyond. With that, I'll hand you over to Ross to talk about our progress in EMEA.

Ross Clemmow: Thanks Tom. Let me start by summarising our strategy in EMEA. This is to grow broad-based businesses with three complementary capabilities – Membership; HVAC and now Home Emergency Assistance - which is working really well for us in Spain, so we're now building it out in the UK with the acquisition of CET, and also in France. We will also expand into near neighbour territories – for example France into Belgium and Spain into Portugal, as well as looking at other opportunities where a strong partnership exists – for example our joint venture with Mitsubishi Corporation in Japan. The right-hand side of the chart shows our flywheel which has similarities to North America, but in EMEA demonstrates how the combined capabilities of Membership, HVAC & Home Emergency Assistance will create broader businesses with distinct, but related routes to profitable growth. These capabilities are supported by an efficient, multi-skilled network of technicians capable of delivering our existing products with a high standard of service, as well as supporting new product development as customer needs evolve, particularly in sustainable energy & electric vehicle charging. I'll tell you a bit more about each of our EMEA businesses in turn, starting with the UK.

Ross Clemmow: HomeServe in the UK is a good business built on stable, long term Membership partnerships, mainly in the water vertical. The UK delivers excellent customer service, is well positioned in the market and is highly cash generative. Our plan is to build on this strong foundation to broaden the business, developing distinct but complementary capabilities in HVAC & Home Emergency Assistance, which will deliver new routes to profitable growth. In the first half, the business performed as we expected it to in May. From a customer perspective, the half has been characterised by higher claims frequencies as customers have used their homes more. Claims rates are still running above the levels we saw pre pandemic, which we know drives increased customer satisfaction, and which could over time drive an improvement in the retention rate. Overall, customer numbers are at 1.54m and are starting to show a reduction in the rate of decline. As you know, our UK business is underpinned by strong water partnerships, which are in great shape. We have renewed eight contracts with water utilities covering nearly 7 million households this calendar year, for an average contract length of five years. The other area I want to give you an update on is IT, where we have several projects under way to improve service and efficiency, notably in field service delivery. Specifically on the de-commissioning of the eServe CRM, this is progressing according to plan with all new customers now being enrolled on Ensura, and we are on track to have completed our customer migration to Ensura by the end of this financial year. I'm confident that we now have the right team in place in the UK to support the delivery of our IT transformation projects.So having given you a bit of a flavour for business as usual in the UK, let's take a look at our transformation initiatives in each of our three capabilities.

Ross Clemmow: In Membership, it will come as no surprise to you to hear that our relationships with Shell Energy and E.On haven't developed as fast as we originally hoped – given other calls on their time during the recent retail energy crisis. This said, the opportunity is now bigger than we originally expected, because Shell and E.On have already taken on around 800 thousand new households already as less well-funded competitors have gone out of business. These partnerships remain strong, and we have kept working with them to be ready to go live across all channels as the energy market settles down. We've also made good progress with several big water partners in digitising the customer experience. Nothing we're doing here is rocket science, but in digital, small changes make a big difference. For example, we've seen a significant uplift in conversion by directing traffic straight to our core product pages, which are now mobile optimised – rather than to a comparison page. Moving on to HVAC, following a broad range of operational improvements, our existing installations business will make a positive EBIT contribution for the full year. Our first acquired locally branded HVAC business in the UK is performing well. We made our second acquisition towards the end of the period and have a good pipeline of future targets. It's good to see the buy and build strategy, which is already contributing well in France, Spain and North America, now making progress in the UK. The last part of the strategy is Home Emergency Assistance, where we completed the acquisition of CET on 22 October. HomeServe already serves around 300k homes in this market through our relationship with Aviva, and we now have a leadership position. CET serves 3m policies through nearly 40 partners, and has some great digital technology – in a proprietary platform called SimpliFi. This gives us a good platform for future product development in home emergency assistance, and we may also be able to use the platform internationally. The CET team will report directly to John Kitzie as part of our UK business, and will focus initially on continuing their strong track record of double digit revenue and profit growth. Over time, there will be opportunities to share technology and service expertise. I hope that gives you a picture of the initiatives we have under way to return our UK business to sustainable profit growth. Regarding UK customer numbers: where this settles over the next 2-3 years depends on three things – retention; renewing and digitising our current water partner book; and new sources of customer growth, like the energy channel. We'll keep you updated on how each of these progresses, but our key focus is to drive all three routes to return to overall profit growth and as you can see from the slide, we expect our sources of profit to broaden considerably in the next three years. Moving on to France …

Ross Clemmow: The French business is continuing to see good top line growth, with revenue up 28% to €66.4m - driven by 6% growth in customer numbers to 1.2m and very strong retention, at 88%. We're seeing good progress with traditional partners – Veolia and Suez - but also with online aggregators Papernest and JeChange, and we're focused particularly on developing digital channels. Adjusted operating profit is down slightly, to €8.2m, due to increased investment in growth. France is making great progress in HVAC, with double digit organic revenue growth from the businesses that were with us all through the prior period, and good contributions from the 10 acquisitions made in FY21. For the full year, we expect over half of our HVAC installations to be in green energy sources – heat pumps and pellet stoves – which is an interesting reflection on how well advanced the green energy market is in France. France has made a small strategic investment in Repartim, which gives us an entry into Home Emergency Assistance. And we're pleased with the progress we're making in Belgium. Marketing is now under way with Eneco, and we've signed a second partner, online aggregator Callmepower. One of the things I like best about our French business is that they are very good at systems integrations. They have been running two successful Salesforce projects in the period – to streamline Membership CRM and add value to acquired HVAC companies. The secret of their success has been to adopt new systems rather than try to adapt them – and to have the right team structure and empowerment to deliver the projects successfully. So overall in France, good progress in Membership, HVAC and Home Emergency Assistance, steps forward in Belgium and some great learnings on systems which we can share across the Group. Turning to Spain …

Ross Clemmow: Here too, we're seeing good progress with all three of our core capabilities. Three quarters of our Spanish revenue already comes from outside Membership and adjusted operating profit more than doubled in the period, thanks to growth in HVAC maintenance policies and the post COVID recovery in our Home Emergency Assistance business, which includes working with some new partners.Our partnership pipeline in Spain is now much stronger, thanks to an innovative new proposition to provide partners with a full outsourced home assistance solution, covering product and programme planning, campaign execution, claims management and customer service. We have a test agreement in place with Portuguese retail energy supplier Aldro, and a good list of other prospects. We're pleased with our expansion into Portugal, and that business is expected to make a profitable contribution for the full year.

Ross Clemmow: Let me finish by sharing my perspective on HVAC. The development of our global HVAC strategy is part of my remit, and I think HVAC is a really exciting opportunity for HomeServe. It starts with a genuine, repeat customer need. Every home in the developed world should have its boiler or air-conditioning serviced once a year. And the market is changing. The green energy revolution is happening – in our current markets, there will be 4.5 million heat pump installations in the next 10 years. As Tom has already mentioned, as part of this change, there is a massive opportunity to introduce heat as a service – heating and cooling solutions in the form of a monthly subscription. As you know, we're implementing a buy and build strategy for HVAC in all of our established markets. We're following strict investment criteria, which you can read on the slide. And we have a clear view of how we can develop the businesses we buy – with the biggest opportunity being in operational optimisation, followed by Membership synergies and marketing benefits. As we've talked through each of our geographies, you'll have got a sense of the value we are already creating through HVAC - a high quality, complementary business line in an evolving market. As at the end of the last financial year, we had bought 46 businesses for a cost of around £145 million, and these delivered revenue of around £150m in FY21. Based upon achieving the returns we are targeting, we will grow a very valuable business which complements the rest of the Group, and is strongly positioned to make the green energy transition happen. And with that, I'll hand you over to Richard.

Richard Harpin: Thanks Ross. I share your enthusiasm for HVAC, which is really complementary to our Membership business. In Home Experts, it's great to have reached the milestone of our first reported adjusted operating profit. We are now more convinced than ever of the potential to create an online marketplace to match consumers and trades, that works better than word of mouth. Let's look at each of our Home Experts businesses in turn. eLocal in North America continues to deliver good revenue and profit growth. Our main learning from eLocal is their sophisticated pay for performance model, which is proving very successful with larger businesses. Over 50% of eLocal's revenue in the half came from national accounts, and these accounts grew 24% in the period. Our focus at eLocal is to continue to invest in the national accounts sales team, but also scale up with small and medium sized businesses to build our geographic coverage and improve monetisation. At Habitissimo, we've achieved much better focus in the business, which has resulted in a 27% reduction in operating losses. We're focused on the core markets of Spain, Portugal and Italy. In Spain, we've transitioned to Directory Extra and seen a sharp increase in our consumer net promoter score. We have started to sign key accounts, where we're looking to replicate the success we're seeing with larger businesses in eLocal. At Checkatrade, the big revenue increase came from three things. The removal of the discounts offered to trades at the start of COVID. The 4,000 extra trades we recruited in H2 last year. And the sale of more postcode areas, job categories and space in hard copy directories to existing trades, which together accounted for a third of the growth in average revenue per trade. The abundance of work out there with all trades booked up, meant that we did not increase the number of paying trades in the first half, although renewals of existing members are holding steady. And we have seen a pick up in trade recruitment as we entered the second half of the year.

Ricahrd Harpin: Our biggest achievement so far at Checkatrade is attracting consumers to the platform, which is essential to making it more valuable for trades. Prompted brand awareness of Checkatrade reached an all-time high of 84% in August, and Checkatrade's share of consumers who have used a tradesperson in the last 12 months continued to grow, to 20%. Our Julius Caesar TV advertising continues to perform well, with the latest instalment promoting a £1,000 free 12 month guarantee, which tested well in the West Midlands and has now been rolled out nationwide. The guarantee is conditional on consumers contacting trades via Checkatrade and leaving a review, so it builds consumer loyalty. Even before the ad began to air, we were seeing continued strong growth in contacts between consumers and trades, which grew 52% to 5.5 million in H1, generated from 18.2 million web visits, up 37%. Another way we are developing the consumer user experience is via the launch of a consumer portal to engage consumers more actively. Early tests of auto registration after users submit a review have proved, positive, and we're on track to register almost 60k users a month.

Richard Harpin: The part of building Checkatrade where we still have significant opportunity is in maximising the value we deliver to trades, to drive growth in the number of trades on Checkatrade, and average revenue per trade. Today I'll focus on three initiatives. First, national accounts. Drawing on our experience at eLocal, we're targeting larger regional and national businesses who are prepared to pay per job contact. As long as they pass our checking and vetting, we know that we can generate more contacts for these big accounts, from customers with much higher intent, than they can get via their own Google advertising. We've built our sales capability in this area and now have about 100 national accounts signed up, and there is scope to double this number. National accounts were only a small percentage of Checkatrade's revenue in the first half, but they will make a bigger contribution in the second half and will become a key revenue stream. Secondly, lite, standard and pro packages. These packages fit a range of needs, from trades who just want enough work to supplement their order books to those who are prepared to pay more for greater visibility on the platform. You can see the current distribution of revenue per trade on the chart. Over time, by targeting national accounts and the trades who want more work, we plan to move the distribution substantially to the right. Thirdly, postcode optimisation.We can now produce sophisticated analytics so that trades can see consumer activity in their local area, to help them make informed choices about which postcodes to access. This gives us a valuable opportunity to cross-sell more postcodes and – with a few clicks – deliver more value to trades. Initiatives like these give us a range of opportunities to grow the number of trades on Checkatrade, and average revenue per trade, and it's a mix of these two sources of growth which will get us to our Milestone 1 profit target of £45-90m. You'll remember from our Capital Markets Day in 2019 that even Tom admitted that the marketing payback we achieve at Checkatrade is the best in the Group - 9-18 months compared to 18-36 months for Membership. And with Checkatrade's marketing costs stable and success in growing average revenue per trade, the unit economics of the business remain compelling.

Richard Harpin: In conclusion, this has been a very good six months for HomeServe, financially and strategically. COVID has confirmed the resilience of our business models. The headwinds facing the global economy, the threat of inflation, labour shortages and supply chain disruption have also had negligible effect. We are moving forward on our three areas of strategic focus. Driving growth in North America, transforming and broadening our business in the UK, and developing a market-leading Home Experts platform – and we're seeing some really interesting innovation in our Continental European businesses. Back in May 2021, our guidance was that we expected to deliver an acceleration in performance this financial year – both strategically and financially. Our expectations for this year remain exactly the same as they were in May – with the only exception being a £1m adjusted PBT uplift in the UK thanks to the acquisition of CET. Looking further forward, we can see a clear path towards delivering our milestone targets in North America and Checkatrade – and we are particularly pleased that North America is doing better than our original plan, with further growth to come beyond Milestone 2. Thank you and with that, we are happy to take your questions. If you have joined the meeting remotely, please either register to ask a question over the audio line, or type your questions into the web browser and we'll do our best to answer them.

Joe Brent, Liberum: Three questions, if I may. Firstly, probably for Tom on the milestone two targets, you're clearly ahead of plan. Do you think the way you'll get there will be different from the way you originally intended?

Joe Brent, Liberum: And secondly, maybe for us on the HVAC business. You mentioned other types of boilers, like ground source heat pumps, and I think air source as well. Could you tell us how that mix change will evolve over time and what your involvement will be in those new technologies in boilers?

Speaker 1: And then thirdly, maybe for Richard. If we could ask about trade growth at Checkatrade. Clearly that seems to be de-emphasized a bit. Could you tell us on the ground what's happening and what has happened and what you expect to happen on trades?

Tom Rusin: Sure. To go to your first question, I think we'll pretty much get there in about the route and the way we showed you back in our capital markets day in 2019, which is a combination of continued growth in the membership policies, as well as the addition of HVAC profits to the $230m target. I don't think the makeup's going to be very different. I would say that we focus most on growing policies in the business, because policies are the proxy for revenue and profit growth. We might see maybe more policies along the way, but I think the makeup will be relatively the same.

Ross Clemmow: Sure. Just on HVAC. I think France is probably the best example of what we expect to happen in our markets. So in France in the market, around 30% of all new installations are what we call green energy systems. Either air-air, or air-ground heat source pumps. And in our HVAC businesses operating in France, we actually over-index that. So nearly half of our installations are in the new technologies.

Ross Clemmow: What's happened in France is a combination of customer demand and regulation that's driven that shift and we expect that to follow through in each of our markets. The opportunity for us is that those installations are higher ticket and lend themselves really well to this subscription type model that we described as heat as a service. And so, we see the opportunity to firstly, have the operating ability to capture those installs. And secondly, put a repeat revenue heat as a service proposition on top to help the consumer afford the switch.

Joe Brent, Liberum: Can I ask, on one those new technologies, is it more of a level playing field? I imagine on things like gas in the UK, Centrica is an established player. But in new technologies, presumably it's a bit more level playing field. Is that right?

Ross Clemmow: Yeah. I think, I think having the businesses with the right skills and the right reputation to manage the installation is the key. And our strategy is to buy local branded companies with a strong reputation and the right skills.

Richard Harpin: And then, on trade growth in Checkatrade, we didn't see any growth in paying trades in the first half. That was driven by the headwind of all trades out there being busy. The good news is that we are seeing availability of trades starting to come through post-COVID. We have signed 1,000 net extra trades in the last six weeks. So that bodes well, combined with seeing that we will get to the milestone target with a different mix, with a higher average revenue per trade and then lower number of paying trades required.

David Brockton, Numis: David Brockton from Numis. Just one question, actually. Just linked to the point you touched on the outlook statement about the fact that labor availability issues, challenges and cost inflation had had negligible impact on the business. It seems to have impacted some of your competitors more through the period. A lot of them have talked about the challenges that they have had. I just wonder if you could just touch on why you think that hasn't impacted your business.

And can you maybe just talk about the dynamic between pricing, policy pricing and how that's impacted and offset some of the cost inflation you saw?

Richard Harpin: Yeah, we have seen less of it, David. I think that if you look at work done in our membership businesses, for example, by contractors, which is significant proportion across the piece, then we've got contractors signed up to fixed rates. We're increasingly giving them more work. Haven't seen that exposure come through. Little bit of pressure in our own directly employed. But ultimately, if we did see that starting to hit the bottom line, then we do have that pricing power in membership to be able to pass on those inflationary pressures through our membership pricing.

Miriam McKay: Please, can we hand over to the operator now and take the calls that have come in on the conference call? Thank you, operator.

Operator: Thank you. Certainly. As a brief reminder, that is star one for your questions today. We take our first question from Will Kirkness of Jefferies. Please go ahead.

Will Kirkness, Jefferies: Yeah. Thanks much for taking my questions. I've got three, please. Firstly, on the Home Experts next steps, I'm just intrigued a bit about the comment that you're more convinced than ever here. I mean, so the prospects for growth look pretty challenged. And if you look at Habitissimo trades back 40%, and revenues flat, it feels like the strategy here is through price more than volume.

Will Kirkness, Jefferies: And second question around the US on the volume theme. Numbers around it, it's pretty hard to be exact, but if you look at gross additions, rather than net additions, gross additions were up 700,000-ish in the first half. But 850,000 in the first half last year and 900,000 in the first half last year. It looked like a lower version of this number. I wanted to check my maths.

Will Kirkness, Jefferies: And then finally on the UK, I could well have missed the strategy here previously, but I wasn't really aware there were three pillars. I always thought it was really was one and then the second one was HVAC. The third pillar appears to have come about with CEP. And just going back in time in 2004, you acquired a business in 2005, I think there was another just called Improve Line. But in 2009, you actually wrote-off some of these assets and sold them, this insurance servicing property repair system. So I just wondered if you could talk about how CET has different keys to the previous strategy. Thanks.

Richard Harpin: Yeah. On the first one of Home Experts, then we are happy with the way the business is progressing, so strongly in profit. With Habitissimo specifically, that business is in a transition period of putting in the directory extra model. We're not pushing it too hard until we've proved out the final element of the Checkatrade model. But we're happy that we're making the right progress.

Richard Harpin: Let me jump on and just answer the UK one, going back to 2003, 2004. And then let Tom handle the US one. Back then, we bought businesses that were doing repair jobs for home insurers on things like fire and flood restoration. CET is a very different business because it is focused on our core capability, which is home emergency assistance. We're very clear that having those two businesses together will give us scale economies. And great that in the UK, that we're now servicing nearly five million homes with home assistance cover.

Tom Rusin: And then gross additions in the half. So, gross additions in the half were obviously up over the half last year, because of the increased market spend in the first half. There's a little bit of timing with respect to gross additions. And I would also tell you that our Post Office is struggling a little bit to keep up with the volume in North America. But if I step back and just look at what I expect for the full year, I expect to deliver solid customer growth this full year.

Miriam McKay: Thanks operator. Can we take our next call from the conference call line, please?

Operator: Yes, certainly we move on to Andy Grobler from Credit Suisse. Please, please go ahead.

Andy Grobler: Hi, good morning everybody. Three from me as well, if I may. Firstly, just picking up on the previous question with CET. Richard, you talked about having five million or so consumers in the UK. Could you talk us through any cross-selling opportunities that really exist between your membership business and CET? Are they going to be revenue or other synergies that you can pursue? Secondly, again picking up on a previous question on wage inflation. You mentioned that contractors are on fixed rates and you hadn't seen notable pressure as yet. Do you think that that is likely to come next year with the amount of demand there are for trades out there? If you don't raise wages, aren't you going to see more of those staff begin to leave? And then, thirdly, just in North American business. The underlying margins in membership fell quite sharply from the first half of last fiscal year. Could you just talk us through why that's the case? Thank you very much.

Richard Harpin: Yeah. So, I will take the first two of those and then let David handle the third one of margins in membership. So CET - this is about getting increased capability and volumes in our core home emergency assistance. We don't have cross-sell rights to those customers, because they're not owned in the way that our 1.54 million utility customers are in the UK. So, the real synergies will come through cost efficiencies as we bring the businesses together. Wage inflation, I think we need to wait and see. So, I think some of that inflationary pressure may come off next year. If it doesn't, then we will have to pay a bit more to our contractors and to our own engineers. And we will take that into account in our policy pricing.

David Bower: And then in terms of the margin in the US last year. You may recall we paused marketing April, May, in the early parts of the pandemic. And we took out about

$7m of marketing spend in the first half last year. So, that made the first half slightly higher in terms of profits and profit margin. Obviously, this year we've put all the marketing back in. It's been a full normal period of marketing. So, the margins are much more normalized in this first half.

Miriam McKay: So, we've got quite a lot of questions coming in via the webcast. And there are a couple on here which continue on the CET theme. So these are from Ricardo Albasantos at Calibrium and he asks, "From customer perspective, what are the differences between a home-emergency insurance policy sold by an insurer and served by CET, and the membership product marketed by HomeServe? These seem to be competing products from a customer perspective."

Ross Clemmow: I'll take that one. Yeah, so I think the first thing to mention is that CET presents itself in terms of the add-on policies that are presented mainly digitally to customers who buy their home-insurance policy. So, we tend to be serving a younger customer. In terms of the policy itself, it's thinner cover than our core membership product, with a higher excess and lower claims frequencies. So, these policies tend to be bought by a younger, more digital customer that values the protection it gives, but is not the same customer as that would by a full membership product where we have a much higher and broader level of cover and a higher, therefore, protection for the home. So actually, we don't see a huge overlap between the customer groups. We see that CET gives us access to a large number of households that are buying this type of protection via a digital channel as part of their home insurance renewal. We see it as additive.

Miriam McKay: And then there's another one on CET. This is also from Ricardo. Which is, "What has been driving CET double-digit growth? And what has been the growth of the underlying market?"

Ross Clemmow: So I think this is a market that is grown steadily over the last few years as people have increasingly turned to digital channels to repurchase insurance. And therefore this has been presented by insurers as part of that journey. CET has grown its share consistently within that market. And I think that's down to two core reasons. One is, they've got a great reputation for delivering strong customer service to their clients and to their end customer. And they've done that successfully for a number of years. The second is, that the technology that they've developed allows them to deliver that great customer service, and allows them to integrate to their client systems, to present a really seamless journey for the customer. So I think those two things combined have enabled them to win against competitors, grow share and maintain that share over time. And we expect that there's plenty more share growth to go.

Miriam McKay: And then just one more from Ricardo, which is on the membership business in the UK, which is just asking for a reminder. "Why did the number of affinity partner households decrease by three million."

Ross Clemmow: Oh, because of Thames Water renewal. That was a little while ago now, prior to our last full-year results. But I think we talked about that at our full-year results.

Miriam McKay: I think you could just say a little bit more to remind us about Thames.

Ross Clemmow: Yeah. So Thames was a renewal where we did tender, in the same way we do for all tenders. When we looked at it in the round, the terms that were being requested made it not an attractive partnership for us and so we didn't renew it. But we have been very successful, since then, renewing our other core water partnerships. And I think we talked about that in the presentation.

Miriam McKay: Thank you. There's a series of questions from Anvesh Agrawal at Morgan Stanley. So, I'll ask these one at a time. First one's about the US. "We've got 86% increase in the US HVAC operating profit. And that would imply that core membership profits declined year on year. Can you let us know the reason for that, please?"

Tom Rusin: Yeah, it's actually the marketing that David talked about. If you put the, normalize the marketing expense on a half over half, then you would see growth in the membership business.

Miriam McKay: And then, "On the UK business, why is the UK income-per-customer declining?"

Ross Clemmow: So we talked about the claims frequencies in the UK, which have grown and sustained highs through the pandemic and since, although we are starting to see them come back down to more pre-pandemic levels now. Just as a reminder, in the UK we have pretty rich cover. And we have a risk sharing agreement with our underwriting partner, which allows us to achieve really strong commercial terms. And I think the net income-per-customer just reflects the increased claims frequency trend that we've seen through the pandemic. But that we're also seeing income through in great customer satisfaction and early signs of a better retention rate.

Miriam McKay: And then a couple which relate to Checkatrade. First of all, the guarantee. Who will pay for the Checkatrade £1,000 guarantee in case customers claim? Is it Homeserve or the trades? And also, therefore, do you need to do some provisioning for this?

Richard Harpin: Yeah. So the reason why we tested the guarantee was to find out what it was going to cost to make that 12-month £1,000 free guarantee offer, and found that the cost is negligible. Very few claims against it because generally offering very good service through our checked and vetted Checkatrade trades, so able to roll it out. The cost will be very, very small, and net, we get more consumer visits coming back to Checkatrade as a result of offering it, so it more than pays out. But it's Checkatrade covering the cost of it, not the trades. I do see it as an extra reason why trades would want to be on Checkatrade, so they can say they're not only approved, but now they are guaranteed.

David Bower: And then in response to the direct question, then yes, we will be. So even though it's a negligible expense and exposure, we will be providing for the expected claims that we would expect to see on an incurred but not reported basis, but we would have a provision against those claims.

Miriam McKay: Thank you. And then, Richard, with the UK remaining a skill-short to market, and therefore, tradesmen likely to be in demand, how should we think about the long-term trades target given this dynamic?

Richard Harpin: Yeah, I think as we talked earlier, we will get to our milestone one, through a different mix: increased revenue as we give more value to trades and a lower number of paying trades. Interestingly, I looked at who is our top-paying trade in our national accounts, and without telling you who it is, they're paying us £95,000 a year for being on the platform. So that's how we'll get there. In terms of the specific skills shortage, then, I do think this is a really attractive sector, so we will see people re-skilling from retail, coming out of the army. There are organizations out there in the UK that retrain people to NVQ Level 2 within 12 months, and we've started getting our field sales reps in Checkatrade into their training centres, because half of those people go on to become a self-employed plumber or heating engineer or carpenter. So I think that will be a key way that we address the skills shortage in the UK.

Callum Battersby,

Berenberg Morning, guys. Three questions, please. So firstly, you called out the impact of low marketing spend in the prior year comparative for the US. Presumably that's the case across the other markets, so can you say approximately what that impact is for the entire group? And then secondly, given the change in ownership of some of your competitors in the North American membership business, do you expect an increase in the level of competition for policy-book acquisitions and new partnership tenders? And then lastly, just wondering if you could give any more colour on the progress of rolling out some of those new products that you mentioned around things like EV charging points and energy efficiency. Is there any timeline or expectations of the revenues that you think those could generate over the next couple of years? Thank you.

Richard Harpin: Yeah. So I'll let David take the first one on marketing spend in other territories, and then Tom to talk about competition in the US and those new product launches.

David Bower: Yes. In terms of the other territories, it was negligible. The US probably, of our markets, is the one market that markets continuously every single month at a high volume. The rest of the countries, in terms of UK, France and Spain, we didn't have significant marketing scheduled at all in the April-May period. So there was nothing really of any significance.

Tom Rusin: And with respect to the change of ownership on AWR, we've always competed with them. They're probably our primary competitor in North America. We've always done very well competing against them. In particular, we tend to win around the quality of our products and the quality of our customer service and our marketing. So I expect them to continue to be a competitor in the marketplace, but look, we're both going after another 33 million customers, and it's a very big under penetrated market with lots to go after for both of us. So even if we do have a solid competitor, there's plenty of room for growth for both of us.

Tom Rusin: With respect to the progress on the new products, it's very early days with respect to marketing those products. So we just launched the EV charging product with a couple of utilities. We are about to launch heat as a service in New York with a very large utility there, and solar we're still prospecting with. But what I would say is the real power of those products is that they're opening doors to utilities that would have been more difficult to get in. We are having more prospect conversations with utilities as a result of bringing them products that enable their customers to be more energy efficient, that enable their customers to be more resilient, that enable their customers to be more efficient, be lower carbon-producers than ever before. And so the pipeline is really, really strong. So I suspect we'll launch with all those energy-efficiency / resiliency products, and then, like we do in most cases over time, expand our partnership to include all our products. So early days on the marketing, but it's been very powerful with respect to the pipeline.

Harry Gowers

JP Morgan: Hey, thanks. Good morning. It's Harry Gowers from JPMorgan. Just a quick one on North America, if I can. So what should we expect for partner households added in H2? Can we expect that to be similar to the 6 million added in H1 versus the last full year? Thank you very much.

Tom Rusin: Harry, I wish I could forecast that. We don't really forecast new households, because there's a very large sales team talking to lots and lots of utilities, but I think this will be a pretty solid year with respect to new partner household ads. That's really the best I can give you. The pipeline is stronger than ever before. There's more discussions I just talked about with EV and resiliency than ever before. It's always hard to predict when you're going to sign them, but really positive pipeline is the best I can give you.

Miriam McKay: So these are three questions from Andrew Nussey at Peel Hunt. So the first question. The water-partner renewals in the UK, could you confirm that the Ts and Cs are consistent with prior assumptions?

Richard Harpin: Ross?

Ross Clemmow: In terms of contract, yeah, we talked about the contract lengths are similar, so average of five years, and all of the commercial terms are attractive. Yeah.

Miriam McKay: So the second question, then: please could you expand on the operational cost savings in the UK? Are they one-off in nature or recurring?

Ross Clemmow: There are a number of strands to that. We talked about the systems-transformation work that we're doing in service delivery. That's one of the bigger drivers of operational efficiency, and there's no one silver bullet there. We expect that to be a continuously improving picture over time and a decent contributor towards the return to sustainable profit growth.

Miriam McKay: Okay. And then a Checkatrade question. Has Checkatrade marketing spend been consistent period on period? And your thoughts on how this is going to develop.

Richard Harpin: Yes, it has. Consistently spending, that's principally behind the TV advertising. Little bit of SEM spend and then spend against trade acquisition. We'd expect that that would go up a bit as revenue grows.

Miriam McKay: Thank you. We're now going to move on. We've got a series of cash flow questions from Tineke at Waverton Capital. Cash tax seemed high in H1. Can you please outline the main drivers for the gap between P&L and cash tax? That's the first one. And what might this look like for the next 18 months?

David Bower: Yeah, so cash tax is increasing. We're increasingly seeing more of our profits come from overseas. And in particular, in the first half, a lot of profit expectation coming from the North American market. It's really around the timing of payments on accounts. Through the year, we're expecting good, solid growth across our markets and therefore, more cash tax to be paid in our markets and which more which are overseas.

David Bower: In terms of overall, obviously the cash tax and P&L charge do broadly line up over time, particularly when you include the deferred tax. What we will see is an effect of tax rate slight increase over time as we see more and more of our profits coming from the overseas territories, all of which are higher tax rates than the UK.

Miriam McKay: Okay. The second question then is, what are the main drivers behind the typical working capital drawdown?

David Bower: It's principally around the membership business. When we sell a policy, we effectively book the majority of the income up front. That effectively creates a big receivable. And then when we collect the cash over the period of time, that unwinds that receivable.

David Bower: At the same time we set the receivable, we set up a comparable payable for the underwriting and the partner commissions. Obviously, there's a fixed margin in there, and that creates the working capital drawdown, which given the business is growing, particularly in North America, means we absorb each and every year the working capital.

Miriam McKay: Okay. And then, I'm going to try and combine two sets of questions, both of which around underwriting. These are from Dan Cowan at HSBC and Andy Brooke at RBC. The release mentions the impact of higher underwriting costs on revenue in the UK due to higher callout frequency. Is there any quantification of this effect?

Miriam McKay: You've also mentioned higher callouts in North America. Does that mean you're seeing higher underwriting costs in North America too? And if you are seeing an increase in underwriting costs, what price rises are you looking at putting through on average?

David Bower: Yeah. So in terms of the underwriting, as Ross referred to in the presentation, a single element of the net income per customer reduction in the UK is down to the increased frequencies, where we are seeing a higher cost to serve those policies. It's not quite as marked in the US. And that's because of the mix of policies where the US is more line policies versus the plumbing and drains and tax policies here in the UK.

David Bower: In terms of pricing, as a strategy, we would normally look to put forward inflationary price rises only. And that's a typical assumption across the board. Where we do see one-off step up in operating cost and service to cost to serve, then we will look at whether or not it's appropriate to put through a further price rise to take account of the fact that it is costing us more.

David Bower: As Ross also said though, we are seeing benefits to the business from slightly higher retention rates, and then delivering good service. So we look at it in the round and make sure that we're always delivering great value to the consumer. So it's not necessarily a straight pass through, if it's not necessary given the overall margin and performance of the business.

Miriam McKay: Can I just check if there are any more questions from anyone in the room? Okay. I've got one more then coming through on the webcast. Which is, this is about the longer term opportunity in North America. This is from Richard Leonard at Trium Capital. The longer term opportunity in North America and how it compares to what we see in the rest of the world. How are we measuring the longer term opportunity in North America and how does it compare with what we have seen elsewhere?

Tom Rusin: Well, I think like most things in North America, it's much bigger. Look, I think we have a very proven model. The team is really going from strength to strength with respect to partner signings. Response rates are up, we're adding new products, we're building a bigger pipeline. As we have said, many times around milestone two, it is just that, a milestone. The opportunity for profit growth in North America is very significant and will continue for a long time, decades. It's the best number I can give on that one.

Miriam McKay: And that concludes the questions I've got online, Richard. Back to you to conclude.

Richard Harpin: Great. Thanks for those questions. We had 29 questions I think in total. That was great. And thanks for everybody that's attended in person this morning. Great to see you all back face-to-face. But also a big thank you for everybody that joined online. Thank you.