THOMSON REUTERS

EDITED TRANSCRIPT

Q4 2019 Vivint Smart Home Inc Earnings Call

EVENT DATE/TIME: MARCH 05, 2020 / 10:00PM GMT

CORPORATE PARTICIPANTS

Dale R. Gerard *Vivint Smart Home, Inc. - CFO*
Nate Stubbs *Vivint Smart Home, Inc. - VP of IR*
Scott R. Hardy *Vivint Smart Home, Inc. - COO*
Todd R. Pedersen *Vivint Smart Home, Inc. - Co-Founder, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Amit Jawaharlaz Daryanani *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*
Edward Paul Mally *Imperial Capital, LLC, Research Division - MD & Head of Institutional Research*
Kunal Madhukar *Deutsche Bank AG, Research Division - Research Associate*
Paul Chung *JP Morgan Chase & Co, Research Division - VP & IT Hardware Analyst*
Todd Cranston Morgan *Jefferies LLC, Fixed Income Research - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Vivint Smart Home, Inc. Fourth Quarter 2019 Earnings Conference Call. (Operator Instructions) I would now like to hand the conference over to your speaker today, Nate Stubbs, Vice President, Investor Relations. Thank you. Please go ahead, sir.

Nate Stubbs ***Vivint Smart Home, Inc. - VP of IR***

Good afternoon, everyone. Thank you for joining us this afternoon to discuss the results of Vivint Smart Home and APX Group Holdings, for the 3-month period and fiscal year ended December 31, 2019. On today's call, we will be presenting the results for Vivint Smart Home. In the press release we issued today as well as the accompanying presentation, we provide tables with reconciliations for the results of APX Group Holdings. Joining me on the conference call this afternoon are: Todd Pedersen, Vivint Smart Home's Chief Executive Officer; Scott Hardy, Vivint Smart Home's Chief Operating Officer; and Dale Gerard, Vivint Smart Home's Chief Financial Officer.

I would like to begin by reminding everyone that the discussion today 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 and assumptions and are not guarantees of performance. You should not put undue reliance on these statements. You should understand that a number of important factors, including the items discussed in the risk factors in our proxy statement, consent solicitation statement and prospectus dated December 26, 2019, and filed with the Securities and Exchange Commission. As such, factors may be updated from time to time in our filings with the SEC, which are available in the Investor Relations section of our website, could cause actual results to differ materially from those expressed or implied in our forward-looking statements. 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 for historical periods to the most comparable measures calculated and presented in accordance with GAAP are available in the earnings release and accompanying presentation or on the financial information page of the Investor Relations portion of our website.

I will now turn the call over to Todd.

Todd R. Pedersen ***Vivint Smart Home, Inc. - Co-Founder, CEO & Director***

Thanks, Nate, and good afternoon to everyone joining the call. We're excited to be hosting our first earnings call as a publicly traded company listed on the New York Stock Exchange. We began this new chapter as a leading public smart home company after successfully completing our merger with Mosaic Acquisition Corp. on January 17. As part of the merger, we raised nearly $500 million in new capital to help delever the business and drive future growth. It's notable that Blackstone, who has been a key partner and investor since 2012, demonstrated its renewed confidence in the long-term vision of the company by investing an additional $100 million. We believe our successful merger with Mosaic is a major step forward in raising Vivint's profile in the marketplace as a leading smart home provider and in promoting an even stronger platform for future profitable growth.

Before turning to the results, I wanted to discuss with you the management changes we announced on Tuesday. I will also provide an overview of the business, highlighting some of our major accomplishments to date as well as our overall vision for the Smart Home and why we believe we are the clear leader in this emerging growth category.

First, Vivint Smart Home's President, Alex Dunn, has stepped down after 14 years at the company. Alex will remain as an adviser to Vivint through March 2021 to ensure a seamless transition. I'm grateful to Alex for helping Vivint become a leading smart home provider. We wish him continued success in his future endeavors.

Scott Hardy, Vivint's Chief Operating Officer, who is on the call today and has held various senior leadership roles at the company since 2013, will assume many of Alex's key responsibilities. Our Board of Directors and I have confidence in Scott's ability to handle this expanded scope.

Next, I'm pleased to announce the appointment of Dale Gerard as our Chief Financial Officer. We had confidence in Dale's ability to step in when we named him the interim CFO nearly 5 months ago. And as expected, he's done a great job leading the finance organization, while at the same time, representing Vivint in the investment community as we were on the road, educating the market about Vivint in advance of the merger. We've made 2 other important executive appointments. Todd Santiago has been named Chief Revenue Officer, overseeing all account acquisitions and marketing. Todd has been a senior sales leader at Vivint since 2012. JT Hwang has been named Chief Technology Officer, responsible for leading the company's product and platform development. JT has been with us for the past 12 years, previously serving as the company's Chief Engineering Officer and was the key architect of Vivint's cloud infrastructure. Our long-term focus on building a deep bench of leadership experience shows in all these executives. It's an exciting time to be in the smart home market, and we are confident that these talented leaders will continue to play strong roles in the ongoing success of our company.

Moving now to the key financial highlights of the business. We had a strong finish to 2019. Fourth quarter revenue grew by more than 11% to approximately $308 million. Adjusted EBITDA was approximately $125 million, up over 40% from the prior year and producing an adjusted EBITDA margin of over 40% in the quarter. For the full year, Vivint Smart Home grew total revenue by more than 10% to $1.2 billion and adjusted EBITDA grew over 51% for the year, topping $421 million. As of December 31, Vivint had more than 1.55 million total smart home subscribers, up 7.5% for the full year. Dale will provide more specifics on the financials during his remarks as well as share our outlook for 2020.

For the benefit of those who may be less familiar with the Vivint Smart Home story, I would like to provide additional background about us, our growth strategy and our overall vision for the smart home. Since I founded Vivint nearly 20 years ago, we have grown to become the premier smart home company in North America with the largest subscriber portfolio and the most dedicated employees. We are redefining the home experience by delivering intelligently designed cloud-enabled solutions directly to every home. Our proprietary cloud-based smart home operating system, along with our well-trained team of smart home professionals make it possible to create a completely customized smart home, from door locks, cameras, security monitoring, thermostats, lighting controls, smart speakers and many other connected devices. All of these innovative devices are designed to work together seamlessly in an elegant system that homeowners can control from their in home touch screen hub, through a single app on their phone or other devices or by simply using their voice.

Over a decade ago, we came up with a modern vision for Vivint when we recognized the first-mover opportunity and made it our mission to deliver a transformative smart home experience to every home. We've come a long way in accomplishing that mission in the 10 years since we installed our first smart home hub connected to a smart thermostat. Today, we have over 20 million connected devices on the Vivint Smart Home proprietary cloud-based platform, with new customers buying an average of 15 devices across the various smart home types that I mentioned earlier. We have industry-leading engagement on our smart home operating system with over 13 interactions a day on average. And over 1.4 billion daily events being processed on our platform. We believe the total addressable market for smart home presents a massive opportunity. And in the not-so-distant future, the vast majority of the 150 million homes in North America will be running on a comprehensive smart home operating system. Our focus on delivering this type of smart home experience has significantly broadened the potential customer base, and it is completely disrupting the traditional security and high-end home automation industries. From the very beginning of Vivint Smart Home, we have focused on building a subscription service that is comprehensive, easy to use and affordable for the mass market. Delivering a truly integrated smart home experience requires a unique proprietary technology, the expertise to customize and install that technology in a customer's home and importantly, the ability to support that customer over an entire life cycle. That's why our nationwide workforce of over 10,000 dedicated smart home employees is such a critical differentiator to the Vivint model.

There are 3 key drivers that guide our strategic decision making. First, deliver a transformational smart home experience to every customer. Second, drive consistent top line and subscriber growth. Third, improve margins and profitability to fund that growth in a cash-neutral way.

I'd like to now turn the call over to Scott Hardy, Chief Operating Officer of Vivint Smart Home, to drill down a bit further into our recent progress across our key initiatives.

Scott R. Hardy ***Vivint Smart Home, Inc. - COO***

Thanks, Todd, and good afternoon, everyone. Vivint has been able to drive significant improvements in both our customer experience and our overall profitability and cash flow, thanks to our relentless focus in 3 primary areas: first, transforming net service cost through our vertically integrated business model; second, bringing down net subscriber acquisition costs through Flex Pay; and third, scaling our overall G&A expenses.

Let me touch on each of these areas, starting with net service cost. In recent years, growing consumer demand for smart home devices, particularly in the highly sought after camera segment, has helped grow our average revenue per user. But the number and location of these devices, particularly those outside of the home also created additional complexity in ongoing support, driving our net service costs up. In the first quarter of 2018, our net service cost per subscriber peaked at $17.04. We believe our competitors in the smart home space all will face these same challenges. But we believe our unique ability to solve them is evidence of the power of our vertically integrated model. By controlling all parts of the smart home delivery model, we believe we're able to identify and understand the root cause for issues and then quickly make changes to the hardware, the firmware, the cloud platform, the installation processes and the diagnostic tools used in both self-healing and assisted support. In the fourth quarter, as a result of these changes, we achieved net service cost per subscriber of $13.51, a savings of $3.53 per subscriber month from just 21 months ago, improving upon our industry-leading operating margins.

Perhaps most importantly, these changes have significantly improved both the product reliability and service levels, which, in turn, has driven improvements in customer satisfaction metrics. We believe the advantages achieved through our vertically integrated model are very difficult for others to replicate. Second, we continue to drive down net acquisition cost per subscriber through the increased adoption of third-party consumer financing, which we call Vivint Flex Pay. Since we introduced Flex Pay in 2017, our net subscriber acquisition costs have dropped by 50% or over $1,000 per subscriber. Given our first-mover advantage in Flex Pay, we believe that we are well ahead of the competition in enabling consumers to easily finance a full smart home experience while also dramatically improving our unit economics. Third, we continue to scale our G&A expenses to drive improved profitability. In 2019, our G&A was 16.5% of revenue, down 350 basis points from 20% in 2018. We plan to continue to manage our costs prudently, restructuring as needed and allocate our investments in areas designed to drive positive ROI. For instance, we recently announced a number of cost reduction initiatives that are expected to meaningfully reduce G&A and overhead costs by streamlining operations, focusing engineering and innovation and driving better customer satisfaction. The company expects to complete the majority of these cost reductions by the end of the first quarter of 2020.

Finally, let me address customer attrition, which is an important part of our subscription model. Our attrition dynamics are driven by 2 primary factors. First, the rate of attrition for a customer cohort, changes as it progresses through different phases of the life cycle. We define these phases as in term, end-of-term and post initial term. Each phase carries with it a corresponding expected attrition rate, with attrition at its highest during end-of-term phase. As we shared in our last earnings call, the cohort attrition curves remains fairly steady.

The second factor that affects attrition is the percent of total customers in each stage of the life cycle. The percentage of customers in the end-of-term phase rose in 2019, and will stay elevated in 2020 before falling again in 2021.

In the fourth quarter, attrition was flat sequentially at 13.9%. This remains higher than our long-term trend for attrition but is in line with our expectations given the higher percentage of customers that are in that end-of-term phase.

I will now turn the call over to Dale to go through the specifics of our fourth quarter and full year results as well as to provide our initial outlook for fiscal 2020.

Dale R. Gerard ***Vivint Smart Home, Inc. - CFO***

Thanks, Scott. I'll walk through the financial slide portion of the presentation that we posted today in conjunction with our earnings release. On Slide 12, we highlight revenue for the fourth quarter and full year. Fourth quarter 2019 revenue grew by 11.3% to $307.8 million. The growth in revenue was attributable to a 7.5% increase in total subscribers as well as a 3.4% increase in the average monthly revenue per user. We saw favorable year-over-year trends in subscriber financing mix during the fourth quarter, highlighted by a 38% reduction in the number of subscribers financed through retail installment contracts, or RICs for short.

We continue to actively pivot the subscriber financing mix to a more favorable profile for the company. By shifting a greater proportion of our subscribers away from RICs and towards our third-party financing partners and pay in full, we're able to reduce our net subscriber acquisition cost per subscriber and improve our cash flow dynamics. As we look forward to the future, we will be focused on delivering a true smart home experience to millions of homes in a profitable and cash-neutral way.

Moving to Slide 13. Adjusted EBITDA has scaled nicely for both the fourth quarter and the full year. Once again, the primary drivers are lower net service cost per subscriber and continued scaling of our general and administrative expenses. For the year, we are proud to have scaled adjusted EBITDA margins by 1,000 basis points to 36.5% of revenue compared to 26.5% in 2018. Meanwhile, covenant adjusted EBITDA, which is the calculation used for our debt covenants, scaled by 440 basis points to 55.6% of revenue compared to 51.2% in 2018.

As you look on Slide 14, we highlight a few data points for the subscriber portfolio, which were strong across the board. Total subscribers at year-end grew from 1.44 million to 1.55 million or 7.5%. Average monthly revenue per user, or AMRU increased to $65.98, up 3.4% year-over-year. AMRU has been moving up nicely due to the recognition of deferred revenue and effective cross-selling of new products such as our new generation cameras.

On the next slide, 15, we highlight a few points on new subscribers. New subscriber originations were 45,861 for the fourth quarter and 316,403 for the year. During the first half of 2019, we improved the underwriting requirements of our business and implemented a second-look financing partner. While the net effect of these changes should produce a higher quality credit customer and reduce the number of new subscribers financed on Vivint's balance sheet, it caused a temporary decrease in sales productivity which we believe suppressed our total originations to an extent in 2019.

We saw a similar dynamic in 2017 when we implemented our primary financing partner, and it took a few months for our sales channels to adapt to the structural change in our sales process. On the right-hand of this slide, you can see the impact of our efforts to reduce the financing of new customers on Vivint's balance sheet, which are the RICs that I referenced earlier in my remarks. Our RIC mix in the U.S. was 10% in the fourth quarter, down from 16% in the fourth quarter a year ago. This has a significant beneficial impact on our cash flows and net subscriber acquisition cost per subscriber which can be seen on the next slide.

Moving to Slide 16. We will cover our net service cost per subscriber and net subscriber acquisition cost per new subscriber. The improvement in net service cost per subscriber has had a positive impact on our earnings in the quarter and the fiscal year periods for 2019. We've also continued our trend of year-over-year improvements in net service cost per subscriber moving from $16.27 in 2018, down to $13.73 this past year. As Scott discussed earlier, the solid improvement is due to the work Vivint's vertically integrated smart home platform, which encompasses the software, the hardware, the installation and ongoing customer support. As we continue to make improvements in all of these areas, we are seeing continued positive trends in both customer satisfaction and the cost of service. The result is that our net service margin continued its increasing trend, moving up from 69.2% in 2018 to 73.8% in 2019. We believe these efforts explain the improvements I've cited in adjusted EBITDA. On the right-hand side of Slide 16 is our average net subscriber cost to create a new subscriber in the last 12-month period. For 2019, net subscriber acquisition cost per subscriber decreased to $1,018. That's

14% lower year-over-year as we continue to drive down the number of new subscribers that are financed on a Vivint retail installment contract and shift to a higher mix of customers utilizing our financing partners or paying in full for the initial purchase of their smart home products.

Slide 17 covers the lifetime value of our customers and the benefits of a recurring revenue model. In the last 12 months, we've added approximately $1.75 billion of lifetime value. We continue to see nice backlog numbers, which, as a reminder, represent revenue adjusted for attrition that we expect to recognize over the lifetime of a customer. Backlog today is $5.81 billion, up about 13% compared to $5.16 billion a year ago.

Slide 18 depicts our typical subscriber walk that illustrates the change in total subscribers at year-end. As Scott mentioned, our attrition has trended higher than our historical averages, given the higher percentage of customers that are in their end of term life cycle phase.

Finally, moving to our financial outlook for the upcoming year on Slide 19. First, I'll share some of the fundamental characteristics of our financial model. Over 95% of our revenue is reoccurring, which provides long-term visibility and predictability to our business. Most of our new subscribers that finance their smart home systems choose to enter into a 5-year contract and remain on the platform for approximately 8 years, driving significant lifetime margin dollars. Our strong unit economics and scale has contributed to our ability to drive significant adjusted EBITDA improvement.

In terms of guidance, we expect to end 2020 with approximately 1.62 million to 1.66 million subscribers. Our estimate for 2020 revenue is $1.25 billion to $1.29 billion, and we're projecting 2020 adjusted EBITDA of between $525 million and $535 million.

Operator, please open the line for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Paul Coster with JPMorgan.

Paul Chung ***JP Morgan Chase & Co, Research Division - VP & IT Hardware Analyst***

It's Paul Chung on for Coster. But -- so could you kind of remind us of the seasonality of your sub adds? Where you typically expect the year to play out in terms of sub adds every quarter to kind of hit that 1.62 million, 1.66 million and then the kind of respective attrition rate. Does that attrition rate kind of peak in the second half, as I've heard you mention in the past? And then same question for your OpEx levels as we move through the year. And I have a follow-up.

Todd R. Pedersen ***Vivint Smart Home, Inc. - Co-Founder, CEO & Director***

Is that 1 question or 9? But no, I'm kidding. I'm going to start with the first question and thanks for that. We do have seasonality still to our -- to onboarding of our customer base. In our direct-to-home program, the majority of the sub adds happen in over about a 6-month period. Really starting in about a month, some of the teams kick off and start going to get full momentum, kind of, middle of May, and that continues through the end of August through to September. So that would be -- lead to the spike of accounts being added, customers being added. And one thing I'll note on that is what's important for our business, for those of you who have not been listening to the calls before is sales rep retention and productivity is incredibly important. We've had the best retention of our sales force leadership and salespeople year-over-year than we've ever had. So tremendous excitement around what the company is doing, our product offerings, the opportunity in the market. And so we've got some really good momentum in that segment of the business. Now we do create customers on a year-round basis through our national inside sales group, which is inbound.

It's got a little bit of outbound sales. And that's a very consistent business, and it's about 45% of our overall sub adds. So it's a nice, healthy mix, and we do have a few pilot programs to move on. So that, I think, that covered the first question. The second was attrition.

Scott R. Hardy ***Vivint Smart Home, Inc. - COO***

Attrition is not as seasonal. It's based really on when customers are coming out of cohort. And so we've got terms that have different lengths. We will see that our overall attrition peak in really the mid part of this coming year to the end of the year, and that's over a long period of time. That will be a multiyear peak before it comes back down. And then customers will come off their terms. So there's a little bit of seasonality that happens a month or 2 or 3 after they're put on because we have some seasonality in the summer. The attrition dynamics will peak in 2020 during that time.

Todd R. Pedersen ***Vivint Smart Home, Inc. - Co-Founder, CEO & Director***

Here is the great thing about attrition -- I'm just going to add to that. We knew the attrition numbers several years ago. These are contracted service contracts with our customers. And based on the volume, like Scott had mentioned, the contract length in term, this is an expected number for us and it's right in line with what we hoped for. So that's [a number that] will continue to improve.

Dale R. Gerard ***Vivint Smart Home, Inc. - CFO***

Yes. And then last thing on attrition, Paul. I think we've kind of said we think it's attritional spike somewhere in the 14.5% to 15%, and we still believe that's what we'll see here, sometime in the mid part of 2020.

Todd R. Pedersen ***Vivint Smart Home, Inc. - Co-Founder, CEO & Director***

And then the last part of the question...

Dale R. Gerard ***Vivint Smart Home, Inc. - CFO***

Yes, Paul, maybe you could repeat your -- the last part of your question, if you don't mind?

Paul Chung ***JP Morgan Chase & Co, Research Division - VP & IT Hardware Analyst***

Yes, just how the OpEx level kind of changed throughout the year? Or if it follows kind of like last year?

Dale R. Gerard ***Vivint Smart Home, Inc. - CFO***

Yes. I mean again, as Todd said, kind of the way our business works, you have the ramping process going on here really in the first quarter preparing for summer, which is a large percent of our accounts are put on really in the second and third quarter. And then you kind of have the NIS channels that really do most of the accounts in the first and fourth quarter. But in terms of OpEx, you'll see that same type of spend level. It's very seasonal in terms of how we ramp up our business, put on new accounts and servicing of those accounts that happen. As we've said earlier and other calls, there is a little bit of a -- it's usually a service cost spike as you come out of that summer period because those new customers that come on, that first 90 to 120 days, there's a little bit of extra service as we onboard those customers throughout the summer. But in terms of the way you should think about it, it should follow very similar trends to historical quarters.

Paul Chung ***JP Morgan Chase & Co, Research Division - VP & IT Hardware Analyst***

Okay. And then do you see any -- I have to ask, but do you see any possible impact from the corona? Maybe particularly on your ability to kind of get feet on the street, if there's any kind of restrictions on travel, et cetera.

Todd R. Pedersen ***Vivint Smart Home, Inc. - Co-Founder, CEO & Director***

Yes. So at this point, from a sales perspective, on the phone -- and part of it is not just on the phone, the closing of sales, but it is actually going into people's homes and physically installing the comprehensive systems that we're doing. We haven't had any impact at this point.

Going out into the summer time and actually doing the appointments and the consultative sales process that we have, we're in the middle of doing that right now and it's not impacting us. And what I would say is, we know what we know. If there's a much larger outbreak, something happens in a bigger way than what we're seeing currently, as every other business, something could happen, but we're seeing nothing from that standpoint at this point in time.

Dale R. Gerard ***Vivint Smart Home, Inc. - CFO***

And then Paul, I'd add to that, one of the guidance numbers we put out in terms of subs and revenue. And kind of, to Todd's point, we've taken the information we have today, and we've kind of factored that into the most recent guidance we put out around total portfolio of subscribers at the end of the year and kind of, the revenue.

But I think the other big point to drive home here is, we have $5.8 billion of backlog that we talked about earlier. And of the revenue for 2020, about 90% of that coming into the year is already kind of contractually booked. As Todd said, this is contractually -- most of these customers are 5-year contracts. So we know coming into January of 2020, that this is how much revenue, based upon our attrition curves that we historically have had and so forth, those types of assumptions, that 90% of that revenue for 2020 is booked.

Paul Chung ***JP Morgan Chase & Co, Research Division - VP & IT Hardware Analyst***

Got you. And then last question is, what's the earn out kind of impact on share count? How should we think about the dilutive impact from some of your stock awards? And what should we model for the year and next quarter?

Dale R. Gerard ***Vivint Smart Home, Inc. - CFO***

Thank you, Paul. In terms of earn out, there's 3 different earn out tranches. There was 12.5 million shares at a price of $12.50. And again, this is a VWAP over 20 out of 30 days. That first tranche was actually achieved on February 26, and so there's 2 at $15 and 1 at $17.50. I can't say whether or not those tranches will be met. But if they are, then you would have another -- each one of those tranches would be another 12.5 million shares that they would be distributed to the previous holders of Vivint Smart Home shares. And then we'll put out -- we filed -- once we file in our 10-K, then we'll have all the kind of fully diluted share count information on those here shortly.

Operator

Your next question comes from the line of Amit Daryanani with Evercore.

Amit Jawaharlaz Daryanani ***Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst***

And congrats on the first quarter as an IPO company. I guess maybe to start with, can you just touch on what are your expectations in terms of free cash flow generation in kind of the '20 -- of what the bond rate could look like in 2020 for you guys, from a free cash flow basis? And then related to that, when do you think you can get to a free-cash-flow-neutral position, either a revenue or a time line perspective?

Todd R. Pedersen ***Vivint Smart Home, Inc. - Co-Founder, CEO & Director***

So that's a great question. And something that we are hyper-focused on. As we were on our road show, we talked a lot about the fact that the company is incredibly focused on reducing, and I think you can see in our numbers, reducing our -- we've got our gross creation cost and the -- our net gross SAC and net SAC, which we've reduced net SAC down pretty substantially over the last couple of years.

I'm not going to tell you a number, but you -- people will be very pleasantly surprised by the changes that we're making. Some to financing structures to the net SAC, which is going to be the biggest impact to cash usage and then our -- getting our -- getting to our goal of cash flow neutrality or positive cash flow, even on a levered basis. Again, this is -- it's one of the top priorities of the company.

The other thing that, again, everyone has seen is that we've -- we just did a kind of a slight restructuring side of the business. We're just trying to rightsize overhead spend, budgets, projects, making sure that we are very judicious with the capital that's coming through this company. So what I would tell you is we had, on the road, told people, within about 2 years, we think we'll get to cash-flow-neutral, we're going to beat that for sure.

Amit Jawaharlaz Daryanani ***Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst***

Got it. That's fair. And I guess swift follow-up on this. To your point, like you've had a fairly impressive reduction on your net subscriber acquisition cost over the last couple of years. Can you maybe touch on how far can this number go, in terms of how much more -- what do you think an optimized number could look like? And how much more runway you have to bring it lower?

Todd R. Pedersen ***Vivint Smart Home, Inc. - Co-Founder, CEO & Director***

Well -- and again, I'm not going to tell you a number, we kind of know what it is internally. Based on what we're doing right now, it's going down and it's going to go down in a fairly meaningful way compared to how it's been in the past. And we'll just -- we're going to talk about this in the upcoming quarters.

But that net SAC number is very critical and important to us. And there's room. And we're getting those -- and again, this is through testing of pricing and packaging and financing structures. And we've already launched it. It's happening, we see it real time. And we've got very, very positive improvements on net SAC. Not trying to elude the question, but we're going to surprise the market for sure with the net SAC share nice and (inaudible).

Amit Jawaharlaz Daryanani ***Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst***

Fair enough. And I guess just finally for me. If I think about your calendar '20 guide, I think if I look at the math in terms of the EBITDA dollars incrementally and the revenue that's going to be in, incrementally, I think you're going to do north of 90% conversion margin of revenues to EBITDA. A, I guess you're -- just sanity check me, is that math accurate? And if so, maybe talk about what's enabling such a outsized EBITDA margin conversion in kind of the '20 for you guys?

Dale R. Gerard ***Vivint Smart Home, Inc. - CFO***

Yes. So I think a couple of things. Revenue is going up as we continue to add more customers, and we're adding more customers that are taking more hardware. So we're recognizing more kind of the hardware revenue over time. While at the same time, we're taking -- we're scaling our cost. I mean if you think about it, G&A, for example, as a percent of revenue went down 350 basis points from 2018 to 2019. As Todd said, we just recently took some actions that we think will continue. There's a downward trend here that we could continue that in 2020.

And then the other side of that is servicing costs. We continue to drive down servicing costs. I think over the last 21 months, when it peaked back in the first quarter of 2018, I believe we were in the $17.04 range coming in the $13.53 range roughly or $13.51. That's like almost $4 a month of servicing cost. And so if you think about that driving to the bottom line, that's $50 million, $60 million of additional margin that goes -- flows right to the bottom line.

Todd R. Pedersen ***Vivint Smart Home, Inc. - Co-Founder, CEO & Director***

Yes. So it's not really -- it's not really 90% EBITDA margin. It's all dollars who didn't bet more margin out of all dollars, like you said. But service cost reduction and that flows across all of the revenue and then scaling G&A or leveraging G&A and actually -- or actually, reducing -- you guys will see that's going to reduce G&A year-over-year on a real basis. I mean as a percentage of revenue going down and up in a nice way. So we're just getting operational leverage in the business, to tell you the truth. And on the service side, the important thing to note -- it's actually most important question to ask is, how are we doing that? And the reason that we're doing -- we're able to reduce the servicing costs is we own the entire technology stack. It is a proprietary operating system that we manage and operate, the firmware, the software, the product development, the installation processes. We control it. If we did not, and let's say, we rented our operating system from Alarm.com and product from Honeywell and other people, we could not accomplish this. So it's critically important, for those on the phone, to understand that Vivint owns our entire technology stack.

That doesn't mean that we won't partner with an Amazon or a Google for some of their hardware pieces, but we control the entire process. So this is a very large-scale concerted effort from all parts of our business to drive down servicing costs, through again, firmware upgrades, software upgrades, installation protocol, service deployment protocols, there's a whole myriad of things that we've done to focus on that.

And we're not done. We're constantly trying to make sure that that's happening. Because the truth of the matter is if our servicing cost is going down, the products are working better, it's more reliable, it's online more and it leads to customer satisfaction. So that's an action -- that's a core driver right there, great quality service. And we're solely positioned us to do that alone.

Operator

(Operator Instructions) Your next question comes from the line of Kunal Madhukar with Deutsche Bank.

Kunal Madhukar ***Deutsche Bank AG, Research Division - Research Associate***

A few, if I might, as well. One, with regard to the guide. And the guide is slightly lower than what you had initially talked about in November of 2019. Should I take it that the difference is basically just the potential impact of coronavirus as you kind of look at it?

The second would be, when you look at the tech stack and completely get that this -- you cannot accomplish the margin improvement and the user benefit or user satisfaction, that -- if you didn't own the tech stack. So how much is the cost of that tech stack? I mean I couldn't quite figure out exactly where the product development expenses were and how much the product development expenses were on a per-year basis. Let's start with that, that would be good.

Dale R. Gerard ***Vivint Smart Home, Inc. - CFO***

So I think if I understand your question on the first -- on the 2019 guidance in terms of where we came in. I think one, I'd say, on adjusted EBITDA, if we start there, for example, I think we guided $414 million, and we actually came in at $421.4 million, so it was above expectations there.

And then in revenue, we've kind of signaled in the third quarter, as we did third quarter back in November, that we had some revenue adjustments related to the treatment of the retail installment contracts, and that was about $9 million to $10 million in 2019.

One, that would flow through and kind of impact those projections that we had out there around 2019. And then you'd see a little bit of that flow into 2020 and then also, there's a little bit more out flows in the 2021. So that's kind of the impact there. In terms of '20, I think the other question was around the coronavirus. We did kind of take '20 -- that impact, again, as Todd said, taking what we know today and rolling all that together in terms of our sales force being able to go out and knock doors, our installers be able to go in people's homes, install our systems, we kind of took what we know, again, today, and put that into our guidance, and that's kind of why you see a little bit of a probably lower in terms of -- and that's just new total subscribers, not new subscribers, but total subscribers -- excuse me, on the portfolio and then also the revenue guidance that we put out there. And then I think the second question was around the cost of the platform and the technology stack, if that's -- is that correct?

Kunal Madhukar ***Deutsche Bank AG, Research Division - Research Associate***

Yes.

Scott R. Hardy ***Vivint Smart Home, Inc. - COO***

Yes, and regarding the cost of the technology stack. So you'll see in -- we don't disclose how much we spent specifically on product development within our G&A, but those costs are embedded in our overall G&A expenses, and they're important expenses for us. We're very focused. I think we produce as much as anybody per dollar spent in the industry. And so they're embedded there.

Dale R. Gerard ***Vivint Smart Home, Inc. - CFO***

And then the second piece of that was the operating cost of the platform that we have is included in our servicing cost.

Todd R. Pedersen ***Vivint Smart Home, Inc. - Co-Founder, CEO & Director***

Yes. And we don't break those out. But what I would say is, we're definitely improving through kind of the service cost margins and improvements. It's a massive, massive advantage to own and control the entire stack. Well, it's not just the technology stack, it's the operational expertise being able to consult -- do the consultative sell in home. And just as importantly, the actual installation process. We only control that with our own employees, trained by us, single system, single platform, then the ongoing service. It all kind of works in concert. It's all -- it's incredibly important.

Kunal Madhukar ***Deutsche Bank AG, Research Division - Research Associate***

Okay. Totally get that. And then as a follow-up, wanted to understand the whole Prime -- the Amazon Ring X announcement with regard to the home automation, home security where they said that something will be coming later this year through authorized dealers and what have you.

Have you seen any chatter in the industry with regard to what Amazon may be trying to do there? And what their strategy would be?

Todd R. Pedersen ***Vivint Smart Home, Inc. - Co-Founder, CEO & Director***

No. So here's what I would say. We've had a lot of people enter into the smart home space in different areas in different ways. Single-point solution companies, most of them are gone and out of business. Others that are DIY platforms, which are different than what we do. I mean this is a white glove professional, seamless kind of easy but in service for the consumer for a comprehensive smart home. Ring was purchased by Amazon. I think it's done a good job selling the single-point solution with the doorbell camera. It's great. They've got a good brand.

The launch into what we do actually entering people's homes and installing -- not -- this is what we do, not what anyone else does, 15 pieces of hardware in every single home on average. It's a lot of work. It's -- we've been doing this for 20 years. So I don't know what they're going to do, you always hear the chatter, and we always pay attention to it. We're not ignorant to watching what the competition is doing. But we also understand the complexity of what we do and the focus that it requires to deliver an excellent service to our consumer base.

So we'll kind of watch and see. But we're the leading smart home provider. We've got the most experience, the largest customer base in the Smart Home as a Service world. We feel very confident about what we're doing, where we're going, our path to our future. So we'll pay attention to it, but -- and actually, I haven't heard that much chatter.

And the last thing I would say is on a unit of one basis, and this is an interesting part of this business opportunity. You have to earn a customer one at a time. You don't just download an app and magically have a smart home. We don't lose to people on a face-to-face basis with a consumer. We're very, very good at what we do. We've got over 10,000 professionals working inside of our company that are hyper-focused on delivering the most comprehensive and best smart home experience that's out there. So we -- there is some competition out there, but we're very good at what we do.

Operator

Next question comes from the line of Ed Mally with Imperial Capital.

Edward Paul Mally ***Imperial Capital, LLC, Research Division - MD & Head of Institutional Research***

Just with respect to sourcing your hardware, what is your supply chain exposure to China, specifically? And have you seen any disruptions in sourcing hardware? And then second half of the question is, do you also have any alternative and contingency plans in place for sourcing hardware if there is a disruption?

Scott R. Hardy ***Vivint Smart Home, Inc. - COO***

Yes, this is Scott. We -- early on in the tariff discussions, we moved effectively all of our finished goods manufacturing out of China. And so we have very, very little finished goods that comes out of that country. And of course, like the rest of the consumer electronics industry, many of the subcomponents are made in China. But we -- as we plan for our summer ramp up, Todd talked about the seasonality of the business, we'll tend to build buffer of inventory going into that. So we're in relatively good shape as a lot of those components have been in inventory. We, of course, are watching it constantly. The only potential risk we may have is shipping costs to continue to expedite and get all of the goods here on time for our summer season, that's built into our forecast.

Edward Paul Mally ***Imperial Capital, LLC, Research Division - MD & Head of Institutional Research***

Okay. And beyond any issues of the trade war, have you seen any disruptions due to the coronavirus, specifically?

Scott R. Hardy ***Vivint Smart Home, Inc. - COO***

No, we've paid very close attention to what we're getting out of our suppliers. Everybody has been trying to see how quickly the manufacturers are coming back to work with velocity as it's coming out of the factories. And we've seen that stepping up over the last few weeks. And clearly, it's been a little slow because of the coronavirus as people have taken longer from the Chinese New Year to go back to work as they have figured out how to deal depending on the location within -- of the manufacturing facility, how to deal with the coronavirus. So we've seen a little bit of delay. That's what would potentially drive some of the additional costs in freight for us, but we are seeing supply come out.

Operator

Your next question comes from the line of Todd Morgan with Jefferies.

Todd Cranston Morgan ***Jefferies LLC, Fixed Income Research - Analyst***

Congratulations for being a public company. I was looking at Slide 24, which is the cash flow side. And was hoping to ask, if you could help me sort of bridge the Q4 2018, Q4 2019, cash flow numbers, operating cash flow and investing cash flow? It's roughly flat over that period. Your EBITDA was much higher, cash interest a little bit higher. The -- it looks -- I would presume that the SAC numbers were probably on a net basis lower, given the progress you've made on that front. Are there -- were there special additional costs or something that came in this fourth quarter based on the IPO and the merger? Or were there other items that would have caused that to be, again, roughly flat year-over-year despite the EBITDA growth?

Todd R. Pedersen ***Vivint Smart Home, Inc. - Co-Founder, CEO & Director***

I mean we did have some costs related to the -- some of the transactions going on in the fourth quarter. It's -- probably, Todd, if we could take this off-line, it's probably easier for me to go through the -- I don't have all the numbers in front of me in terms of the detail behind this slide.

Todd Cranston Morgan ***Jefferies LLC, Fixed Income Research - Analyst***

Sure. I was just wondering if there's like, for example, inventory build that you'd mentioned, try to make sure that you had components on hand if there were something like that going on. But that's right. I can certainly talk off-line.

Just secondly, quickly, you mentioned the cash flow goals in the next 2 years, trying to move towards that positive time line. Is there any different thinking about how you might go about financing any needs? I mean given what you've done in the past of simply kind of periodically tapping the debt markets. Is there any other thoughts different than that?

Todd R. Pedersen ***Vivint Smart Home, Inc. - Co-Founder, CEO & Director***

Although the -- what you're going to see is we are going to continue to utilize the consumer financing model we have, but in a much greater way. Changing kind of the mix on what we're putting on our books and what we finance through Citizens and a few of our partners. Really, just pushing for cash to the company sooner. And I’m maybe not going to talk about the percentages but it’s looking like the market is very positive.

And is there a potential for us to tap the markets again? Well, we are going to do some form of refinance this year of our '22s if markets hold strong, our '22 bonds. And again, the hope would be -- and again, this is our basis goal is we wouldn't have to get to better markets to refinance our debt -- new debt development business for the year. That's -- and I'm going to say this right now. So compared to previous years, and we've trended well and we continue to improve, it would be an audacious goal, and we're very focused on it. If it's not this year, it will be next year.

And so -- yes, I just want to say thanks to everyone for joining the call, a lot of you on the phone have been with us for years, maybe on the debt side, others have just followed the company. Those that are new to the company, thanks for coming in and paying attention today. We're excited to have you watch and see what we do in the years to come.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.