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APX Group Holdings, Inc. (0DRYSN-E)

Q3 2019 Earnings Call

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Todd Morgan
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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the APX Group Holdings, Inc. Q3 2019 Earnings Conference Call. At this time all, participants' lines are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] I will now like to hand the conference over to your speaker today, Dale Gerard. Thank you. Please go ahead, sir.

Dale R Gerard
Interim Chief Financial Officer, APX Group Holdings, Inc.

Good afternoon, everyone. Thank you for joining us this afternoon to discuss our results for the three-month period ended September 30, 2019. Joining me on the conference call this afternoon are Todd Pedersen, APX Group's Chief Executive Officer; and Alex Dunn, APX Group's President.

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 under the risk factors in our most recent annual report on Form 10-K/A or Form 10-Q for the first quarter ended March 31, 2019 and our Form 10-Q for the quarter ended September 30, 2019, which we exert to file with the SEC on or about the day of this call and such factors may be updated from time to time in our filings with the SEC, which are available on the Investor Relations section of our website could actually cause 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 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
Chief Executive Officer & Director, APX Group Holdings, Inc.

Thanks, Dale, and thanks, everyone, for joining the call. Clearly, the most significant development for the company happened on September 16 when Vivint Smart Home announced its $5.6 billion merger agreement with Mosaic Special Acquisition Corporation to begin our next chapter as what we believe will be the leading public smart home company. We are grateful that Blackstone Fortress and other existing investors continue to share our vision of the smart home. The new capital along with the recommitment of our original investors is a sign of their belief in the strength and future of our business. We believe this transaction, if completed, will further raise Vivint's profile in the marketplace and provide a strong platform for future growth. We anticipate that this transaction will close in the fourth quarter of 2019 or the first quarter of 2020.

I would also like to thank our former CFO, Mark Davies, who left the company at the end of October for six years with Vivint. He led a talented and committed accounting and finance team that will continue to execute on our key business priorities. We wish him the best in his next endeavor. Dale Gerard has assumed the CFO role in an interim capacity while we conduct a comprehensive search for a permanent CFO. Dale has my full trust and confidence as he steps into this new role. He has been executing our financial planning and investor engagement for the past nine years and there is no one better equipped to ensure a smooth transition. I would also note that our Chief Accounting Officer, Pat Kelleher, is another longtime Vivint veteran who for the past seven years has led the company's accounting and public filings since we became a quarterly reporter and filer in conjunction with issuing public debt.

Moving now to the financial highlights of our third quarter. Our performance was strong with total revenue up 6.8% to $290.8 million and the covenant adjusted EBITDA margin that we use for our debt covenants top 58% in the quarter, which was up 700 basis points from the prior-year period. Dale will provide more specifics on the financials during his remarks. But before that and because we may have a wider audience than usual tuned into this quarterly call, I knew it'd be beneficial to provide additional background about the company and discuss our growth strategy.

I founded Vivint nearly 20 years ago. At that time, my dad gave me the advice to focus on taking care of our customers and employees and everything else would take care of itself. I couldn't have imagined that almost 20 years later we'd be a leading smart home company with 1.56 million subscribers, more than 10,000 employees and over $1 billion in revenue. Along the way, we've had some great partners.

In 2012, Blackstone became a majority investor in the company because they shared our vision for the smart home and they provided support and resources for us to develop our world-class smart home platform. Our mission is to redefine the home experience through intelligently designed cloud-enabled solutions delivered to every home by people with care. Our proprietary cloud-based smart home operating system along with our premier smart home professionals make it possible to create a customized smart home with smart lights, locks, cameras, security, thermostats and a variety of other devices. And all of our products work together in an elegant system that homeowners can control from their in-home hub, a single app or using their voice.

I will finish by stating our five-pronged strategy for growth. First, it is to grow existing channels. Second is to develop new sales channels. Third is to upgrade and sell additional products and services to the existing customer base. Fourth is to expand product and service offerings. And finally, our fifth growth vector is to enter adjacent markets.

In addition, we continue to pivot the subscriber mix towards third-party financing and pay in full, which has a material impact on our overall financial profile, from profitability through cash flow generation. As we look to the future, we continue to be laser-focused on delivering a true smart home experience, not only through our growing set of subscribers, which stands at 1.56 million as of September 30, but also to millions of homes across North America.

I will now turn the call over to Alex to discuss our vision for smart home and why we believe we're the leader in smart home.

Alexander J. Dunn

President & Director, APX Group Holdings, Inc.

Thanks, Todd. Vivint stands for live intelligently and in 2010 we made it our mission to deliver a transformative smart home experience to every customer. We've come a long way in accomplishing that mission in the 10 years since we installed our first connected thermostat. Today, we have over 20 million devices on the platform with every new customer on average buying 14 devices, including multiple indoor, outdoor and doorbell cameras, door locks, thermostats, garage door openers, lighting and smart speakers among the many other products and services offered on the platform. We have industry-leading engagement on our smart home operating system with over seven customer interactions a day on average and over 1.5 billion daily events being processed in our cloud.

Smart home is a big opportunity and we believe at some point a vast majority of homes in America will be running on a smart home operating system. Our focus on smart home has significantly broadened the potential customer base compared to monitoring-centric solutions as evidenced by the fact that approximately 80% of our new customers do not have an existing monitoring service and are signing up because of our comprehensive smart home offering. Many companies have entered the smart home space with a single DIY device and an economic model based on mostly hardware margins. Many of these companies have failed and the ones that haven't seemed to be transitioning their models into a more comprehensive solution with Do-It-For-Me options and an economic model that has subscription revenue as the main economic driver.

From the beginning, we have focused on building a subscription service that's easy, affordable and comprehensive. To deliver Smart-Home-as-a-Service requires more than just technology, but the ability to customize and install that technology into a customer's home and then support them throughout the customer lifecycle. That's why our nationwide workforce of over 10,000 smart home professionals is such a critical difference in making Vivint service easy and affordable for the customer.

There are a few key drivers that guide our strategic and day-to-day decision making. First is to deliver a transformational smart home experience to every customer. Second is to drive consistent growth in a cash-efficient manner. And third is to maximize margins and profitability.

I will turn the call over to Dale to go through the specifics of our third quarter and year-to-date results.

Dale R Gerard

Interim Chief Financial Officer, APX Group Holdings, Inc.

Thanks, Alex. I'll walk through the financial slide portion of the presentation that we posted today in conjunction with our earnings release. On slide 6, we highlight revenue and covenant adjusted EBITDA. For the third quarter 2019, we grew revenue by 6.8% to $290.8 million. The growth in revenue is attributable to an 8% increase in total subscribers as well as a 2% increase in our average revenue per user per month.

I would note that we had an accounting adjustment in the period totaling $9 million that impacted our quarterly and year-to-date growth rate. The adjustment primarily related to a change in estimates tied to our retail installment contracts booked for the 2017 and 2018 cohorts. When we started booking RICs in 2017, we didn't have any history on how retail installment contracts perform compared to our legacy subscriber portfolio. At that time, we used our historical curves along with market risk-adjusted interest rates to determine an associated discount with these accounts. Now, with two years of performance history, we have updated the attrition curves and associated market risk-adjusted interest rates to reflect the expected performance of the RICs. This is done on operational change, but rather a change in accounting estimate related to the RICs. Excluding this adjustment, revenue growth would have been closer to 10% for the third quarter and 11% for the year-to-date period.

Covenant adjusted EBITDA, which, to be clear, is the calculation used for our debt covenants, we see that both for the third quarter and for the nine months today, covenant adjusted EBITDA has scaled quite nicely. The primary drivers are lower net servicing cost per subscriber as well as continuous scaling of our general and administrative expenses. For the nine months to date period, we are proud to have scaled covenant adjusted EBITDA by 470 basis points to 55.9% of revenue compared to 51.2% in the year-ago period, reflecting solid performance on the productivity of the business.

Our free cash flow in the third quarter was essentially neutral. We expect to see cash usage during the fourth quarter with larger items such as scheduled interest payments and direct-to-home sales commissions being paid during the quarter. Overall, we continue to strike a balance between generating cash flow and using that cash flow to reinvest in the growth of the business.

If you look on slide 7, we highlight a few data points for the subscriber portfolio, which were strong across the board. Total subscribers grew from $1.45 million to 1.56 million or 7.6% year-over-year. Average monthly revenue per user also increased to $64.50. That's up more than 2% year-over-year. And it's been moving up nicely both due to recognition of deferred hardware revenue and effective cross-selling of new products like Vivint Car Guard and next-generation cameras.

On the next slide, slide number 8, we highlight a few points on our new subscribers. New subscriber originations were 111,425 for the third quarter and 270,542 for the nine months. That's a quarterly increase of 6.9% in the year-over-year adds. 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, has led to lower sales productivity which we believe suppressed our total volume to an extent. We saw a similar dynamic in 2017 when we implemented our primary financing partner as it took a few months for our sales channels to adapt. This quarter, we saw our sales productivity and new subscriber originations start to return to normal levels.

On the right-hand side of this page, you can see the impact of our efforts to deemphasize the financing of new customers on Vivint's balance sheet, which we call retail installment contracts or RICs in the form of another meaningful drop in our RIC percentage year-over-year. Our RIC mix in the US was 9% in the third quarter, down from 16% in the third quarter a year ago. This has a significant impact on net subscriber acquisition costs, which can be seen on slide 9.

Moving then to slide 9, we recover our net service and cost per subscriber and net subscriber acquisition cost per new subscriber. Net service costs per subscriber have had a continually positive impact for us both on the [ph] unit of one (00:13:02) economics and our earnings in the quarter and year-to-date periods. We've continued our trend of year-over-year improvements in net servicing cost per subscriber moving from $16.38 in the third quarter of 2018 down to $14.43 this past quarter. To give some seasonal perspective on the business, we typically see servicing cost trend up in the third and fourth quarters as a large percentage of new customers in a given year are onboarded in the second and third quarter time period. And those new customers place a higher burden on our customer service operations in the first 90 to 120 days after installation.

As for the solid year-over-year improvement, it's due to the work of Vivint's vertically integrated platform, which encompasses the software, the hardware, the installation and the ongoing subscription-based service. And with the new software releases that occurred last fall, we're seeing continued improvement in both customer service and customer satisfaction. The result is that our net service margin went from 68.7% in the third quarter of 2018 to 72.4% in the third quarter of 2019. This flows directly to covenant adjusted EBITDA and we're really pleased with the results. We expect net service margins to remain stable in the low 70% range as we continue to offer an exceptional customer experience.

On the right hand of slide number 9 is our net acquisition cost to create a new subscriber in the last 12-month period. For the last 12-month period ended September 30, 2019, we have seen net subscriber acquisition cost per subscriber decrease to $1,033. That's $275 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 higher mix of customers utilizing our financing partners or pay in full for the purchase of their hardware at the time of installation.

On slide 10, we talk a bit about the lifetime value of our customers and the function of a recurring revenue model and how we think about the lifetime value that we put on in the current period. In the last 12 months, we've added about $1.74 billion of lifetime value. We introduced this metric in the first quarter of 2019, which is the total service revenue for new subscribers originated in the period defined as total contracted service revenue multiplied by the average customer life plus the total product revenue. We continue to see nice backlog numbers, which, as a reminder, represent revenue adjusted for attrition that we expect to recognize through the life of a customer. Backlog today is $5.9 billion, up 13% compared to $5.2 billion one year ago.

Now, I would turn the call back to Alex to discuss our subscriber attrition.

Alexander J. Dunn
President & Director, APX Group Holdings, Inc.

Before I discuss attrition for the last 12-month period, I want to provide some color on how our attrition works. Attrition is an indicator of the underlying unit economics and average life of our customers. As you can see on slide 11, there are three main phases of attrition: in-term, end of term and post-initial term. This attrition curve is what produces the eight-year average life of our customers, which means that within each static pool of accounts, attrition can vary without changing the underlying unit economics or average life of a customer depending on the phase of attrition for the pool. For example, if you just had one cohort of accounts that began their service 60 months ago, the current attrition on that cohort would be in the end of term phase with annualized attrition between 28 and 35%.

But that would not change the average life or profitability of that cohort or, put another way, average annual attrition of 7% to 9% during the initial term is as on plan as 28% to 35% attrition is during the end of term period. Portfolio attrition is driven by the cohort attrition curve and how many subscribers as a percentage of total subscribers are in the various phases of the curve. Because there is a large spike in annual attrition during the end of term phase, if you have a lot of customers as a percentage of your base in end of term, then your portfolio attrition will mathematically be higher than if you had a lower percentage of subscribers in end of term.

Importantly, this higher attrition does not denote a change in the underlying economics of the cohort. As you can see on the bottom left of the slide for the first quarter of 2018, the percentage of portfolio subscribers in end of term was 8% and LTM annualized attrition was 10.7%. In the third quarter of 2019, our percentage of portfolio subscribers in end of term jumped to 19.4% and our LTM annualized attrition rose to 13.9%. But this didn't change the underlying expected profitability of our subscriber portfolio. This dynamic will continue through 2020 as we anticipate our annualized attrition to peak in the mid- to- high 14% range next year and then start to decrease going into 2021. That completes our prepared remarks.

Operator, please open the line for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And your first question comes from the line of Jeff Kessler with Imperial Capital.

Jeffrey Ted Kessler
Analyst, Imperial Capital LLC
Q

Thank you. Looking at your – the growth of your revenue, I'm kind of taken by the fact that over the last several, I would say over the last year, you've slowed that second derivative and that's helped your EBITDA quite a bit and I'm wondering at what point do you – does the improvements in cost to create allow you to put your foot on the gas pedal again even though you're growing? The growth – if the growth is obviously – was clearly at 10% if you want to compare apples to apples from the last quarter, that's still down from like 11% sequentially in the quarter before. So, if you get what I'm getting at is that at some point in time, your growth is going to be – if you keep your growth at the same rate and your cost to create is coming down the way it's been coming, you're going to be able to put your foot back on the accelerator and continue to generate higher EBITDA even with higher growth.

Alexander J. Dunn
President & Director, APX Group Holdings, Inc.
A

Yeah, that's a good question, Jeff, and I think it really touches on the fact that there's a few key metrics that we have to essentially juggle between in terms of growth. Cash obviously is very important. Reducing our SAC has been a big focus of the business and really the more we've continued to reduce SAC, our net subscriber acquisition cost, and as we do that we're able to actually increase or create more accounts with the same amount of cash that the business is generating. And so I think, certainly, the trend is – the first half of this year, we were essentially flat. In third quarter, we are accelerating and I think you will see a continued acceleration of growth through this quarter into next year.

Jeffrey Ted Kessler
Analyst, Imperial Capital LLC
Q

Okay. Second question is about the user experience. I noticed that you're up from about – from it used to be 8 or 9 or 10 and then it was 11. Last quarter was 13. Now, it's about – you're averaging about 14 new apps per new sub. I'm wondering if you could just go into – at what point do you think someone who is in DIY or DIY – the top end of DIY was monitoring, how many apps are they able to handle compared to this 14 that you've seen to arrive at? At what point does the value proposition kind of kick in for you guys in terms of being able to offer a total smart home as opposed to something that is where the monitoring charges would be less?

Alexander J. Dunn
President & Director, APX Group Holdings, Inc.

A

Yeah. So, I mean, I think when we think about smart home, 14 devices kind of in the home provides, I think, what we would consider a really good kind of starting level for the smart home experience. The great thing is these add – as consumers add both hardware and services to their home, the experience we think increases, gets better. There is more interaction with the system and then you can actually offer an experience to the consumer that you can only offer with 14 or 15 or 20 devices, which is impossible to offer with one or two or three. And so, we think that we're focused kind of on where we think actually a majority of the market is, which is customers who want a smart home experience which requires a broad coverage in the home all done through a single app and then have it done for them. So, that's really the sweet spot of our offering.

Jeffrey Ted Kessler
Analyst, Imperial Capital LLC

Q

Okay. One quick final question and that is you mentioned you have a second financing source. Could you just go into that a little bit more and discuss with regard to discuss – discussing what levels of customer in terms of credit rating or in terms of how much you – how much you're going to – how much business you want to do with the second financing source and any differences that you're having – you're going to be dealing with them versus Citizens?

Alexander J. Dunn
President & Director, APX Group Holdings, Inc.

A

Yeah. So, I think, first, our average FICO of our customer base is between 710 and 720 and that's remained fairly consistent. We have Citizens, which is our primary financing – third-party financing partner. Now, with Fortiva, I think what we would anticipate is they're going to finance a lot of the RICs and that's why you're seeing the RIC percentage coming down, which is going to allow us to use less cash and reduce our net subscriber acquisition costs, which are all really positive trends. I'm not sure at this point we think that it broadens – at least the second look provider would broaden the pool of customers that we can underwrite mainly because the average FICO score we've had for a very long time essentially the bottom is 600 and that is still the case.

Jeffrey Ted Kessler
Analyst, Imperial Capital LLC

Q

All right, great. Hey, thank you very much. I appreciate it.

Alexander J. Dunn
President & Director, APX Group Holdings, Inc.

A

Thanks, Jeff.

Operator: Your next question comes from the line of Marlane Pereiro with Bank of America.

Marlane Pereiro
Analyst, Bank of America Merrill Lynch

Q

Hi. Thank you for taking my question. I just had a quick one. On Mosaic, there was a public S-4 that was posted and there were some language around the confirmation of the merger and it seemed like the language actually it looked like would make it easier for the transaction to get done. So, I was wondering if you could provide any color around that and just talk about that.

Alexander J. Dunn
President & Director, APX Group Holdings, Inc.

A

Yeah. So, the language in the S-4 from our perspective was, first, it was just clarifying. So, it actually hadn't changed from the language that was originally posted when we did the deal. I think there was some – we had heard some confusion around that language and so the language we posted was actually clarifying it didn't actually change. And as described in the S-4, we may waive the redemption condition under the merger agreement. However, we're focused on investor outreach process and preparation for being a public company and we'll make a determination on how to handle opposing conditions under the merger agreement if necessary.

Marlane Pereiro
Analyst, Bank of America Merrill Lynch

Q

Got it. So, any announcement or any change to that including potential proceeds would be announced before the merger close?

Alexander J. Dunn
President & Director, APX Group Holdings, Inc.

A

Yes.

Marlane Pereiro
Analyst, Bank of America Merrill Lynch

Q

Okay, great. Thank you.

Operator: Your next question comes from the line of Greggory Price with Barclays.

Greggory Price
Analyst, Barclays Capital, Inc.

Q

Hi, guys. Thanks for taking the question. Just want to touch quickly on subscriber acquisition cost and kind of the change in net debt quarter-to-quarter. It looks like liquidity will not change pretty much and net debt was [indiscernible] (00:26:27). Kind of want to confirm that there is no any external capital that came in and essentially that you guys were cash flow neutral for the period.

Dale R Gerard
Interim Chief Financial Officer, APX Group Holdings, Inc.

A

Yeah. We were essentially cash flow neutral. We didn't have in the quarter the contribution of about $4.7 million related to retention bonuses that we have announced and we have described previously in our Qs and Ks, but otherwise we're pretty much cash flow neutral for the quarter.

Greggory Price
Analyst, Barclays Capital, Inc.

Q

Thank you. And then, secondly, just touching on attrition, appreciate the guidance for where you think you're going to trend to next year. Curious, it seems like that that might have increased a bit from I think what we were expecting earlier in 2019. Just want to clarify if I'm remembering that correctly and kind of recapture rates in terms of those customers who are leaving. Kind of what's your success there and any trends that you see going forward?

Alexander J. Dunn
President & Director, APX Group Holdings, Inc.

A

Yeah. So, first, I think what we're seeing in terms of kind of that static pool curve are fairly consistent with what they've been for a very long time and so, again, we're not seeing a real change in kind of the underlying economics or the average life of a customer. Flex Pay has introduced interesting dynamics. We actually paid in full. The way that program works is if you buy your hardware, then attrition is – or not attrition, but the agreement is month to month and actually we're seeing still – we've only been in it three years, so we're not totally sure, but we're seeing that even on those customers that are month to month because they're investing in the hardware upfront, the average life is expected to be eight years on them. It's just at much different curve, meaning an eight-year average life, a straight line attrition over that is about 12% attrition and so that's kind of what we're seeing there. And so when you kind of put all of that together, the – again, average life is not really changing for a customer. The curves are changing a little bit for the paid in full, but average life is staying roughly the same and so that would really be the reason why we're projecting kind of what we're projecting in terms of going up and then coming back down.

Greggory Price
Analyst, Barclays Capital, Inc.

Q

Got it. Thank you.

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

Todd Morgan
Analyst, Jefferies LLC

Q

Thanks, and thanks for the questions. Maybe just a touch on churn really quickly. If we were thinking about the cohort and the attrition curve that you laid out there and we're just simply to lay multiple cohorts on top of each other, some of which are then I guess intersecting in that in the current period when churn is a little bit higher on an average basis, is there really any difference in the cohort churn expectations versus what you're seeing for each of those individual groups? It just happens to be the confluence of several different cohorts coming at the same time. Is there any – so the actual number is an average is higher, but that's really all it is?

Dale R Gerard
Interim Chief Financial Officer, APX Group Holdings, Inc.

A

That's exactly right. That's what we were I think trying to identify with the call today or call out.

Todd Morgan
Analyst, Jefferies LLC

Q

Great. Okay.

Dale R Gerard
Interim Chief Financial Officer, APX Group Holdings, Inc.

A

Yeah.

Todd Morgan
Analyst, Jefferies LLC
Q

Sure. And then, I guess – I think you've mentioned earlier in the script about revising some of the accounting estimates for the Flex Pay program as you gain more experience with that. Is there any way to kind of generalize about how those estimates have been revised more favorable sort of performance than what you had originally assumed or different than that?

Dale R Gerard
Interim Chief Financial Officer, APX Group Holdings, Inc.
A

Yeah. The performance is probably in terms of how we were thinking about it early on, the little bit about the RICs. So, as most of those RICs will be probably on the lower side of the credit profile and so we are using historical curves of the mix across all credit profile because we weren't exactly sure how those RICs would perform as we put those on. And so, now, we've actually reflected the updated curves to be more in line with the actual FICO that we're seeing with the credit quality of those customers. So, system updating of the curves to be more reflective of the type of customer that's coming on board.

Alexander J. Dunn
President & Director, APX Group Holdings, Inc.
A

And I would point out that we have as a company we're focused on really getting RICs down to functionally zero percent. There might be some, but we have a real focus on essentially eliminating the customers that were financing their hardware purchase as evidenced by the fact that we are at 9% this quarter.

Todd Morgan
Analyst, Jefferies LLC
Q

Okay. And then just lastly, I think you've talked in the past or now that you're certainly you're getting to have a fairly large subscriber base, the number of customers that are effectively going to be operating after their original contract term is probably a growing percentage of the total pool. And I think you've called out the opportunities to try and sort of upgrade their equipment and reassign them to a new contract. Is there anything you can talk about how that's rolling out or – and sort of the opportunity, how big that opportunity really is?

Todd R. Pedersen
Chief Executive Officer & Director, APX Group Holdings, Inc.
A

Yes. So, this is Todd speaking. We're actually super excited about the possibilities, not just possibilities, but what's actually happening in the company. We're on track to upgrade about 40,000 of our subscribers that you've talked about that are coming to the end of term of their initial contract. We're going back to them with a Citizens financing, selling them hardware. And anyone that knows, this is at a 50% margin. They're re-signing a five-year agreement, which is [indiscernible] (00:32:21) company and to the customer, they're getting new panel, new hardware, new cameras, new everything. And their bill is about the same price, same amount per month. So, it's actually been kind of both. The first year, we've been able to implement something like that, but it's been incredibly well received by the customers. When we see that, obviously the potential is we'd like to upgrade all of our customers. We think over time and that some will happen sooner than others as we come out with new versions of the panel or hub, new cameras, interior and exterior, and other hardware pieces. The customers are going to be attracted to buying those and re-signing with the company for a longer period of time. So, we're very happy about it.

Todd Morgan
Analyst, Jefferies LLC

Q

Right. But is that a dramatically lower SAC cost or is it simply just a great way to get a known customer to stay with you?

Todd R. Pedersen
Chief Executive Officer & Director, APX Group Holdings, Inc.

A

Well, we actually have a positive LTV on those customers. I don't think we're announcing what that number is, but the day we re-sign those. So, it's a cash positive is the company the day they get them upgraded.

Todd Morgan
Analyst, Jefferies LLC

Q

Great. All right. Thank you then.

Operator: Your final question comes from the line of Jeff Kessler with Imperial Capital.

Jeffrey Ted Kessler
Analyst, Imperial Capital LLC

Q

Thank you. And I really actually just wanted to follow up on that a little bit. You have an eight-year life on your customer that there are companies that have longer lives out there, but they do it – they just do business a different way and they also don't have – they don't have the same annual financing – same annual, but let's just say, the monthly cost – monthly charge, these are generally smaller companies that have this out there. But you have an opportunity now at eight years to take it up to whatever would get you that – the incremental margin on getting it to 10 or 11 years is actually quite large. And if you could just – at the risk of repeating yourself from the last question beyond resigning them on the five-year agreement – to a new five-year agreement getting new cameras and financing, whatever it's in there, what can you do to get the customer to stay with you to 10 or 11 – or to 10 or 11 years in addition to the re-signing agreement?

Todd R. Pedersen
Chief Executive Officer & Director, APX Group Holdings, Inc.

A

Well, I mean, in conjunction with re-signing the agreement...

Jeffrey Ted Kessler
Analyst, Imperial Capital LLC

Q

Yeah, yeah.

Todd R. Pedersen
Chief Executive Officer & Director, APX Group Holdings, Inc.

A

...well, here's what I would say. Consumer-facing businesses, it's all about consumers' belief in the value it's providing to them. I don't care what business that is that they have to believe in the value that's being provided. If we through this update graded program are putting new hardware, better functionality, better technology, additional services into their home, we believe we're providing for the same amount and sometimes actually less dollars per month. We believe that this is going to extend the life of the customer beyond the eight years.

Now, we haven't lived through that yet. We're just seeing some early results on the first 40,000 subscribers that we've upgraded to this point. But I would just say as a business principle if you provide more value for people for what they're paying, they're probably going to stick with that particular service longer and we're absolutely doing that. And so, it's not just they've signed a new five-year agreement. It's that in conjunction with better technology, better functionality, additional services, ease of us entering adjacent markets or service offerings inside of a customer base. So, we're actually very positive on this being a good impact of the length of our subscriber life.

Jeffrey Ted Kessler
Analyst, Imperial Capital LLC
Q

And on those 40,000 customers, in the future, are you going to be able to give us updates on about how many customers you have potentially in the queue to be upgraded?

Todd R. Pedersen
Chief Executive Officer & Director, APX Group Holdings, Inc.
A

Yeah. I don't know that we're going to dig into that sort of detail. We're still kind of working through what metrics we're going to do, but probably won't commit to that this particular day.

Jeffrey Ted Kessler
Analyst, Imperial Capital LLC
Q

[indiscernible] (00:36:56) love it.

Todd R. Pedersen
Chief Executive Officer & Director, APX Group Holdings, Inc.
A

But...

Jeffrey Ted Kessler
Analyst, Imperial Capital LLC
Q

Okay.

Todd R. Pedersen
Chief Executive Officer & Director, APX Group Holdings, Inc.
A

Yeah. Good try though.

Jeffrey Ted Kessler
Analyst, Imperial Capital LLC
Q

Yeah. Great. Thank you very much. I appreciate it.

Todd R. Pedersen
Chief Executive Officer & Director, APX Group Holdings, Inc.
A

Thanks, Jeff.

Alexander J. Dunn
President & Director, APX Group Holdings, Inc.
A

Thanks, Jeff.

Dale R Gerard
Interim Chief Financial Officer, APX Group Holdings, Inc.

A

Thanks, Jeff.

Todd R. Pedersen
Chief Executive Officer & Director, APX Group Holdings, Inc.

A

Appreciate it.

Jeffrey Ted Kessler
Analyst, Imperial Capital LLC

Q

Yeah.

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