



Users Conference 2013

Michael Barnes

PERSPECTIVES

BARNESASSOCIATES

The Basic Operating Dynamic

RMR RECONCILIATION

Beginning	\$	100,000
Added		17,100
Lost		(12,100)
Ending	\$	105,000
Gross Attrition Rate		12%
RMR Growth Rate		5%

*KPI's
Everything EXPENSED
Very Important!!!*



INCOME STATEMENT

Revenue	\$	1,765,500
Costs		1,535,238
NOCF	\$	230,262

Key Metrics:

Margin	
RMR Creation Multiple	

By Activity

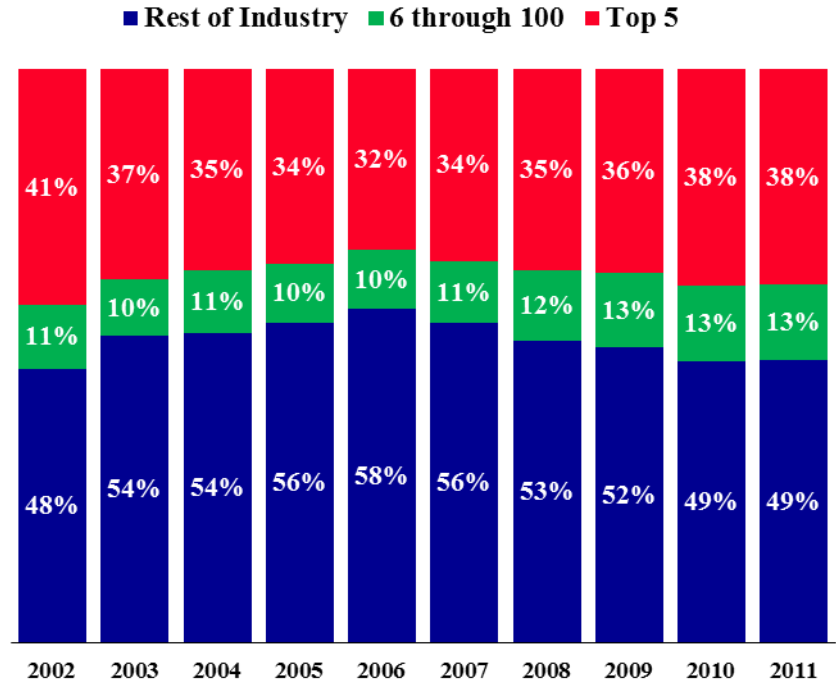
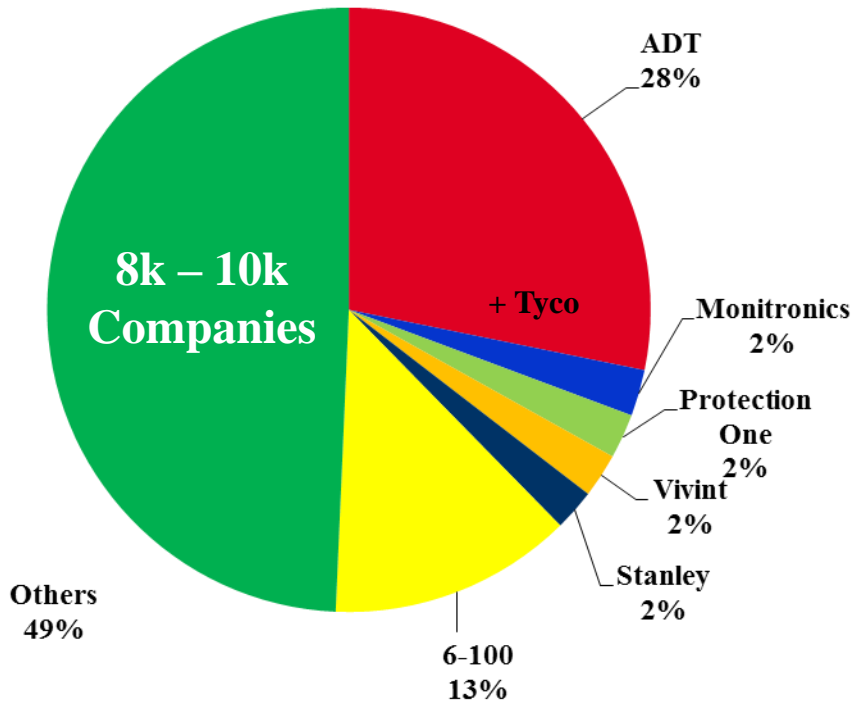
Monitoring & Service	Sales & Installation
\$ 1,338,000	\$ 427,500
610,128	925,110
\$ 727,872	\$ (497,610)

58%

29x

Why is the industry so fragmented?

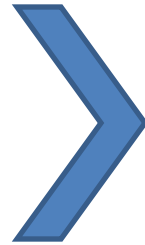
Industry Market Share by RMR



Company	Revenue	RMR
1	\$3.2b	\$250m
6	\$257m	\$15m
100	\$5m	\$150k

Conventional Wisdom

- Low barriers to entry
- Wholesale monitoring
- Product availability



“Levels the playing field”

+ SedonaOffice...of course

The Dirty Little Secret

*Dis-Economies
of Scale?*

KPI's (generalized): Large vrs. Small

	Margin on Monitoring & Service	Attrition Rate	RMR Creation Multiple	Growth Rate
Larger Co's	60%'s	12% +	30x's	6% -
Smaller Co's	50%'s	12% -	20x's	6% +

Customer Account Density and Localized Capability are Very Important

"Market Presence"

Company	RMR	Population Targeted	RMR per Pop
1	\$250m	312m	\$ 0.80
100	\$140k	<i>175k</i> <i>Example</i>	\$ 0.80

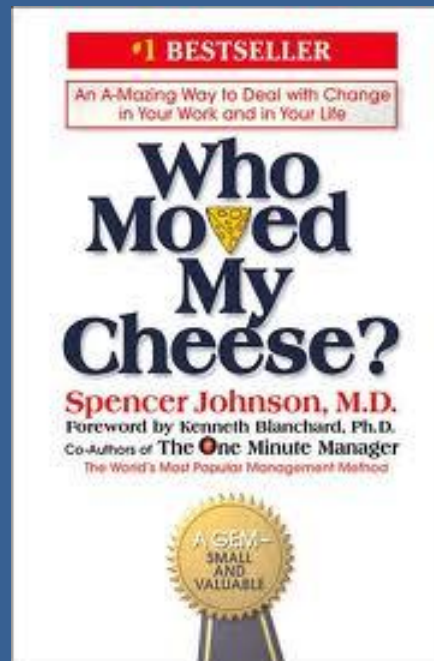
*1,800x larger...same
relative market presence?*

Small is Beautiful



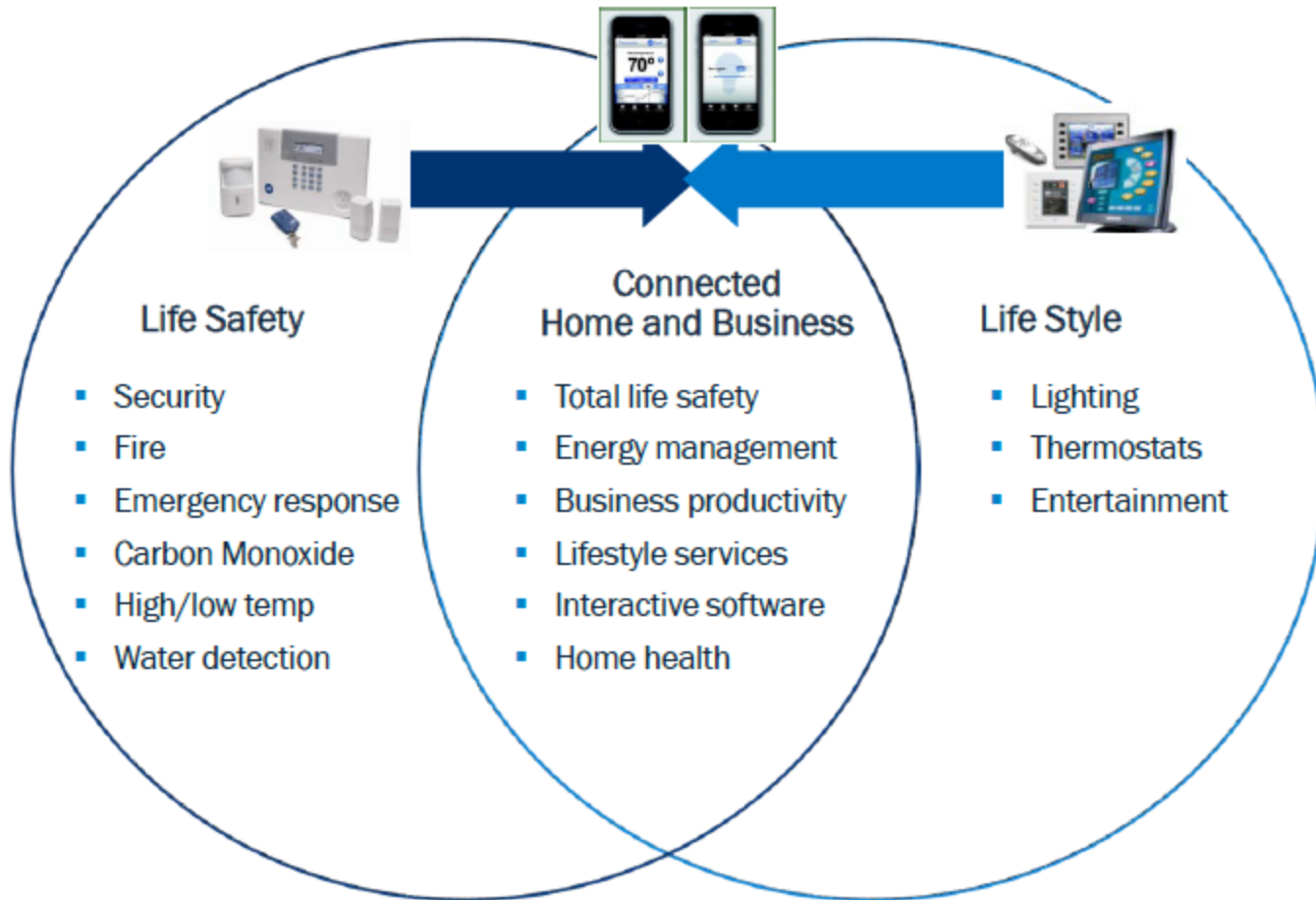
Gotta love it

Will it Change?



The Lines are Blurring...

From an ADT Investor Presentation



The Largest Player is Now Better Configured

*Split in Sept
2012*



*Trading at
56x RMR*

NOTE - Monitronics trading at 63x RMR!!

New Players...Who Make ADT Look Small (Revenue)



at&t

- \$127b



- \$57b



- \$56b



- \$15b

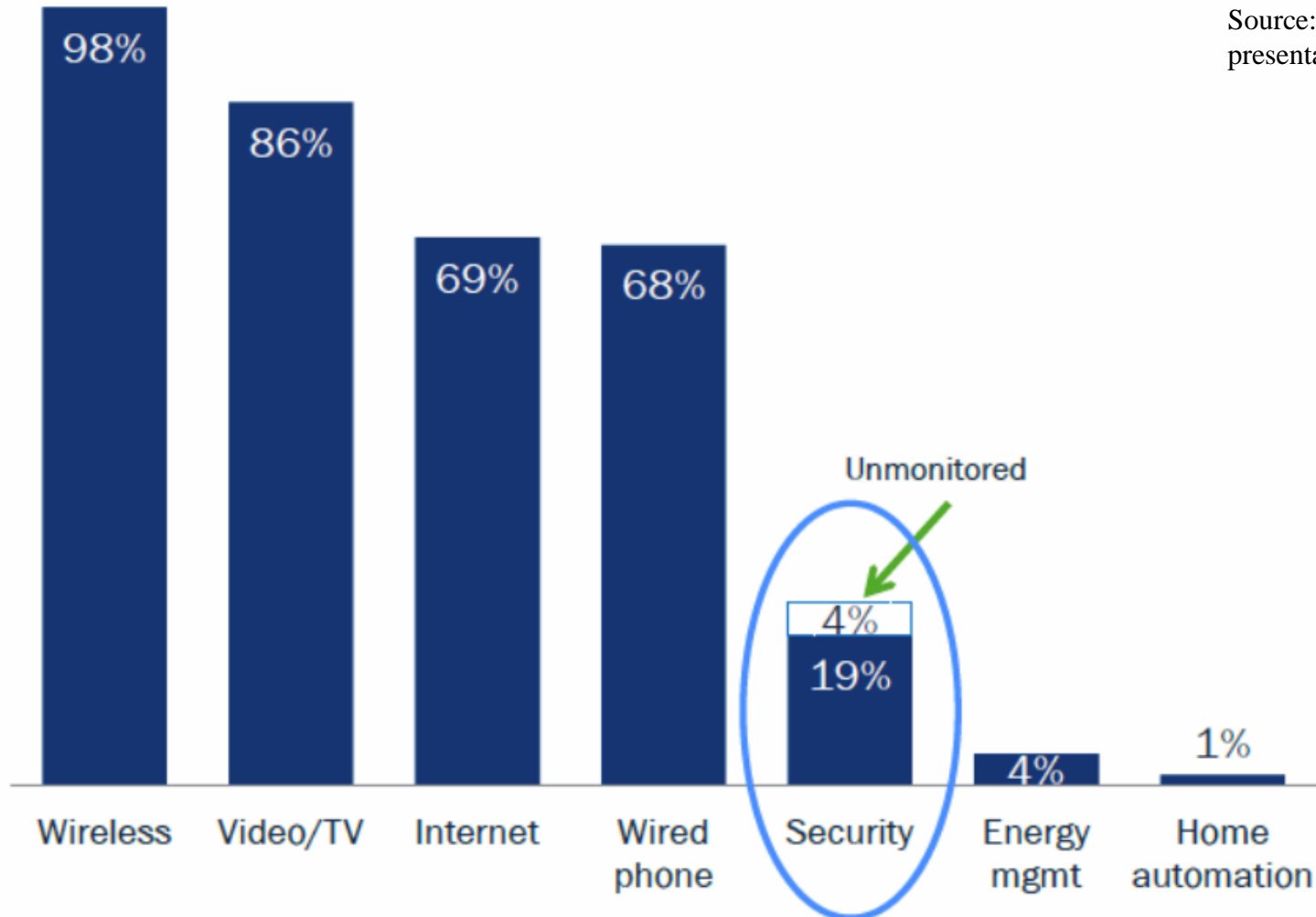


- \$3b

They Come With Very Large Subscriber Bases...and Penetration Success

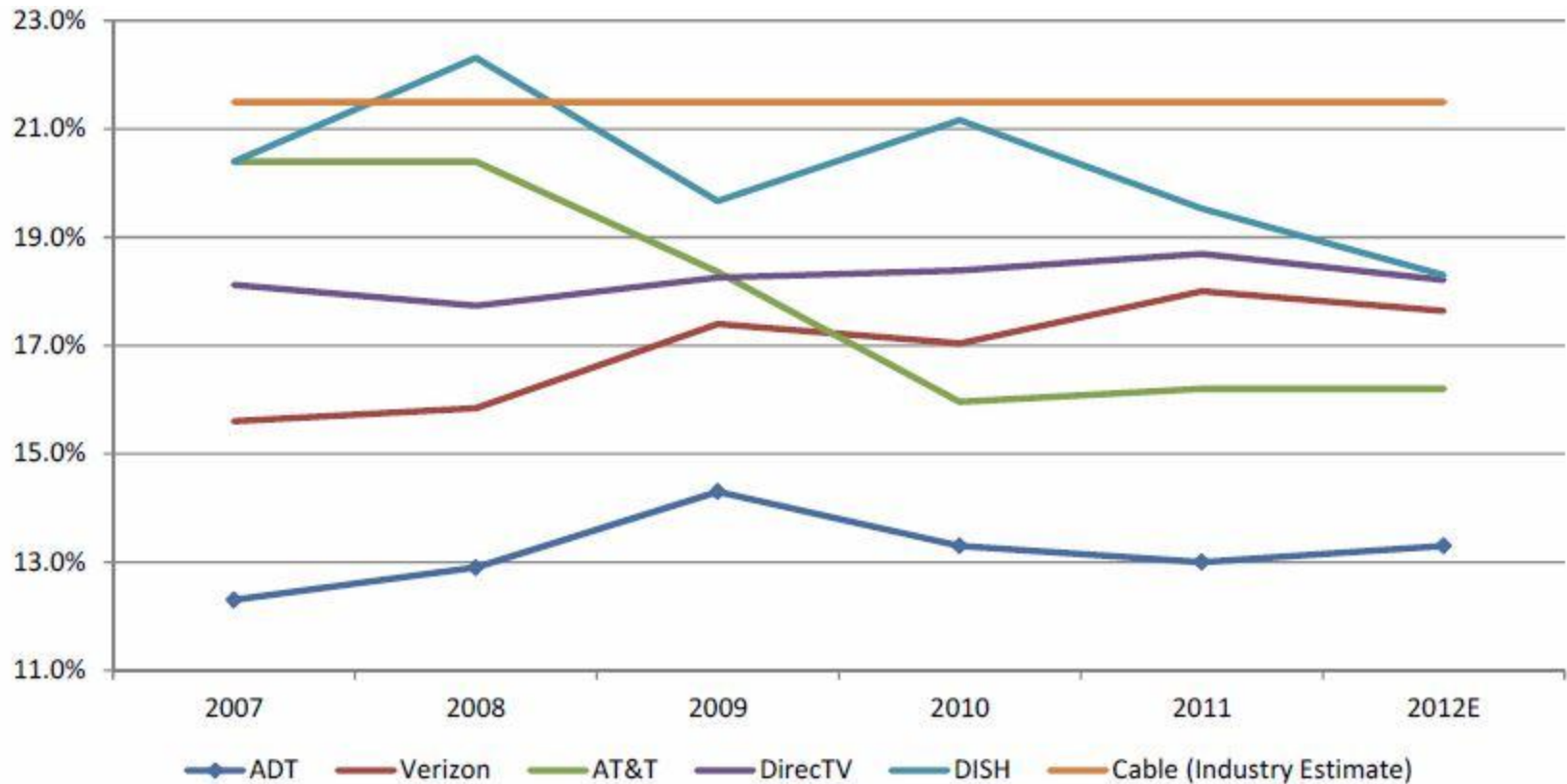
Residential Market Penetration of Related Services

Source: Corvex
presentation on ADT



And a Compelling Strategic Desire...

Comparative Attrition Rates



Source: Company filings, Wall Street Research. ADT attrition represents RMR attrition, whereas satellite and wireless attrition represents subscriber attrition. Cable companies have not publicly disclosed attrition and gross adds for a number of years, but are commonly thought to have ~1.7-2.0% levels of monthly subscriber attrition (or ~20-24% annually).

My View



“There is money to made cleaning up after elephants”

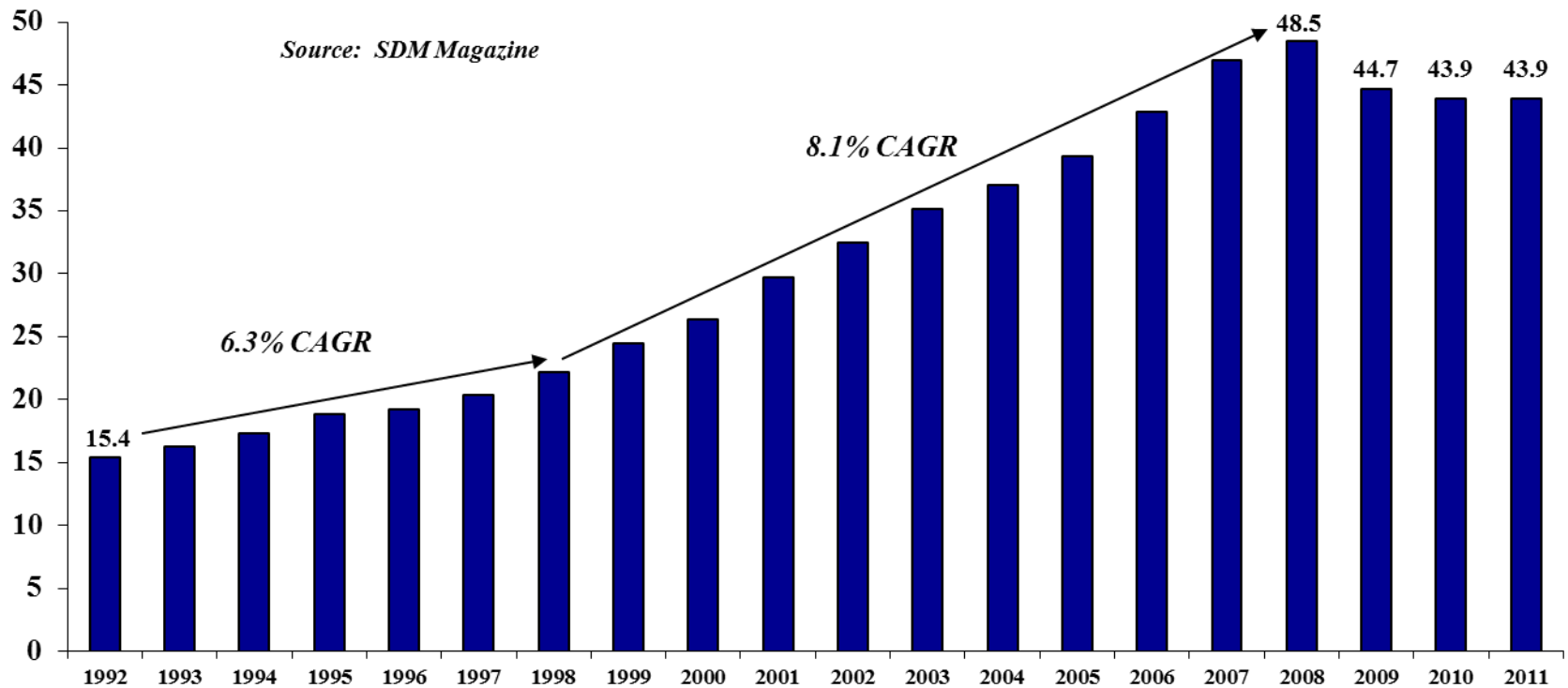
Growth Prospects

Fundamentals are Strong

- Improving technologies...that work
- Broadening services
- Low(er) penetration rates
- Better economy
- Support from the capital markets

U.S Security Alarm Revenues

- 2012 just in...another flat year - \$44b

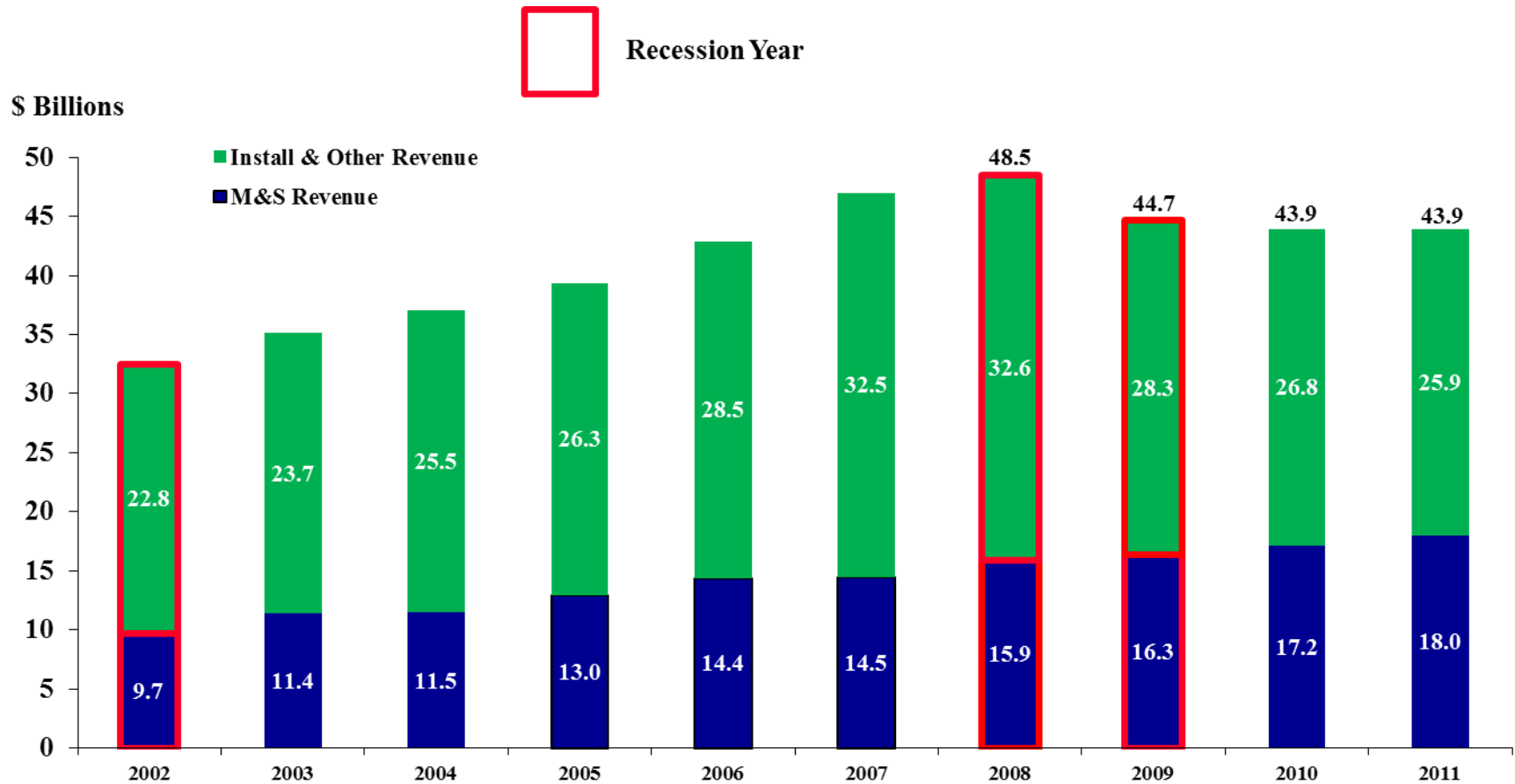


Annual Growth

6% 6% 8% 2% 6% 9% 10% 8% 13% 9% 8% 5% 6% 9% 10% 3% (8%) (2%) 0%

U.S Security Alarm Revenues - SEGMENTED

- The recession reset Installation Revenues to 2004 levels
- RMR continued steady growth



SedonaOffice Users Survey

- Great participation
- Size of collective participants
 - 2012 Revenues of \$336m
 - \$19.6m of RMR

*SedonaOffice Users
Grew through recession
Almost 2x Industry RMR growth rate*

Historical CAGR	REVENUE			RMR		
	1 Year	3 Year	5 Year	1 Year	3 Year	6 Year
Industry Rate	(0.7%)	(0.8%)	(1.5%)	6.0%	5.4%	4.8%
Average SedonaOffice Users	12.2%	9.9%	7.6%	11.4%	9.1%	8.5%
SedonaOffice Users to Industry Rate				1.9x	1.7x	1.8x

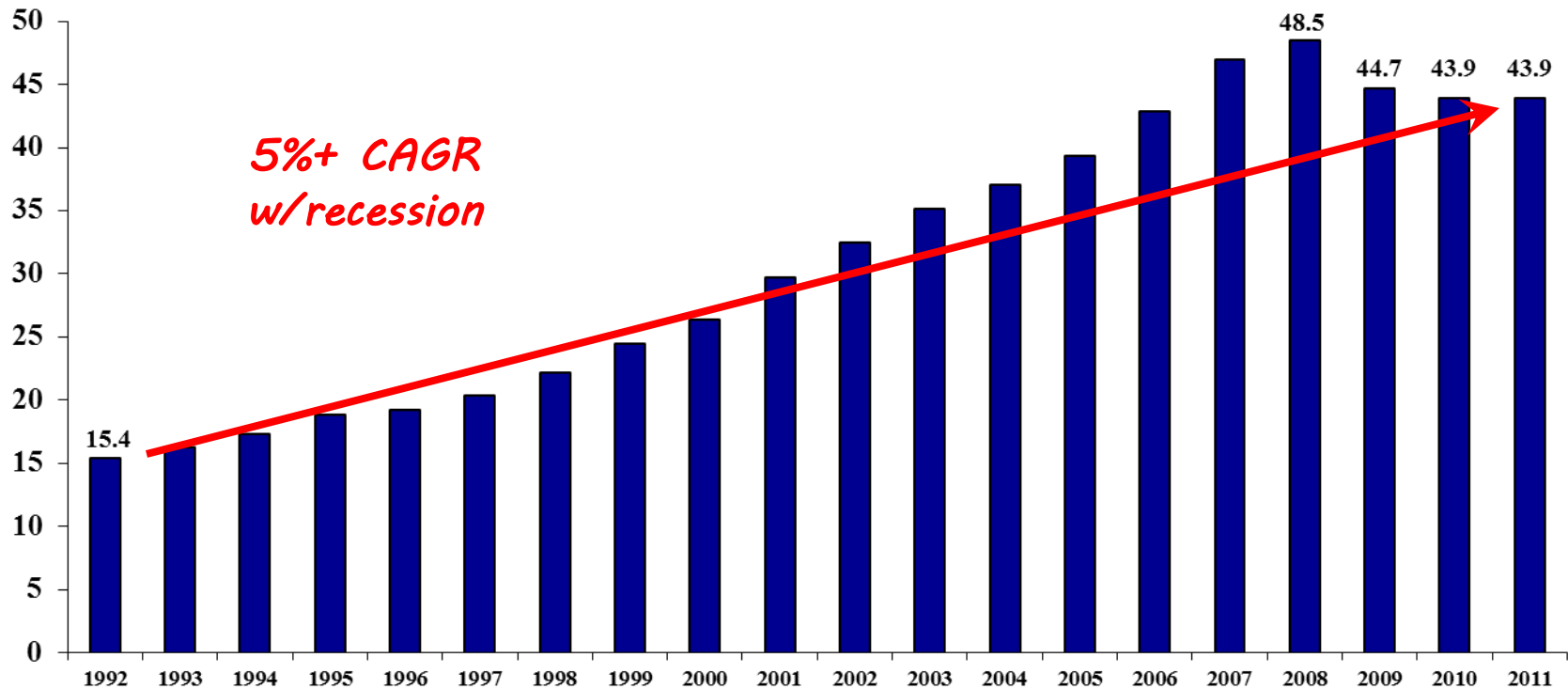
A Slightly Different Perspective...

*4%+ CAGR
Adjusting for Inflation*

DURING SAME PERIOD

- GDP up 63%
- Population & #Household up 25%+/-
- # of Business Establishments up 19%

*Gov/Reg/Insurance
Mandates & Incentives
ROI services
Technology boost*



Is Most of the Industry Order Takers or Sales & Marketers?



VS.



Big money is betting the former...

EXAMPLE:

vivint.

- \$2b (57x RMR) sale to Blackstone

The Coming Tide of Advertising/Marketing Spend

Will it raise all ships?



SUMMARY

A Cautiously Good Time to be in the Industry



YIN

- Improving economy +/-
- Fundamentals are strong
- Improving operating results
- Big marketing/sales spend
- Capital markets supportive
- Bullish Valuations

YANG

- Uncertainty / lack of clarity
- Stronger large players
- New strategic entrants
- New(er) business models
- Increase in moving / mobility

THANK YOU

Please Join Us



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www.barnesbuchanan.com

Q&A

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