

# Not Clear Who Has the Competitive Advantage

## KPI's Generalized

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

*Diseconomies of Scale on 2 critical metrics?*






- Overall economics are similar
- Industry remains fragmented

## Smaller Co's Can Have Strong Market Presence



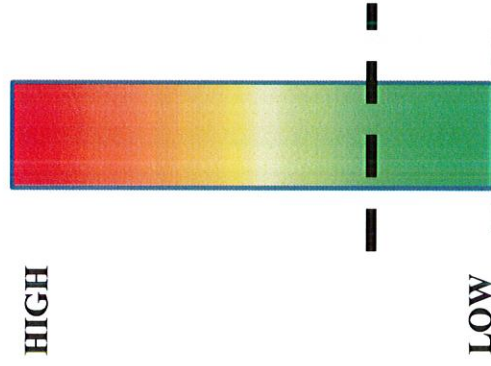
RMR	\$335M	\$82M	\$72M	\$53M	\$46M
Population Targeted (Total U.S.)	323M				
RMR per Person ("Presence")	\$1.04	\$0.25	\$0.22	\$0.16	\$0.14
SDM 100th Player	\$200K of RMR				
Pop Target for Equivalent Presence	200K	800K	900K	1.2M	1.4M
Representative Market	Yuma, AZ	Dayton, OH	Fresno, CA	New Orleans, LA	Jacksonville, FL

## A Move To Specialization

Company	RMR (\$m)	Business Model		
		Generalist	Specialist Residential	Specialist Commercial
	335	↓	X	
	82			X
	72	↓	X	
	53			X
	46		X	

*Is the Traditional / Generalist Model still the best?*

## Threat #3: CableCo's/MSO's



*“New players  
dominate share of  
new additions”*

- Good players...particularly Comcast
- Collectively not much bigger than Vivint
- AT&T appears to be throwing in the towel

*Bundling can be a threat*



# How Are The MSO's Doing?

## Our Estimates - All Combined

- 2.5m accounts – 6% market share of RMR
  - 65k+ accounts per month
- Experimenting with bundling discounts*

- Entered Security Alarm Industry  
 - Exited

Estimates	2010	2011	2012	2013	2014	2015	2016	2017
MSO RMR (millions)	\$ 0	\$ 2	\$ 15	\$ 31	\$ 49	\$ 69	\$ 84	\$ 98
YOY Growth		1038%	579%	104%	59%	41%	21%	16%
MSO Market Share	0%	0%	1%	2%	4%	5%	5%	6%

### MSO Companies

Comcast	X							
Comporium (New Wave+Massillon)	X							
Time Warner		X						
Cox		X						
Verizon		X			X			
AT&T (Directv)			X					??
CenturyLink				X				

*Outsource Monitor*

## The Industry Has Seen This Before...

- Telco's and Electric Utilities came and went in the mid-late 1990's

- Entered Security Alarm Industry  
 - Exited

Telco/Utility	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
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### Ameritech (Brand: SecurityLink from Ameritech)

<i>Acquisitions</i>	\$ 2.2	\$ 9.7		\$ 15.7						
End of Year RMR (millions)	\$ 2.2	\$ 10.1	\$ 10.5	\$ 25.7	\$ 26.1	\$ 26.6	\$ 27.3	\$ 28.0		
YOY Growth		359%	4%	145%	2%	2%	3%	3%		

### Energy (Brand: Entergy Security)

<i>Acquisitions</i>			\$ 1.9	\$ 1.0						
End of Year RMR (millions)			\$ 1.9	\$ 3.5	\$ 4.1	\$ 4.6				
YOY Growth				84%	17%	12%				

### Western Resources (Brand: Westar Security until 1997 then Protection One)

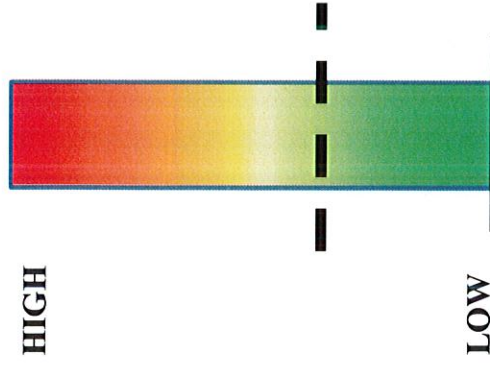
<i>Acquisitions</i>			\$ 0.3	\$ 17.8	\$ 4.9					
End of Year RMR (millions)		\$ 0.2	\$ 0.5	\$ 18.6	\$ 24.1	\$ 23.6	\$ 22.9	\$ 22.1	\$ 20.7	\$ 20.0
YOY Growth			150%	3620%	30%	(2%)	(3%)	(3%)	(6%)	(3%)

COMBINED RMR (millions)	\$ 2.2	\$ 10.3	\$ 12.9	\$ 47.8	\$ 54.3	\$ 54.8	\$ 50.2	\$ 50.1	\$ 20.7	\$ 20.0
Industry RMR	\$ 361	\$ 369	\$ 388	\$ 417	\$ 444	\$ 467	\$ 494	\$ 585	\$ 566	\$ 665
Telco/Utility Share	1%	3%	3%	11%	12%	12%	10%	9%	4%	3%

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## Threat #4: DIY



*“DIY upends and disintermediates the industry”*

- **Not that new**
- **Basic economics still prevail**
- **Great entry system...particularly for renters**
- **All system sales are good for the industry**
- **Will heighten awareness & push innovation**
- **Barriers to offering are not that high**



# DIY Players



## How is DIY Doing?

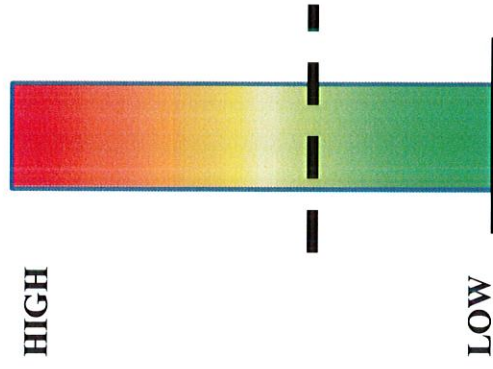
### Our Estimates

- \$35+m of RMR
- 2% share of market
- Growing at 20%+ per year

Estimates	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
DIY RMR (millions)	\$ 3	\$ 4	\$ 5	\$ 7	\$ 9	\$ 13	\$ 18	\$ 23	\$ 29	\$ 35
<i>YOY Growth</i>		33%	29%	36%	40%	45%	33%	31%	24%	23%
DIY Share	0%	0%	0%	1%	1%	1%	1%	2%	2%	2%



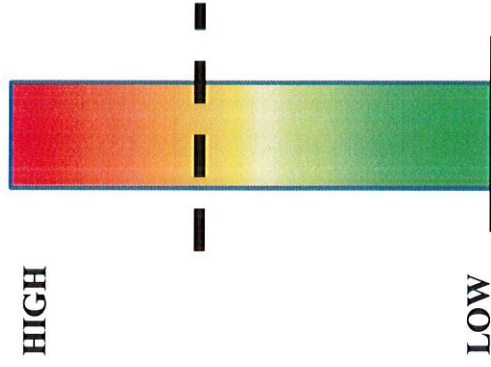
## Threat #5: Technology “Exclusivity”



*“Nest builds  
something nobody  
else can match”*

- Possible...but unlikely
- Industry suppliers are good
- Distribution channels are well established
- Pace of innovation will likely increase

## Threat #6: Operating Complexity



*“We can’t keep pace”*

- **Increasing complexity across the board**
- **Rate of change is faster**
- **Overwhelming some players**
- **Increased management sophistication required**

## Capital Availability Also Adding Complexity

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- **More demanding & discriminating**
- **Looking for:**
  - Well documented results
  - High level of detail and understanding on KPI's
  - More granularity
  - Low(er) operating volatility
  - Crisp reconciliation of operating results to financials

*Trending more expensive*

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