

ADT Security Services

Pitched on December 2nd, 2020

Shelly Qian | Sayeed Yousuf Ahmed | Mohammed Souit | Julia Jin | Marc-Antoine Millaire

Table of Contents

Executive Summary

Company Overview

Investment Theses

Risks & Catalysts

Valuation

Recommendation

Executive Summary

ADT Security Services

Company Description



Founded in 1874 and headquartered in Florida, ADT is a provider of **security, automation, and smart home solutions** serving **consumers (75%) and businesses (25%)** in the US

\$16.1B
Enterprise Value

\$5.3B
LTM Total Revenue

7.12x
EV/EBITDA

1

The Market is Overestimating the Competition from DIY Security

2

ADT is Over-penalized for their Leverage Despite Superior Operational Strength

\$7.77
Current Price

\$10.20
Target Price

+31%
Upside

Company Overview

“No one wakes up and says, ‘I want to change my home security service today’” – Jim DeVries, CEO of ADT

Company Description

- ADT Inc. (NYSE:ADT) is a provider of **security, automation, and smart home solutions** serving **consumers (75%)** and **businesses (25%)** in the US
- Founded in **1874** and headquartered in Florida
- Recurring** revenue business model, which generates **strong FCF** within a **defensive industry**
- 6.5M recurring customers** in over 200 locations, 9 monitoring centers, and the largest network of security professionals in the US

Corporate Timeline

2012
tyco Spun off by Tyco, after which they grew their presence in the security systems industry

2016
APOLLO ADT is **taken private by Apollo**, at a **\$6.93B** valuation. **Consolidation with Protection One**

2018
NYSE ADT completes its **IPO in the NYSE**, with **Apollo owning 74%** of company's float

Key Market Statistics

As of November 28, 2020 (millions of USD unless otherwise stated)

Latest Capitalization

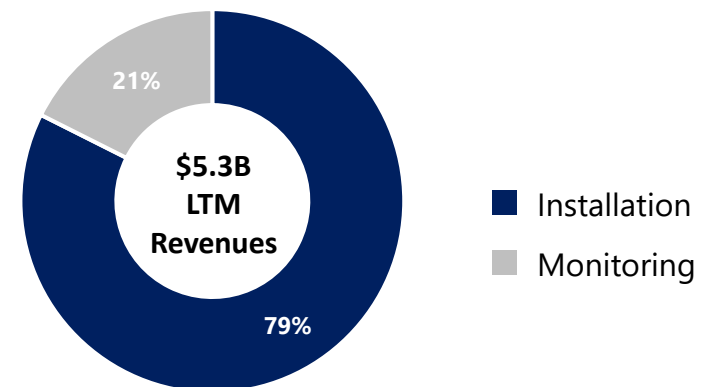
Share Price	\$7.77
Fully Diluted Shares Outstanding	770
Market Capitalization	\$5,983
Less: Cash & Short Term Investments	\$45
Add: Total Debt	\$10,210
Add: Pref. Equity	-
Add: Total Minority Interest	-
Total Enterprise Value (TEV)	\$16,147

\$5.3B
LTM Total Revenue

\$1.9B
LTM EBITDA

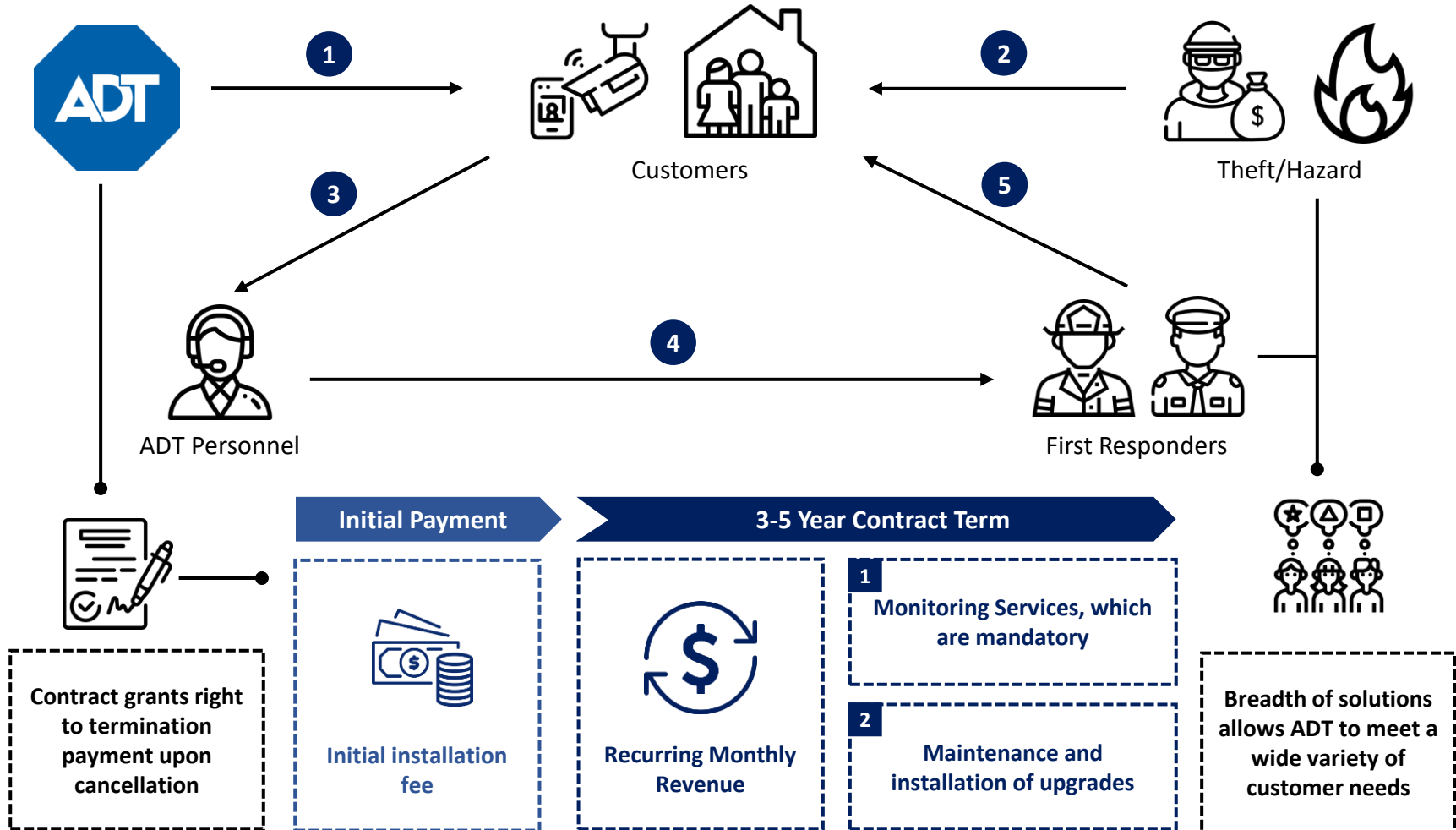
7.12x
EV/EBITDA

Revenue Breakdown by Segment



ADT Business Model – Monitored Security and Automation

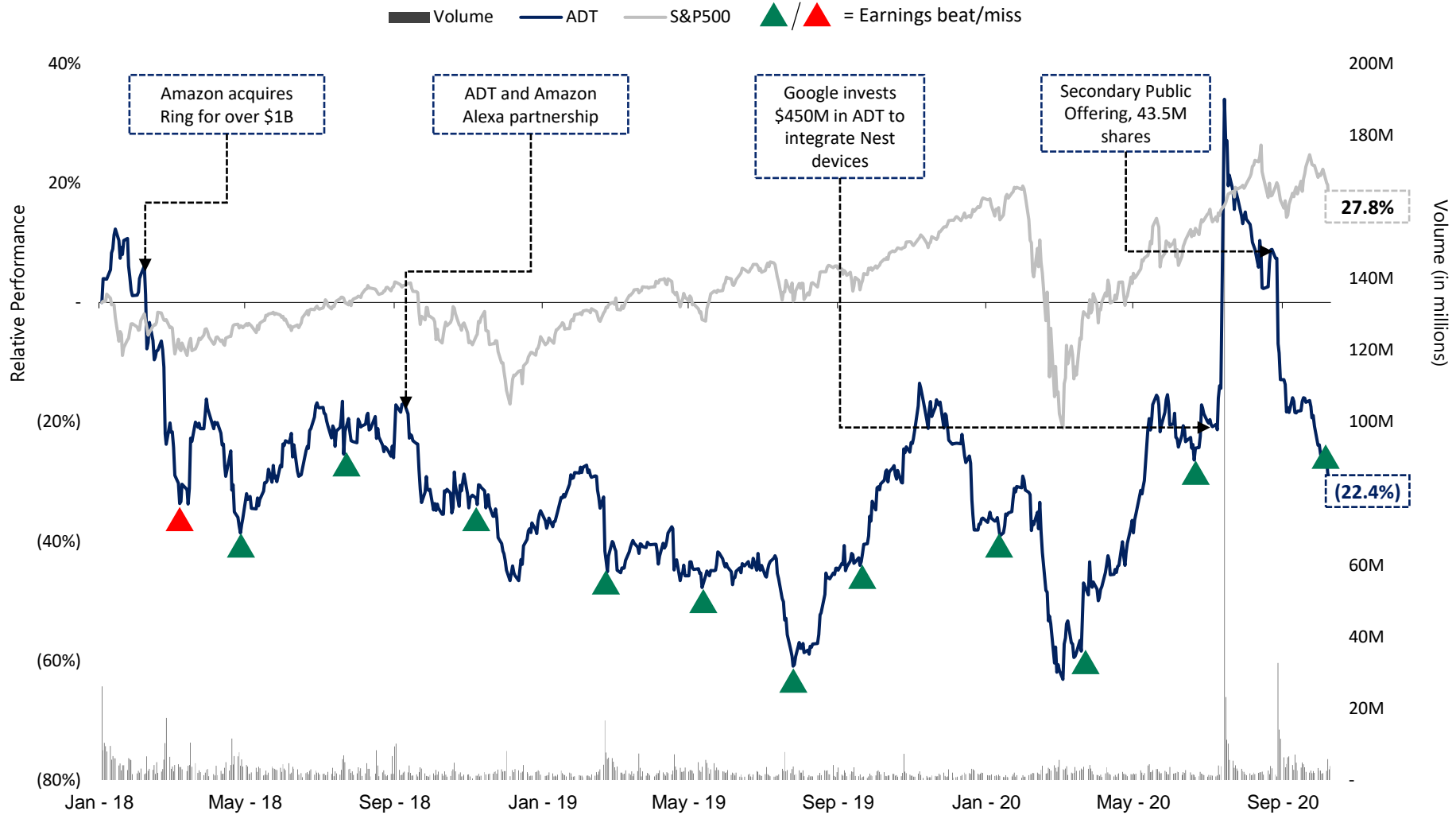
RMR from monitoring and maintenance services and upfront cash flow from installation



ADT has a recurring cash flow model, with a sticky customer base, within a relatively safe and high growth industry

Annotated Stock Price Chart

ADT's stock is down 22% since their IPO, despite strong, improving FCF generation and dominant market position

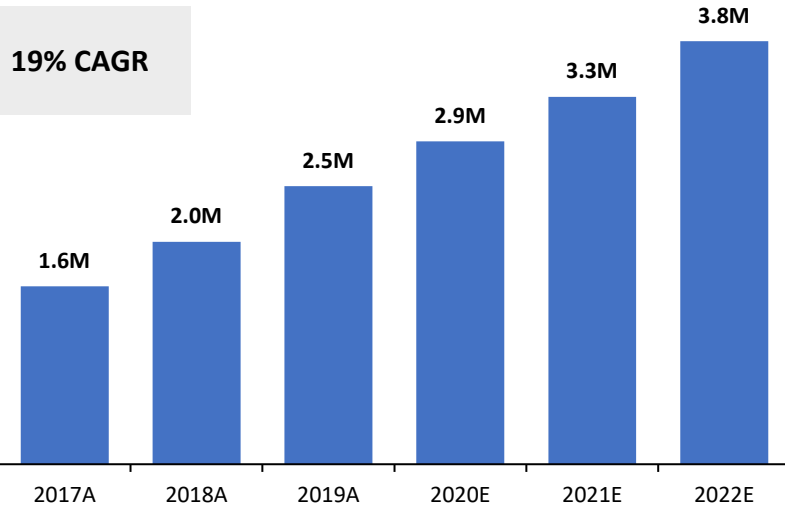


The market perceives DIY security solutions as a threat to ADT's market share. We see this as an opportunity, proven by ADT's recent deals

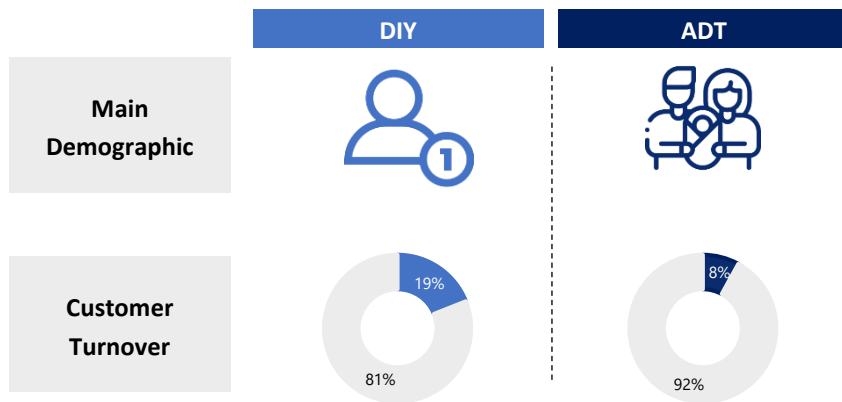
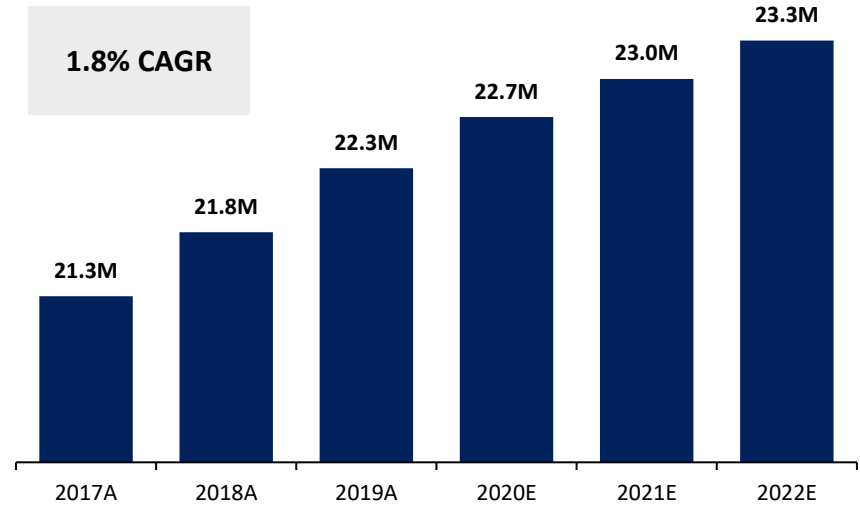
Thesis I - Market is Overestimating the Competition from DIY Security

DIY and professionally monitored security are similar, yet different markets

Self-Installed DIY Security Solutions



Professionally Installed/Monitored Solutions



Outsourced Monitoring

- Compatible with **Alexa, Ring, Nest,** and more
- Go to **Monitoring + Installation** partner

ADT's DIY Offerings

- Launched: **Sep, 2020**
- DIY **smart home security** solution + **pro monitoring**

The market perceives DIY security solutions as a threat to ADT's market share. We see this as an opportunity, proven by ADT's recent deals

Thesis I - Market is Overestimating the Competition from DIY Security

ADT's recent partnerships will allow them to tap into the DIY market through providing third party services

ADT's deals with smart home security providers



- Support integration of Amazon's Alexa Guard feature with ADT's Control app
- ADT is **Amazon's sole installing and Monitoring partner**



- **Google invests \$450M for 6.6% stake** in ADT, will commit **\$150M for marketing**, product development, etc.
- Solidifies ADT's presence in **smart home security market**

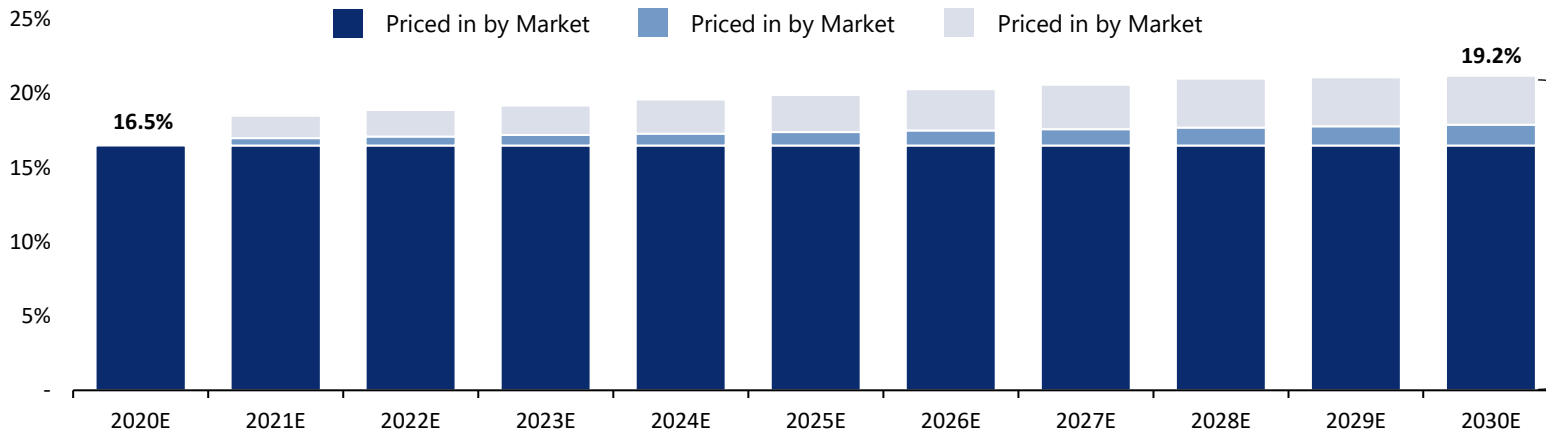


- ADT will handle **monitoring for Samsung's DIY Security** and home automation offerings



- ADT has another **60+ partner companies** in the smart home wheelhouse across **13 different categories**
- **Additional technologies and partnerships** could expand its addressable core market

ADT's market share 2020E to 2030E



Smart home security market share:

2020: 0.1%

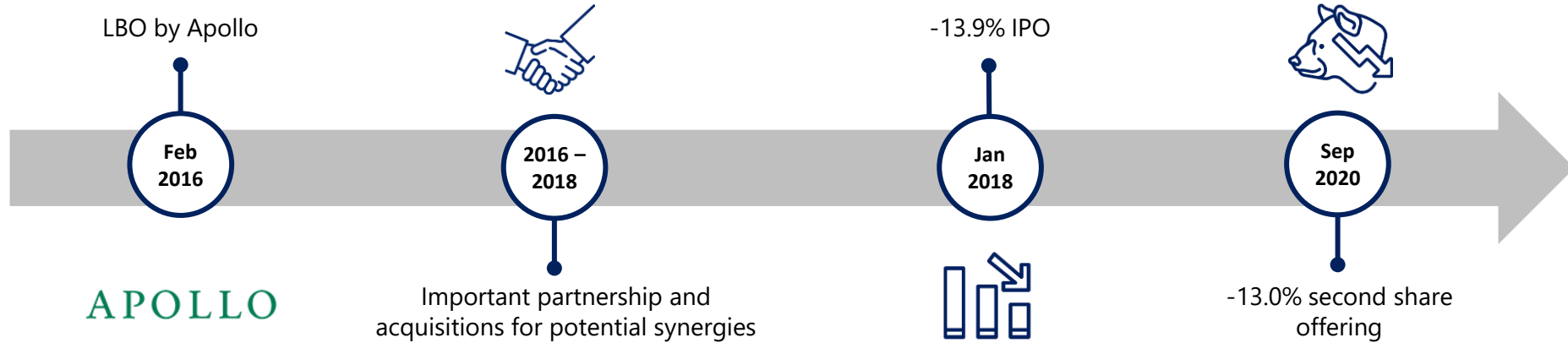
2030: 1.4%

Market is ignoring ADT's recent partnerships with DIY security providers, which will increase penetration in smart home space by 1.4%

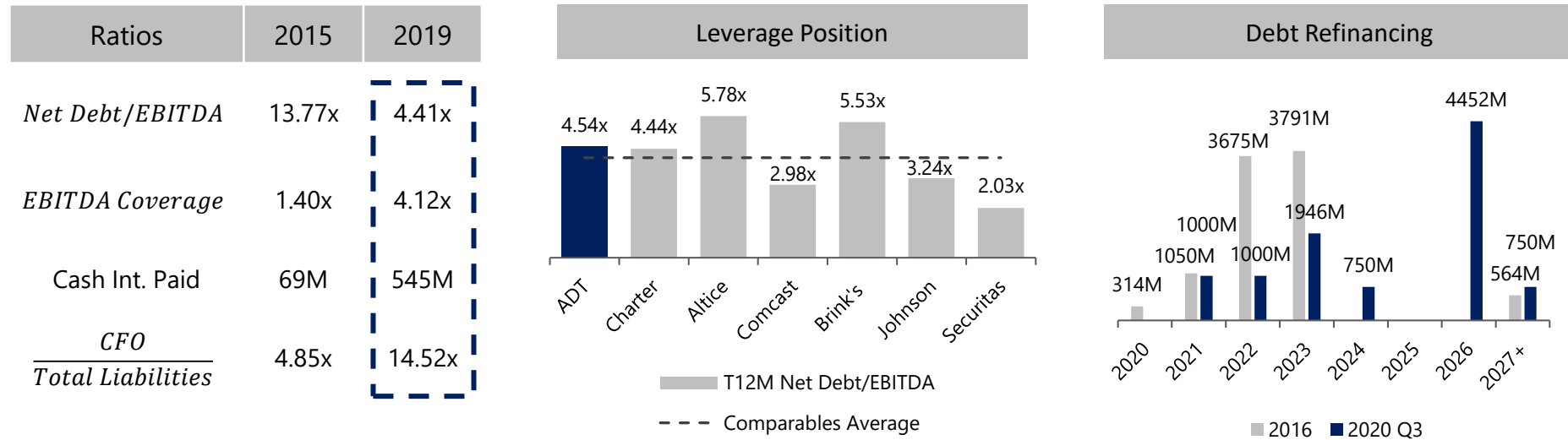
Thesis II - ADT is Over-Penalized for their Leverage Despite Superior Operational Strength

Investors remain skeptical since their LBO, but the numbers show otherwise...

Street View



Investa's View



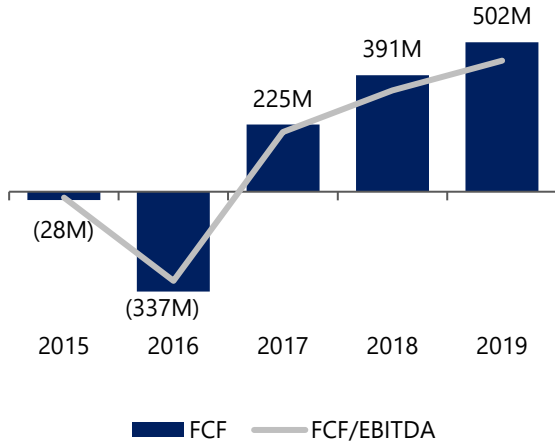
The Street's concerns regarding ADT's leverage and solvency are unjustified

Thesis II - ADT is Over-Penalized for their Leverage Despite Superior Operational Strength

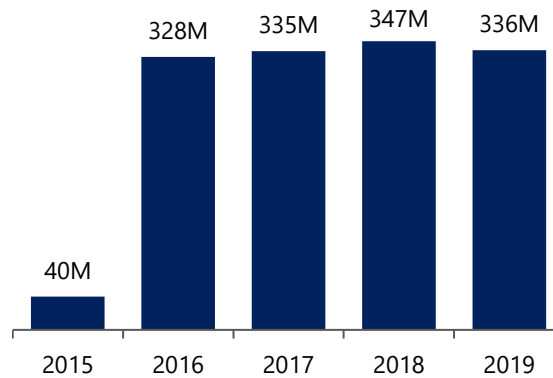
Can ADT support these debt repayments in the near future?

Strong Operational Metrics

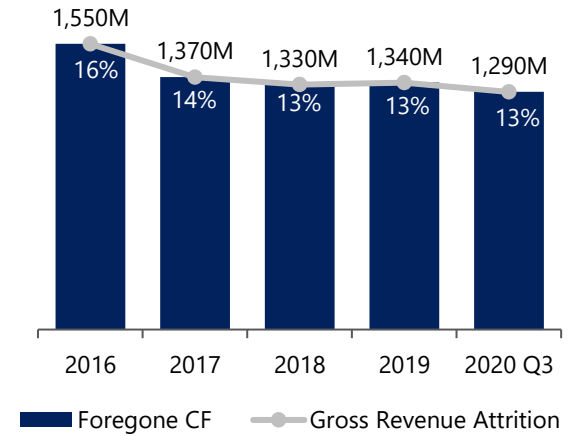
Strong and Growing FCF Conversion



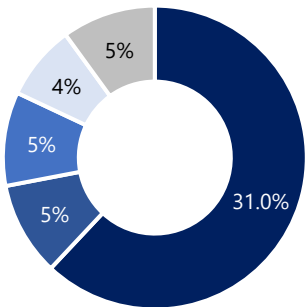
Growing Recurrent Monthly Revenue



Decreasing Customer Attrition



Leader within the Professionally Monitored Security Industry



■ ADT ■ MONI ■ Vivint
■ Comcast ■ Other

- 1 Sticky Customers
- 2 Contractual Agreements

Secured Recurrent Revenue

Venturing into the Growing DIY Market

Strong Partnerships in Emerging Markets



No Stagnation

Overall Company Growth



ADT is unjustly penalized for perceived solvency issues despite operational strength

Catalyst & Risks

Relatively low risks given the defensive nature of the industry, with high growth opportunities in DIY markets acting as catalysts

Risks

1 Competition from DIY Segment

Lower-priced products have a deflationary effect on pricing in the industry and may threaten ADT's retention rate

2 Persisting Negative Sentiment Surrounding Leverage

Although solvency issues have been over magnified, high leverage may still remain a risk perceived by investors

Catalysts

1 Trend Towards Smart Home Adoption

Increase in the popularity in home automation makes products offered by ADT more attractive

2 Strategic Partnerships & Initiatives

Opportunities to improve products with AI, machine learning, etc and address competition from DIY products that do not offer monitoring services (ex. partnership with Samsung)

Valuation

Comparable Company Analysis

In \$US millions, except if noted otherwise

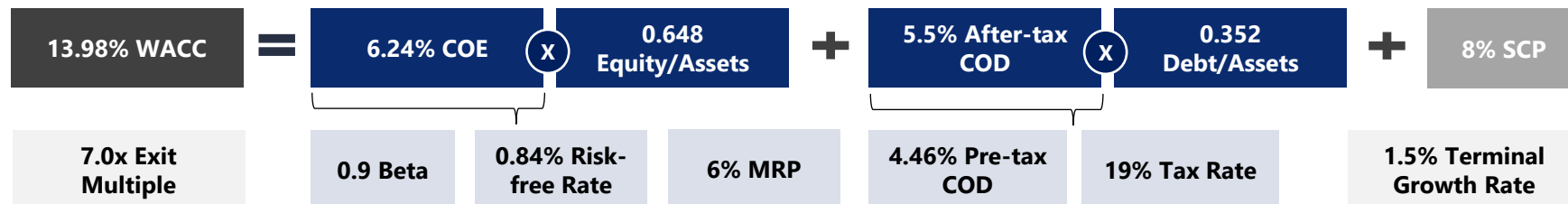
Company	Market Cap	Enterprise Value	EV/Sales		EV/EBITDA		Revenue Growth	Gross Margin	EBITDA Margin
			LTM	NTM	LTM	NTM			
Cable Companies									
Charter Communications	148,832	228,489	0.59x	0.59x	8.94x	8.17x	4.88%	51.54%	36.51%
Altice USA	19,333	43,233	1.20x	1.37x	7.37x	8.77x	2.03%	66.19%	42.49%
Comcast Corporation	236,773	335,306	1.69x	1.73x	10.73x	11.77x	15.27%	68.39%	32.29%
Median	148,832	228,489	1.20x	1.37x	8.94x	8.77x	4.88%	66.19%	36.51%
Mean	134,979	202,343	1.16x	1.23x	9.01x	9.57x	7.39%	62.04%	37.10%
Security Provider									
Brink's Company	3,411	5,697	2.98x	3.03x	9.58x	10.09x	5.57%	23.11%	14.09%
Johnson Controls	33,278	41,439	3.92x	4.26x	9.06x	9.55x	-6.89%	33.21%	9.79%
Securitas AB	6,139	7,722	4.33x	4.50x	11.34x	11.58x	9.30%	17.41%	7.34%
Median	6,139	7,722	3.92x	4.26x	9.58x	10.09x	5.57%	23.11%	9.79%
Mean	14,276	18,286	3.74x	3.93x	9.99x	10.41x	2.66%	24.58%	10.41%
ADT Inc.	6,150	15,554	2.96x	2.92x	7.12x	7.00x	11.87%	72.88%	43.78%

Valuation

Discounted Cash Flows

		Forecast										
(In USD thousands)	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total Revenue	5,125,657	5,458,825	5,840,942	6,103,785	6,317,417	6,506,940	6,669,613	6,803,006	6,939,066	7,077,847	7,219,404	7,363,792
% Growth	11.9%	6.5%	7.0%	4.5%	3.5%	3.0%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%
Cost of Good Sold	1,390,284	1,360,675	1,455,922	1,588,515	1,574,689	1,657,683	1,699,125	1,714,418	1,767,770	1,793,403	1,829,271	1,870,914
Gross Margin	3,735,373	4,098,150	4,385,020	4,515,270	4,742,728	4,849,257	4,970,488	5,088,588	5,171,296	5,284,444	5,390,133	5,492,878
SG&A	1,406,532	1,504,397	1,609,705	1,682,141	1,741,016	1,793,247	1,838,078	1,874,840	1,912,336	1,950,583	1,989,595	2,029,387
EBITDA	2,328,841	2,593,753	2,775,316	2,833,128	3,001,712	3,056,010	3,132,410	3,213,748	3,258,959	3,333,861	3,400,538	3,463,492
D&A	751,000	410,053	436,706	467,275	488,303	505,393	520,555	533,569	544,240	555,125	566,228	577,552
EBIT	1,577,841	2,183,700	2,338,610	2,365,853	2,513,409	2,550,616	2,611,855	2,680,179	2,714,719	2,778,736	2,834,311	2,885,939
Taxes	299,790	414,903	444,336	449,512	477,548	484,617	496,252	509,234	515,797	527,960	538,519	548,328
Tax Rate	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%
NOPAT	1,278,051	1,768,797	1,894,274	1,916,341	2,035,861	2,065,999	2,115,602	2,170,945	2,198,922	2,250,776	2,295,792	2,337,611
Add: D&A	751,000	410,053	436,706	467,275	488,303	505,393	520,555	533,569	544,240	555,125	566,228	577,552
Less: Capex	158,846	162,927	174,332	182,177	188,553	194,209	199,065	203,046	207,107	211,249	215,474	219,784
Less: Change in Net Working Capital	(29,512)	(104,888)	(43,620)	(42,498)	(11,683)	(28,640)	(18,622)	(11,803)	(19,361)	(14,056)	(16,313)	(17,605)
Unlevered Free Cash Flows	1,899,717	2,120,811	2,200,268	2,243,938	2,347,294	2,405,824	2,455,715	2,513,271	2,555,417	2,608,708	2,662,858	2,712,984

Common Valuation Assumptions



Valuation

Discounted Cash Flows

DCF Valuation Results

Bridge to Equity (Exit Multiple)	
2030E EBITDA	3,463
EV/EBITDA Exit Multiple	7.0x
2030E Terminal Value	24,244
Discount Factor	0.24
PV of Terminal Value	5,750
PV of Terminal Value	5,750
PV of Sum of Unlevered FCF	12,902
Enterprise Value	18,652
Less: Net Debt	10,164.5
Less: Non-Controlling Interests	-
Implied Equity Value	8,487.7
Shares Outstanding (M)	777.6
Implied Share Price	\$10.90
<i>Upside/(Downside)</i>	40.3%

Bridge to Equity (Perpetual)	
2030E Unlevered FCF	2,713
Perpetual Growth Rate	1.50%
2030E Terminal Value	22,072
Discount Factor	0.24
PV of Terminal Value	5,235
PV of Terminal Value	5,235
PV of Sum of Unlevered FCF	12,902
Enterprise Value	18,137
Less: Net Debt	10,164.5
Less: Non-Controlling Interests	-
Implied Equity Value	7,972.4
Shares Outstanding (M)	777.6
Implied Share Price	\$10.20
<i>Upside/(Downside)</i>	31.3%

Sensitivity Analysis

Terminal Growth	WACC				
	12%	13%	14%	15%	16%
0.50%	13.8	11.6	9.6	8	6.6
1.00%	14.3	11.9	9.9	8.2	6.7
1.50%	14.8	12.3	10.2	8.4	6.9
2.00%	15.3	12.7	10.5	8.7	7.1
2.50%	15.9	13.1	10.9	8.9	7.3

Exit Multiple	WACC				
	12%	13%	14%	15%	16%
5.0x	11.4	10	8.7	7.6	6.5
6.0x	12.7	11.2	9.8	8.5	7.3
7.0x	14	12.4	10.9	9.5	8.2
8.0x	15.3	13.5	11.9	10.4	9.1
9.0x	16.6	14.7	13	11.4	10

Valuation Summary

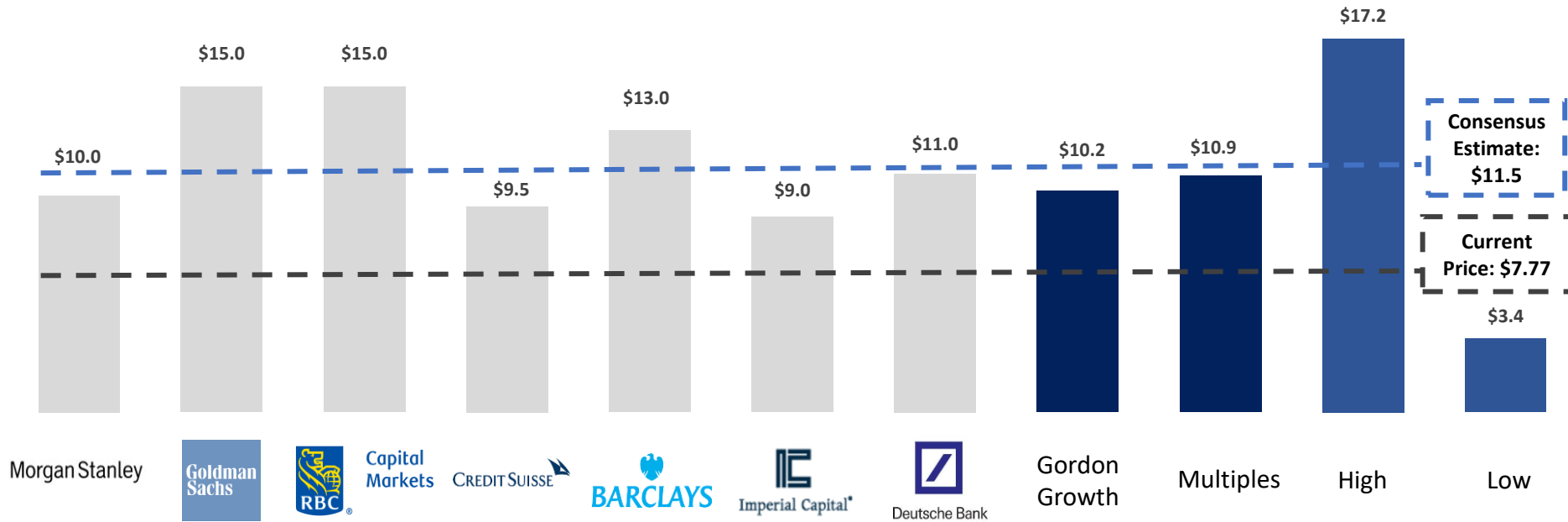
Street outlook on ADT is bullish, implying an upside potential of 30 – 90%

Valuation Summary

Analyst Estimates

Investa

52 week



Disclaimer

The analysis and conclusions derived by Investa Insight are based on publicly available information and is strictly for educational use. Investa Insight may include statements, estimates, and projections which are prepared with respect to, among other things, a historical and anticipated operating performance of the companies that Investa Insight analyzes. Investa Insights is not liable for inaccuracy with projections.

Investa Insights will assume no responsibility or liability for any errors or inaccuracy contained that may be made of such information by the viewer. This content is in no shape associated with the views or opinions of the University or student union of said University that is represented in the pitch.

No information herein may be replicated without the consent of Investa Insights.