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RESEARCH
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ADT Inc. (ADT)

April 16, 2025

Industrials – Security & Protection Services

Stock Rating **SELL**

Investment Thesis

We have determined a "Sell" rating for ADT, Inc. Given current expectations of subscriber acquisition costs and monthly fee pricing power, subscriber growth destroys value. Security systems are becoming increasingly accessible via cheaper do-it-yourself alternatives, which hurts ADT's traditional focus of professionally installed equipment. Our target price of $6 yields a 23% downside

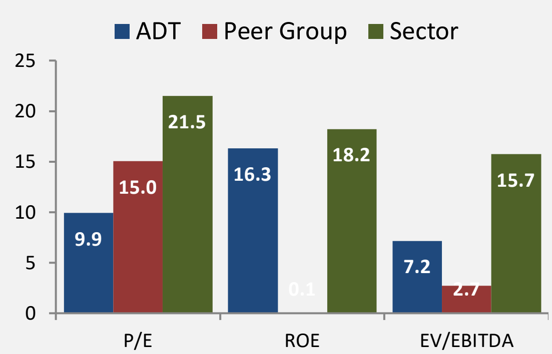
Drivers of Thesis

- **Growth destroys value:** Given our forecasts on pricing, for value to be created through additional subscribers, the cost to acquire each subscriber would need to decline at least 1% annually from 2028-'34. Given the labor intensity, rising product complexity, and uncertainty of 3rd party dealers, we do not see a decline as reasonable. Holding all else constant, the average monthly revenue per subscriber would need to increase from $56 to $77 to create value, which would negatively impact attrition rates.
- **Do-it-yourself alternatives:** ADT's business model relies on customers that want full scale, customized, and professionally installed equipment. Historically the only option, DIY providers have come in offering an enticing middle-ground solution at a much cheaper price.
- **Debt:** We expect $2.77 billion of debt maturing in the next 3 years to be refinanced at a materially higher borrowing cost, putting significant stress on cash flows.

Risks to Thesis

- **Key partnerships:** The State Farm partnership gives ADT access to 13.7 million homeowners. This could be a significant driver of low-cost growth
- **Scaling potential:** AI has significant potential to reduce subscriber maintenance costs. Our base case assumes 0% change, while our sensitivity analysis shows the hypothetical price for changes. To reach its current market price, costs would need to decline about 150 bps annually.

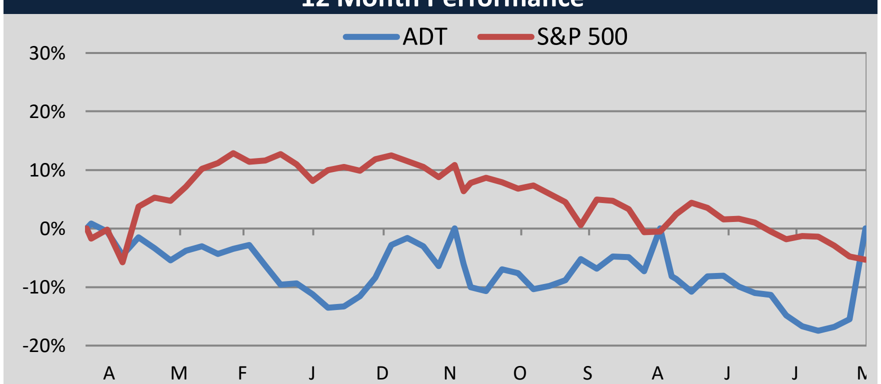
Target Price	$6.00
Henry Fund DCF	$5.25
Henry Fund DDM	$4.25
Relative Multiple	$7.25-7.75
Price Data	
Current Price	$7.88
52wk Range	$6.12 – $8.39
Consensus 1yr Target	$9.10
Key Statistics	
Market Cap (B)	$6.674
Shares Outstanding (M)	891.3
Institutional Ownership	94.0%
Beta	.9
Dividend Yield	2.7%
Price/Earnings (TTM)	12.2x
Price/Earnings (FY1)	9.9x
Price/Sales (TTM)	1.6x
Price/Book (mrq)	1.8x
Profitability	
Operating Margin	23.3%
Profit Margin	10.2%
Return on Assets (TTM)	4.8%
Return on Equity (TTM)	16.3%



Earnings Estimates

Year	2022	2023	2024	2025E	2026E	2027E
EPS	$0.15	$0.50	$0.55	$0.73	$0.85	$1.00
HF est.				$0.48	$0.59	$0.53
growth	*136.97%*	*245.10%*	*9.74%*	*-12.76%*	*22.06%*	*-9.98%*

12 Month Performance



Company Description

ADT currently serves 6.4 million customers, mainly residential. Offerings include smart home security and automation equipment. With a broad range of features any customer can gain peace of mind while away from home no matter their worry. The company offers a subscription with additional features, mainly professional security monitoring and automatically alerting the proper authority. ADT has a strong brand name and has paved the way for security innovation.

COMPANY DESCRIPTION

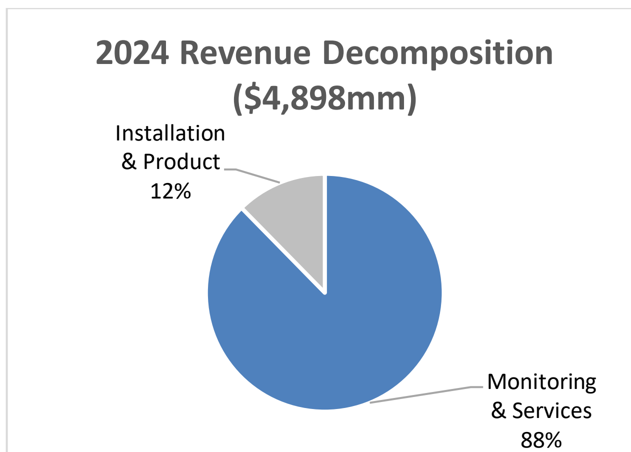
ADT Inc. is a leading provider of security and automation solutions for residential and small-business customers. Founded in 1874 and headquartered in Boca Raton, Florida, the company has undergone a series of changes resulting in its now core focus on residential customers. Currently serving about 6.4mm subscribers, ADT's core security offerings include burglar and life safety alarms, smart security cameras, smart home automation systems, and video surveillance systems. Serving a broad range of purposes, "security offerings are designed to detect intrusion; control access; sense movement, smoke, fire, carbon monoxide, leaks, temperature, and other environmental conditions and hazards; and address personal medical emergencies such as injuries or unanticipated falls"[2].

Most customers are residential. A typical customer is likely one with a stable job providing disposable income to afford a more premium service. Main concerns of subscribers are safety and security, as well as general home maintenance. At a high-level, each customer is looking for the peace-of-mind ADT offers. We believe that their subscription-based model provides a stable stream of recurring revenue considering the effort exalted to install the equipment and the emotional bias involved with removing something that keeps you safe. The company has seen continuous improvement in their attrition rate.

The company has key partnerships with Google and State Farm. This not only provides easy access to a large market of potential subscribers (Google Nest buyers plus the 13.7 million homes insured by State Farm) but also funding for product development. The company was named #1 in home security innovation in 2024 at the Internet of Things Breakthrough Awards[1]. ADT's newest innovation is ADT+, giving customers control of all connected ADT security devices and Google Nest products from one central app. Features include the ability to view cameras, control smart devices, create home schedules/routines, facial recognition to unlock home access, and more. Unique technology, convenience, and reputation of premium monitoring services are why customers choose ADT.

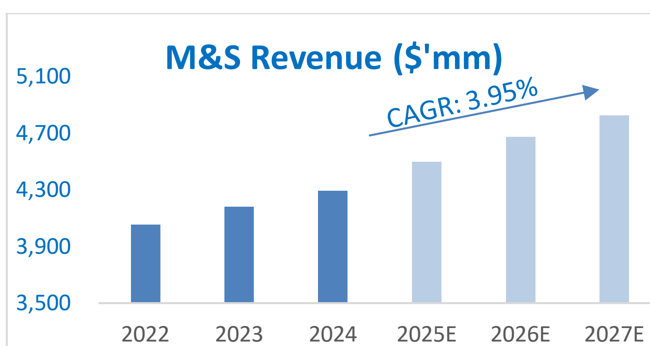
ADT operates 6 monitoring centers. Branch locations employ those responsible for installations and general customer needs. Customers are not limited to ADT branch locations. There is a network of 140 authorized 3rd party dealers spread throughout the country that install equipment. ADT then has the option of purchasing contracts from the dealers.

Source: ADT 2024 Q4 Investor Presentation



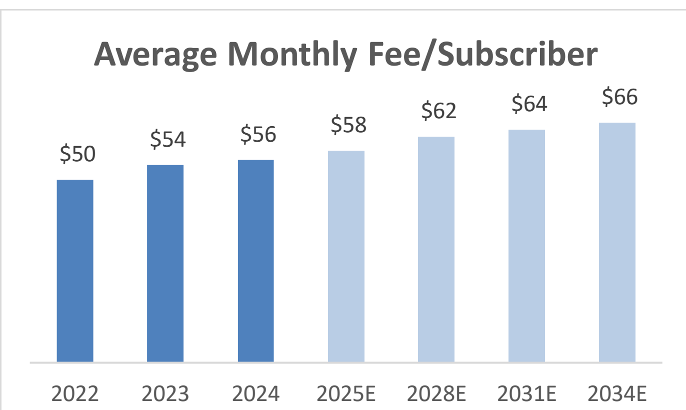
Source: ADT 2024 10K

Monitoring & Services Revenue: $4.3b (88%)



Source: Henry Fund Model

Comprising the bulk of revenue, monthly subscription fees are the heart of operations. A standard contract is 36 months, rolling into a month-to-month contract thereafter[20]. Fees naturally vary by customer due to square footage being covered and different types of equipment/services. Management reports 6.4 million subscribers as of 2024, which implies an average monthly fee of $56/subscriber. The average fee was stagnant from 2017-2022, before growing from $50 to $56 in '22 and '24 respectively. Tellingly, ADT reports that their partnership with Google is building momentum in their first quarter of 2022 earnings presentation and that they are increasing State Farm offerings[3]. Clearly as they develop new technologies customers have historically shown a willingness to upgrade and pay higher fees, even in the face of rising inflation. ADT introduced the ADT+ platform in 2024, which boasts a range of technological improvements. As ADT+ is rolled out we expect more customers to upgrade, justifying the short-term fee increase. Taking the average growth in years 2022-2024, we arrive at 4.5% monthly fee growth in 2025, which we expect to level off to a moderate rate of 1% by 2027. This leads to an average monthly fee of $66 by 2034, only $10 more than the 2024 fee of $56. This is reasonable considering the continued rollout of ADT+ and managements high expectations for new technology development. We believe a 1% long term growth rate is justified because at some point innovation reaches its limit.



Source: Henry Fund Model

Subscriber Count:

The number of subscribers is the most important metric for ADT revenue, specifically those that are renewing versus new subscribers. This is particularly important from a cost standpoint, which is discussed in further detail in the "cost structure" section. The company reports the attrition rate of subscribers, which is the percent of subscribers that cancel each year. From there we can use management reported net additions, and the attrition rate, to back into the number of subscribers gained as a percent of the total number of subscribers. Attrition rates have declined from 14.8% to 12.7% throughout 2016-2024. We expect attrition rates to gradually decline to 8% by 2034 for three reasons:

1) Home relocations rates have declined from 36mm to 25mm annually throughout 2015-2024, a trend we expect to continue, driving down attrition rates.
2) As technology progresses customers are not only more satisfied, but the tech is deeply ingrained into their daily life. Apple products are a great example, we do not see AirPods as a necessity, but once you use them daily it is hard to imagine life without them.
3) The decision to cancel a service that protects your home, and family is subject to many emotional biases that may leave subscribers feeling guilty for cancelling considering the risk-to-reward.

The number of new subscribers is driven by a percentage applied to the prior year end number of subscribers. The percentage has been somewhat volatile historically, ranging from 4% to 15%. Starting with the 2024 rate of 12.7%, we expect a steady decline towards 12% in 2034. A declining rate makes sense considering as you grow your base it is harder to attract more customers. For context, this generates an average of 840k subscribers in each forecasted year. We believe the following 3 macro-factors justify growth:

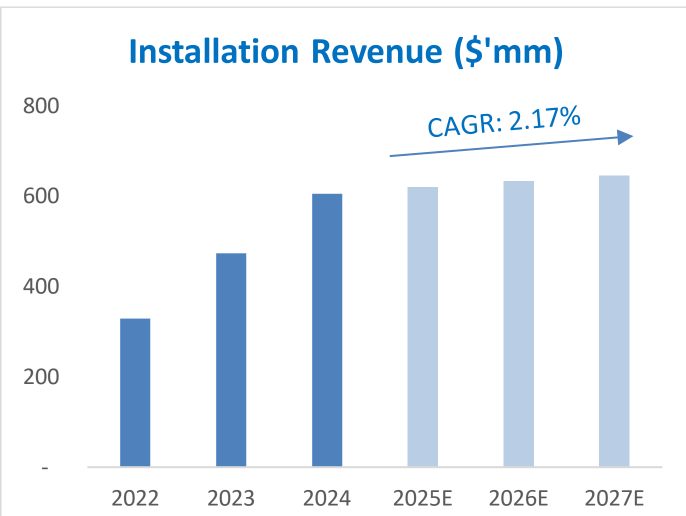
1) Housing Starts: Given the large discrepancy of housing supply versus demand, we expect housing starts to increase driving up demand for home security and automation.
2) Perceived threat of crime: There is a large discrepancy between actual crime rates and perceived crime rates. Google Trends reports search interest related to crime on a scale of 0-100. This score rose from 32 to 63 from 2015-

2024, reaching heights of 88 and 90 in 2021 and 2023. We expect this trend to generally continue, especially given the Trump administration amplifying immigrant related crime fears.

3) Return to work: Office vacancy rates jumped from about 13% in 2019 to almost 21% by 2024. Evidenced by large office developments and return to work mandates such as J.P. Morgan, we expect vacancy rates to decline. IBISWorld agrees, projecting rates to decline to about 19.5% by 2031, from which we expect a continuing decline[4]. With more empty homes customers are faced with worries like dogs tearing up furniture, fires, burglars, etc.

A declining attrition rate combined with subscriber growth leads to ADT's subscriber base growing from 6.4 million to 7.9 million by 2034. This leads to monitoring and services revenue growing from $4.3 billion in 2024 to $6.2 billion in 2034.

Installation and Product Revenue: $605mm (12%)



Source: Henry Fund Model

Security installation, product, and other includes an installation fee received upfront as well as the amortization of deferred subscriber acquisition revenue, which is recognized as contractual performance obligations are performed. Management only gives two years' worth of a breakout between the two, so we have simply aggregated the accounts for forecasting. Upfront fees do not fully cover the costs incurred to install, especially considering the overhead costs associated with customer acquisitions. Hence, we do not see installation revenue as a main driver, rather a way to partially cover acquisition costs. In aggregate the theory is that as long as enough customers continue paying there is an average payoff period of customer acquisition expenses that is achieved through monthly recurring revenue. We expect this account to grow considering more complex installations that will increase costs. The average revenue per installation was $744 in 2024. From there, we expect the average fee to grow 3% in 2025, stepping down to 1% annually by 2028. This results in the average installation fee rising from $744 to $855 by 2034. This is reasonable considering ADT is offering more options. Not only do customers have a larger selection to choose from, but those products are likely more expensive. The number of installations each year is taken from our subscriber forecast (discussed in M&S revenue). We expect installation revenue to grow from $605mm in 2024 to $785mm in 2034.

Street Consensus & Management Guidance

Total expected revenues total $5,116mm in 2025, which falls in line with management's guidance of $5,025mm-$5,225mm. The average street estimate is $5,110mm. Given that most revenue comes from subscribers it makes sense that 1-year estimates are similar, assuming there is not an unexpectedly large change in subscribers or fees.

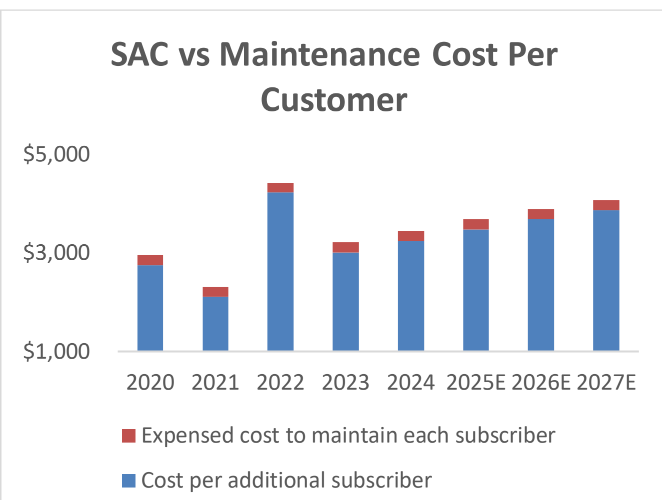
Cost Structure Analysis

Subscriber Acquisition Cost (SAC):

The largest cost of ADT is acquiring new subscribers, about $3k per customer and receiving on average $744 upfront for installation fees. To ensure repayment, the customer is locked in a standard 3-year contract for monthly services[20]. Assuming monthly fees stagnate around $60, it would take about 3 years for the company to recoup its initial investment for the average customer. Subscriber acquisition costs involve producing new and innovative technology, purchasing accounts from 3rd party dealers, advertising, and the labor costs of installation. Technology development is largely funded through partnerships with Google and State Farm. We expect SAC per customer to grow 8% in 2025 as they roll out more complex equipment, then steadily decline towards 5% growth by 2028 as technology matures. This base case reflects the additional capital expenditures required to improve technology and added complexity of installations.

Our best case is led by increasing 3rd party authorized dealer program sales. Third party dealers hold the inventory, pay their own salespeople, handle installations, then sell the account to ADT. Outsourcing customer acquisition allows ADT to direct more capital toward scaling its subscription-based model- a stable revenue stream that has easily centralized back-end expenses (e.g. monitoring centers). In contrast, customer acquisition is a more volatile revenue stream without the same scaling potential, so outsourcing it to regional companies that offer a broader range of products to absorb costs makes sense. Ideally, we see a gradual increase in authorized dealers in tandem with a decline in subscriber acquisition costs (sales, advertising, installation labor). This would lead to an improved cost structure without negatively impacting top-line growth. One rebuttal to this point is that they lose the ability to control the quality. We see this as a valid concern, although the real quality of ADT is in its unique product features and premium monitoring services. If ADT produces equipment that customers demand, dealers will be incentivized to carry their product and follow installation protocol to a tee to keep ADT's business. Because of the uncertainty of this initiative, and lack of management guidance, we have not built it into our model. Sensitivity analysis gives a sense of any upside potential if management can reduce subscriber acquisition costs.

It is hard to determine its exposure to tariff risk because management does not give enough detail, though in its latest earnings call management mentions that the impact of tariffs has already been built into their guidance.



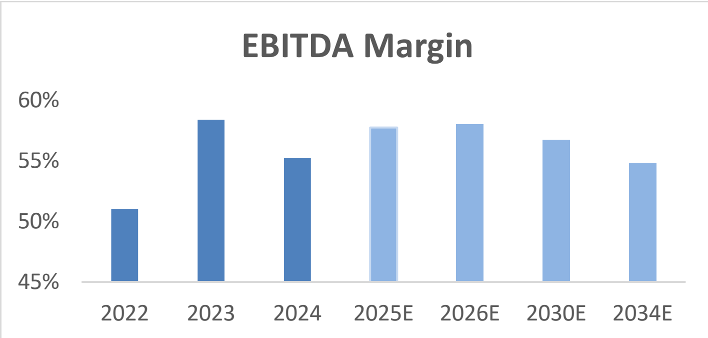
Source: Henry Fund Model

<u>Customer Maintenance Costs:</u>

We estimate that the cost to maintain each subscriber was $207 per subscriber in 2024. This includes "monitoring & service" expense, and the general and administrative expense that we've backed out of SG&A. We can assume that both fees are relatively fixed up to a certain threshold, allowing scalability. ADT operates 6 monitoring centers that handle all surveillance activity. For general customer service calls, the company employs individuals that work from home. Cost cutting measures for monitoring & service expenses are a large opportunity to grow its bottom line. Implementing AI allows situations to be identified and routed to the proper authority which is much quicker and efficient. Management has also identified opportunities to work with municipalities to link software and route emergencies straight to them. This essentially outsources the work of monitoring to municipal agencies. ADT is focused on its SMART monitoring solutions, to get faster responses with fewer false alarms and customer care calls. Though valuable, we have not seen material improvement yet. It is also important to remember the underlying business here. Outsourcing high stakes jobs to AI could lead to consumer headwinds, even if empirical evidence provides tailwinds. We have forecasted no change in maintenance cost per subscriber and will rely on sensitivity analysis to give a sense of upside potential.

<u>Margin Analysis</u>

The cost per additional subscriber and that to maintain each subscriber is multiplied by the amount of subscribers used in our revenue forecast. Therefore, forecasted margins are incredibly sensitive to the mixture of new vs existing subscribers and what costs are tied in. Our view is that the bulk of value creation is tied to existing subscribers because it exhibits a leaner cost structure. ADT wants to build its subscriber base so that it can have that base of subscribers that are cheap to service, but there is a limit to its effectiveness. The company can achieve top line growth in this respect, but the cost is important. For a new subscriber to create value ADT needs the ability to cut acquisition costs or raise fees. Essentially, given their current attrition rate, to achieve their target revenues they are required to replace many lost subscribers, which is costly. The company has improved EBITDA margin from 46% in 2021 to 55% in 2024. We expect an initial expansion in 2025 as revenues grow from upgrades to ADT+, before leveling off to 55% again by 2034. The subsequent decline is driven by slowed fee increases coupled with rising subscriber acquisition costs.



Source: Henry Fund Model

Significant Partnerships

Partnerships with Google and State Farm provide funds to invest in technology development. The partnership with Google, announced in 2020, resulted in Google spending $450mm to acquire 6.6% ownership and committing $150mm to cover training, marketing, and technology solution costs, termed the "Google Success Fund". In 2022, Google committed an addition $150mm of capital to the fund to focus largely on technology development[5]. Another valuable aspect of the partnership is integration with the Google Nest door camera. We view the Nest as an entry-level product for consumers and significantly reduces the resistance to attaching ADT equipment. This outlines an increasingly large total addressable market thanks to the large balance sheet Google utilizes to roll out products. This is a unique advantage compared to competitors such as SimpliSafe, which are rolling out their own more entry-level products without the support of a massive balance sheet. In 2022 the State Farm partnership was announced, where State Farm invested $1.2b to acquire 15% equity, as well as investing up to $300mm in an opportunity fund to support product innovation, technology, and marketing. Homeowners benefit via cheaper insurance premiums, and State Farm benefits by reducing their portfolio risk. As of 2022 State Farm had 13.7 million homeowners' policies in force, providing a massive growth opportunity to grow ADT's current 6.4 million subscriber base, of which is likely minimally connected to State Farm considering it has only been implemented in 17 states[6].

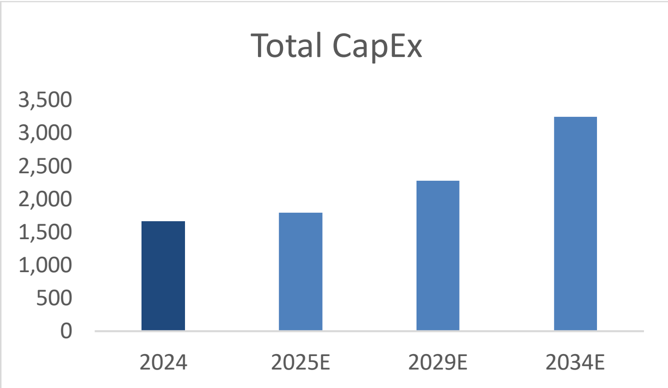
Notable Product Features

Innovation is important to ADT, and the company was named #1 in home security innovation in 2024 at the Internet of Things Breakthrough Awards. This is evidenced by services such as ADT+, an app that gives you control of all connected ADT security devices and Google Nest products. Features include the ability to view cameras, control smart devices, create schedules/routines for your home, include multiple family members, and access to their new Trusted Neighbor program that gives temporary access to visitors. Another feature is auto-unlock, which uses face detection from the Google Nest Doorbell to verify trusted individuals' identity and unlock the door. It is appealing to have the ability to integrate all these features in one place with ease, rather than buying a doorbell camera and another home security system and hassling with integration. Another bonus is customization. Users can choose what features they need or don't need, and if they decide they want something new in the future they can easily install and connect. The level of optionality given to customers is incredibly unique and something not offered to the same extent by cheaper alternatives such as Amazon's Ring Doorbell.

For customers more concerned with safety and security, ADT is ranked number 1 for best overall 24/7 monitoriing[7]. Once cameras are installed, feeds are sent to 6 monitoring systems employing real people to monitor and immediately alert the proper authority when necessary. Alternatives such as Ring offer lower cost professional monitoring, but their services are not recognized as a leader in monitoring like ADT is. Some customers do not require the best though, and want something simple to watch over their packages, which is how Ring has been able to grow. Further, ADT is more expensive because it goes beyond the scope of basic video surveillance. Recently added options include smoke and carbon monoxide detectors, personal emergency and response, aging in place, and leak detection.

Capital Expenditures

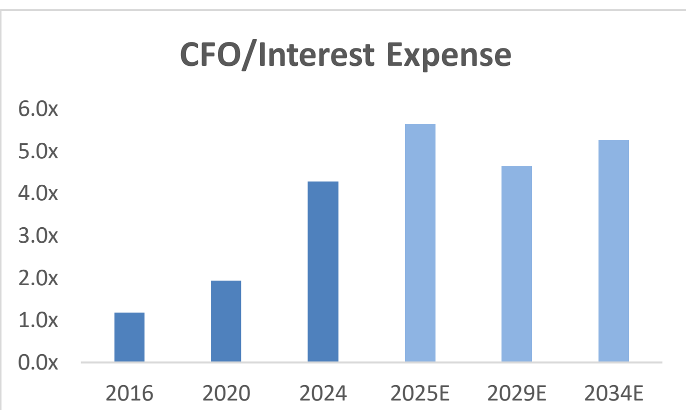
Going back to our cost analysis, capital expenditure consists of funds required to obtain new subscribers. Management does not give any guidance on this metric. We have forecasted capex as a function of the cost per additional subscriber and the number of new subscribers. Please see our cost analysis for more detail.



Source: Henry Fund Model

Debt Maturity Analysis

With over $10 billion of it at one point, debt has been front and center in ADT discussions. They were taken private in 2016 through an Apollo backed leveraged buyout. Apollo is still the largest shareholder, owning 33% of shares. We view cash flow from operating activities to interest expense as a key metric. If they want top-line growth they need to go out and gain subscribers, develop new equipment, pay for monitoring centers, etc., which all require large amounts of capital.



Source: Henry Fund Model

In 2024 long-term debt as a percent of non-cash assets stood at 47.4%. This is down from previous highs of 60%. In its latest earnings call management states, they are happy with their current capital structure, so we have forecasted long-term debt as a percentage of non-cash assets to remain at 47.4% over the forecast horizon.

Five-Year Debt Maturity Schedule

Fiscal Year	Payment ($mil)
2025	170
2026	1,500
2027	1,100
2028	1,367
2029	1,020
Thereafter	2,635
Total	$7,792

Source: ADT 2024 10K

ADT will likely refinance its debt as it comes to maturity, especially considering Apollo is the largest shareholder, which would likely favor such a strategy. Our forecast reflects this assumption. Given recent market turmoil, we expect debt being refinance in 2025 through 2027 particularly to be of concern. If we assume a typical term loan has a 5-year maturity, then they likely pulled this debt during the pandemic era when it was cheap. Refinancing at say +500bps immediately puts significant pressure on cash flow. Our model uses the current YTM on their longest term bond (8.55%) as the current pre-tax cost of debt. According to FactSet ADT has been rated BB- by S&P, which is in junk bond rating territory.

ESG Analysis

Company	Risk Score	Risk Rating
ARLO	19.1	Low
SKYX	29.1	Medium
ALLE	20.8	Medium
ADT	22.4	Medium

Source: Morningstar Sustainalytics

ADT peers include a mix of video surveillance and smart home appliance companies. On a typical day ADT records 52 million video clips[9]. ESG concerns are largely related to the handling of data ADT has access to. The latest notable case was in 2020, when a former ADT technician gained unauthorized access to the security systems of over 200 customers[10]. Management has since put a large emphasis on minimizing similar instances, as it can significantly tarnish their leading brand name. They created the positions of Data Privacy Office, Chief Information Security Officer, and a Cybersecurity Council to control data privacy and cybersecurity concerns. In 2021 the company created a detailed outline of ESG related goals and metrics to track progress. A notable trend is that in 2021 the company saw one data breach that affected 7 customers/150 individuals[9]. In 2023 they reported no material data breaches. Another concern is their labor force. There is a lot of training that goes into installations and proper action plans when monitoring. The company did not report turnover rates in 2021 but have reported them at less than 50% in 2023.

RECENT DEVELOPMENTS

Recent Earnings Announcement

ADT released 2024 fourth quarter earnings on Feb. 27, 2025. EPS guidance from management was $0.70-$0.75, and analyst consensus ranged from $0.72-$0.75. Actual EPS came in at the expected $.75. The share price substantially increased from about $7.50 per share to about $8 the week before release, before restoring to about $7.50 in the following days. Though EPS came in at the upper end of estimates, free cash flow saw a -12% deviation from average estimates[11]. We believe this discrepancy is driven by the cost of acquiring customers, the largest use of cash. Because most acquisition costs are capitalized, investors will see great revenue growth and EPS. Because most of the acquisition costs are capitalized, and amortized over time, the income statement misses the big picture. If you spend $1mm but get to expense it over the next 10 years, you still used $1mm. Additional revenue cannot make up for the full loss in cash flow in periods of high subscriber growth. If you have a specific revenue target to meet, it is a matter of how many new customers are needed versus relying on existing customers. Clearly the company spent a lot of cash going after new customers to meet their revenue goal, justifying the negative market reaction. We believe a market surprise could come through a reduction in acquisition costs, as discussed in our cost structure analysis.

Management expects total 2025 revenue of $5.025 billion-$5.225 billion. Our estimates yield total revenue of $5.116 billion. As mentioned, meeting top line estimates miss the bigger picture. We expect the market to be focused on capital expenditures, which management does not give guidance for, though our model indicates 7% YoY growth as they grow try and scale their subscriber base.

On a more structural note, management paid down about $1.2 billion of debt, repurchased $345mm worth of shares, and raised its quarterly dividend by 57% in 2024[2]. The debt burden has weighed particularly heavy on investor sentiment, so reducing this burden is beneficial. Management indicated that it is relatively happy with its capital structure now and will grow its' focus on returning capital to shareholders. Management announced $500mm worth of share buybacks over the course of 2025.

Mergers & Acquisitions

ADT's history is packed with M&A activity, with recent activities pointing towards a focus on its core residential operations. A dive into the history provides helpful context into its capital structure. In 2015 ADT is acquired by Johnson Controls', an HVAC focused company. At the time ADT was one of the largest providers of air distribution and ventilation products for buildings in North America. Fast forward to 2016 and ADT is acquired by Apollo Global Management in a take-private deal of $7 billion ($4.5 equity check). We assume Johnson Controls' retained ownership of HVAC related operations considering they are in the sales process for "ADT" as of 2024. Therefore, at this stage ADT is operating a residential segment, small-medium sized business segment, and commercial segment. Two years later ADT is taken public, at $14 per share. There was a lack of demand, from investors, trading down immediately. We presume much of this is related to market sentiment related to the $10 billion of debt ADT carried. In 2021, ADT acquires Sunpro Solar (rebranded to ADT Solar) for $160 million in cash and common stock worth about $665mm. The market reacted poorly, going from a high of almost $12 in mid-2021, to around $8 by the end of the year. We assume the thought here was that ADT would be able to leverage its customer relationships in smart home devices to achieve growth. Customers were not as willing to upgrade to solar units as the company had anticipated. Installing security cameras versus changing how you power your home are very different in terms of how much it affects your lifestyle. ADT closed its solar business in 2023.

Fast forward to 2023 where ADT sells its commercial business, with all net proceeds of $1.5 billion paying down debt. The market positively reacted to debt reduction efforts, raising the share price from $5.66 in October when the sale was complete, to $6.82 to close the year. All that leaves is the core residential and small-business operations, which management plans to focus on. Management has not indicated any interest in acquisitions going forward, and we do not expect it to be a material part of their strategy. Each company in this industry is unique in their equipment and types of services, which we expect to make integration less effective.

MARKETS AND COMPETITION

According to IBISWorld, ADT owns 13% of the security alarm services market, while the other 87% is a mixed bag of other companies[16]. We expect ADT's market dominance to be challenged by the introduction of do-it-yourself security equipment. DIY systems deliver accessibility, opening the market up to customers that would otherwise never be interested in security services. We do expect ADT to continue dominating the premium market, where customers demand advanced features, thanks to key partnership funding development.

Source: IBISWorld

AI and Machine Learning

AI & machine learning are major developments that the industry can use to drive improved customer utility and more protection. For instance, ADTs System Monitoring and Response Technology (SMART) monitoring solution has resulted in improved alarm responses and reduced false alarms and customer care calls. There is plenty of room for growth as this technology evolves. Features that customers value, such as the ability to automatically unlock the door for family members, have been unlocked thanks to AI. This not only drives top-line growth but margin improvement as well, driven by cost cutting potential previously mentioned. As we mentioned, we expect much of ADT's total addressable market to be generated through homes with Google Nest door cameras. Sticking with that argument, ADT's target market is amplified by Google's success. We therefore see ADT (through Google) and Amazon as best positioned to develop new technology. Both companies bring robust AI capabilities from their broader technology ecosystems. However, they differ in their ability to monetize this technology and align it with consumer needs. For instance, Amazon's Ring operates independently, lacking partnerships with 3rd party security providers like ADT. This limits the ability to deliver comprehensive solutions to customers. In contrast, Google's Nest seamlessly integrates with ADT's ecosystem. From a customer's perspective, the combined offerings of Nest and ADT deliver a more complete, future-proof solution compared to Ring and its associated platforms, which may lag in innovation due to limited partnered funding. In short, customers seeking a full featured, integrated smart home security experience are likely to find greater long-term value in the Nest/ADT combination versus unrelated alternatives.

Do-It-Yourself Systems

Customers are segmented between those who want all the bells and whistles they can get and those that want something incredibly simple. Cheaper DIY alternatives are filling the gap that traditional providers with complex installations miss, really appealing to the customers that want something simple and cheap. Smart home technology is rapidly improving right now, but we expect at some point there is an element of diminishing return. For all the capital poured into developing a new feature that can, say control your lights form your phone, do customers want to pay more? Our view is that there is certainly a market out there, but most people just want basic security which is where DIY systems come in. DIY systems are much more accessible as well. You do not need to commit to a long contract or need to pay a large installation fee and deal with a team coming into your home to install the equipment.

Peer Comparisons

Ring (Part of Amazon)

We view Ring products as ADT's most threatening competitor considering its brand name and low price. ADT requires that you call a specialist to determine what you need, while Ring has their full selection of products available to purchase directly on their website. This is an advantage of Ring in terms of accessibility, though we believe it also speaks to the unique specialization of ADT products. The company offers DIY systems as well as installation services in case customers prefer to have it installed. Ring also offers a few different subscription tiers, ranging from delivery notifications up to professional monitoring. Ring offers lower security costs that naturally have less support. We see customer sentiment as a headwind for Ring. Amazon has faced lawsuits for millions of dollars alleging that Ring gave customer data to third parties, and other general data privacy concerns[17]. Amazon's Alexa has faced similar concern, which we expect more customers to associate with Ring as well. ADT has not faced any allegations to that extent, and Nest has not had any issues related to its data privacy. As a cheaper alternative, we expect Ring to have a larger target market, although without Amazon providing financials it is hard to compare the economics to ADT.

Private Competition

ADT	Vivint	SimpliSafe
$46	$17	$32

Source: HomeSafe.org

Worth noting are private competitors Vivint and SimpliSafe. Each has similar product offerings and offer monitoring services. Looking at each company's base plan of services, ADT comes in at the highest price point. This is thanks to a more recognized and trusted brand and a broader scope of services.

Public Competition

Company	Market Cap. (M)	Net Income (M)	P/E	Gross Margin	Debt-to-Equity (%)
ADT (ADT)	6,886	501	10x	51%	205%
Arlo Tech. (ARLO)	1,050	-31	15x	37%	24%
Allegion (ALLE)	11,014	598	16x	44%	143%

Data Source: FactSet & Yahoo Finance

One thing to note about the overall picture is that there is clearly a size element involved, in which larger companies can realize economies of scale and generate positive net income. We believe that Arlo Technologies is best positioned within the peer group. Their customer acquisition process is relatively more efficient, and their SaaS model is scalable.

Arlo Technologies

	ADT	ARLO
Subscriber Count	6.4 mm	4.6mm
Avg. Monthly Fee	$56	$5
Attrition Rate	12.70%	12.67%
Cost/New Subscriber	$3,000	$194
Capex as % of Revenue	34%	53%
Monitoring Margin	86%	78%
Inventory Turnover	12x	8x

Source: FactSet & ADT/ARLO 10K

Arlo targets the residential market and offers camera, doorbell, and floodlight equipment, as well as monitoring services. Arlo states they rank 1st in subscriptions least likely to be canceled and plans on growing their subscriber base to 10 million paid accounts by 2030[18]. They have rapidly scaled their subscriber base, growing from almost half a million in 2020 to 4.6 million in 2024. The market seems to appreciate that they brand themselves as more of a tech/software company, focus on their core product, and address international growth prospects. The company has significantly lower monthly fees, justified by their smaller selection of services and less premium brand name. Key to our thesis is looking at the cost per new subscriber relative to the avg. monthly fee, as it gives a good idea to how valuable growth is and their ability to scale. ADT's cost per new subscriber is 54x the average monthly fee, versus Arlo's of 44x. Their customer base differs in that ADT customers will want the premium features of a smart home system, versus Arlo customers that value a more basic service. We expect each customer base to grow, though the economics of scaling operations seem to be better for the cheaper service that Arlo provides.

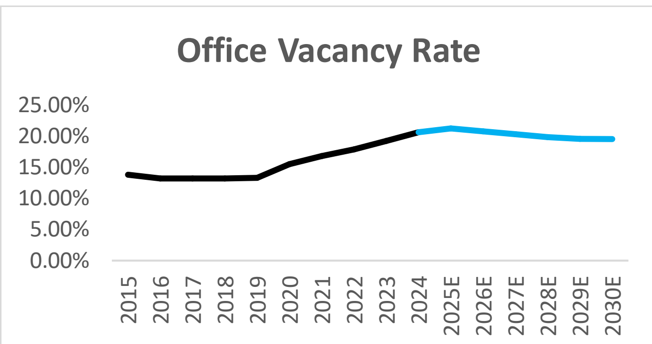
Allegion

Allegion is the parent of a large family of brands, collectively sticking to the traditional industry model of generating revenues from long-term contracts under a company-owned equipment model. Most of their revenues comes from businesses. They offer a wide variety of services ranging from your typical door lock to measuring workforce productivity. A benefit of this array of business services is the ability to leverage customer relationships in securing these long-term contracts. The back-end integration of all these separate brands is clear as well given their high margins. Because of its larger focus on business services, we expect ADT to outperform in terms of the residential market.

ECONOMIC OUTLOOK

Work From Home Trends

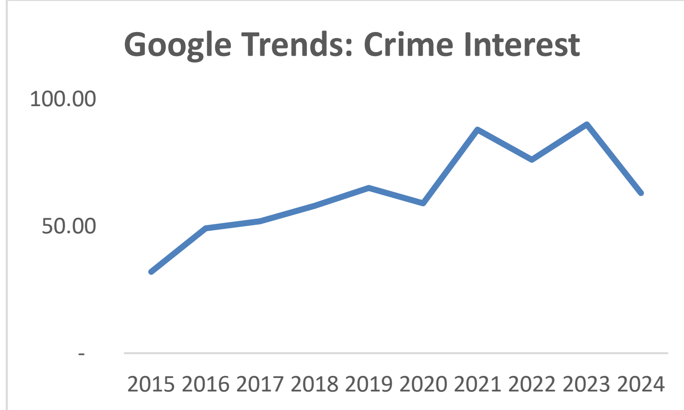
As more employees return to work, there are more empty homes to worry about. Office vacancy rates obviously spiked during COVID but are beginning to trend back down. More companies are opting to return to office. For example, J.P. Morgan has been very firm in this approach. As more employees leave their homes empty, home security systems offer the peace of mind they are looking for throughout the day. We have relied on IBISWorld research to arrive at a qualitative consensus of more employees returning to work, positively affecting our subscriber growth rates.



Data Source: IBISWorld (Historical & Projected)

Perceived Crime Threats

Elevated crime fears will drive subscriber growth and reduce attrition rates. A 2024 survey from Gallup's shows 79% of Americans believe crime has worsened over the past year[16]. Interestingly, evidence shows crime as actually declined. Examining Google Trends data, search interest related to crime has also substantially increased over the historical period. Consumers will look to upgrade their homes security considering rising concerns. We expect this perceived threat to continue because of current U.S. administration amplifying concerns related to immigrant crime. Immigration policy was a key factor in the 2024 election, so there is a clear majority that resonate with this concern.



Data Source: Google Trends

Cost of Borrowing

Long-term treasury yields are important in managing ADT's debt burden and its ability to service refinanced loans. There is a lot of rate uncertainty due to tariff policies. Without dwelling on a specific percentage, we believe that the cost of borrowing will rise short-term. In periods of contraction or uncertainty lenders do not give out money as freely as they do in more stable periods. Absent of a tariff repeal, we expect much uncertainty to come in the near term. We expect $1,670mm of debt to be refinanced in the next two years at substantially higher rates. This will put substantial pressure on cash flows. Please see our debt analysis discussion for more detail.

VALUATION

Revenue

This section outlines the mechanics of our revenue forecast, for more details on our logic please see our revenue analysis section. We separated the pricing by monthly fees and installation fees. We expect both to grow quickly within the next 3 years because of their new ADT+ rollout and management seems optimistic that we are on the cusp of more technology. We expect monthly fees to grow at 4.51% which is higher than our 3% estimate for installation revenue. This is because monthly fees are the heart of their business, and we do not think they will be as aggressive with installation fees. Then we determined a long term ('28-'34) rate of growth per subscriber and installation. We forecasted each growing at 1% considering technology and consumer demand will reach a limit. We rely on sensitivity analysis to see what happens in an upside or downside case. To fill in the years between, we built in a formula for a constant step towards our long-term rate. We forecasted customer attrition rates and subscribers gained as a percent of the prior base to arrive at the total number of subscribers. We assumed a target rate for each by 2034 of 8% and 12% respectively. The forecasted years follow a constant step from the '24 actual to '34 estimated rate. Our estimates result in average revenue growth of 2.64% annually.

Costs

We bifurcated all costs (expenses & capex) between the cost of acquiring a new subscriber and the cost of maintaining an existing subscriber. We believe that the costs per additional subscriber will generally increase as products rise in complexity, installations take longer, and competition from cheap alternatives rises. We expect ADT could save money through outsourcing this cost to 3rd parties whose sole purpose is selling on the front-end. Because that is subject to uncertainty and management decisions, we have relied on a base case scenario of growing costs. Following the same logic as revenues, 8% growth in 2025 will step down to 5% by 2028. We have straight lined the cost to maintain each subscriber at $207 through the historical period. There is certainly room to decline as AI is implemented, but we have not seen any convincing evidence yet.

We multiply the SAC per subscriber by the number of new subscribers to get total SAC. We multiple the maintenance cost per subscriber by the total number of subscribers to get total maintenance costs. Within each type of cost, allocations are mode between expenses and capitalizations based off historical percentages of the total. Therefore, our capital expenditure assumptions and all operating expenses are directly linked to the total number of subscribers and the number of subscribers the company added that year.

Valuation Models

We put 60% weight on our DCF valuation, 40% weight on our relative valuation, and no weight on our DDM valuation. Our DCF gives a great detailed analysis of many variables influencing our price target. Relative analysis is important because we believe the current macro environment is leading towards investors attaching more value to the steadier cash flows ADT and its peers provide. We gave our relative valuation a slightly lower weight because of a limited peer group. We have not relied on our dividend discount model because our low EPS growth over the forecast horizon is caused by many non-cash expenses (e.g. amortization of SAC) resulting in a low DDM price.

<u>Discounted Cash Flow (DCF)</u>
Our DCF and economic profit model imply a price of $5.19, representing a downside of 34%. We used a pre-tax cost of debt of 8.55%, which is the YTM on their longest-term bond. The cost of equity was implied via CAPM, with a risk-free rate of 4.29% (10-year treasury yield), a beta of .89 (Bloomberg Raw), and an ERP of 5% (HF Consensus). This generates a WACC of 7.65%. We forecasted CV NOPLAT and EPS growth at 2%.

<u>Dividend Discount Model (DDM)</u>
Our DDM model yields a target price of $4.26. A key input is the terminal EPS and ROE growth, 2% and 8.76% respectively. EPS growth is a key input of the DDM. The company has significant non-cash expenses that result in low EPS growth and an unfair DDM price.

<u>Relative Price-to-Earnings</u>
Our comps analysis yields a target price in the range of $7.25-$7.69. ADT's most prominent competitors are either private or part of a large conglomerate, resulting in a limited peer group. The group consisted of Arlo Technologies, the most similar company, and Allegion which is largely focused on business security solutions. Because of the lack of a great peer group, we have not relied on relative valuation.

CONCLUSION & KEYS TO MONITOR

In summary we recommend a "Sell" rating for ADT, our target price of $6.10 represents a 23% downside from its current market price. Building a subscriber base is important for subscriber-based business model, and currently the company is expected to destroy value as they grow. Unless ADT can pull levers for outsized pricing growth or declines in subscriber acquisition costs, they will grow at too high of a cost. Cheaper alternatives are coming into the market, making ADT's less accessible and more expensive product a harder sell, further increasing subscriber acquisition costs. Lastly, the company has a significant debt burden that we expect to require refinancing at a materially higher cost of borrowing.

CV new subscribers as % of base

2028-'34 cost/new su

5.19	9.00%	10.00%	11.00%	12.00%	13.00%	14.00%	15.00%
-1.00%	16.69	16.83	16.98	17.12	17.26	17.40	17.55
0.00%	15.43	15.42	15.41	15.39	15.35	15.31	15.25
1.00%	14.11	13.94	13.76	13.56	13.33	13.09	12.82
2.00%	12.71	12.38	12.02	11.63	11.20	10.75	10.26
3.00%	11.24	10.73	10.18	9.59	8.96	8.28	7.55
4.00%	9.70	9.00	8.25	7.45	6.59	5.67	4.69
5.00%	8.07	7.17	6.21	5.19	4.09	2.92	1.68

Source: Henry Fund Model

This table shows the 2028-2034 growth in the cost per additional subscriber (y axis) by the percentage of new subscribers as a percentage of the prior year subscriber base by 2034. Notably growth currently destroys value. For growth to create value holding revenue constant, the cost per new subscriber would need to decline 1% each year from 2023-2034. This metric should be closely watched and regularly updated as management becomes more or less efficient in acquiring subscribers.

Authorized dealer participation/bulk account purchases should be closely monitored going forward. Consistent increases in bulk account purchases indicate that the company can outsource the customer acquisition process which we see as value creating. Closely monitoring metrics relating to AI implementation will be important as well. We would like to see the cost to maintain each subscriber decline in the long run.

Attrition rates may prove to be the most impactful metric. If they can retain more subscribers, they do not need quite so much improvement in SAC. It likely is not too hard for ADT to meet revenue expectations, its just a matter of where its coming from. We expect attrition rates to gradually decline to 8% by 2034.

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DISCLAIMER

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ADT Inc.

Revenue Decomposition

Revenues have been restated for divestitures

Fiscal Years Ending Dec. 31	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**	**2034E**
Monitoring and related services (less commercial for historics)	4,053	4,179	4,293	4,496	4,674	4,823	4,940	5,079	5,243	5,433	5,652	5,903	6,188
Security installation, product, and other	329	474	605	620	633	645	656	669	685	705	728	754	785
Total revenue	**4,382**	**4,653**	**4,898**	**5,116**	**5,307**	**5,468**	**5,595**	**5,748**	**5,928**	**6,138**	**6,380**	**6,657**	**6,973**
% growth	*4.26%*	*6.18%*	*5.28%*	*4.43%*	*3.74%*	*3.04%*	*2.32%*	*2.73%*	*3.13%*	*3.54%*	*3.94%*	*4.35%*	*4.75%*
Number of new subscribers	0.94	0.56	0.81	0.81	0.81	0.81	0.81	0.82	0.83	0.85	0.87	0.89	0.92
Average implied revenue per installation recognized	$ 348	$ 840	$ 744	$ 767	$ 785	$ 798	$ 806	$ 814	$ 822	$ 830	$ 838	$ 847	$ 855
Total Installation Revenue	**329**	**474**	**605**	**620**	**633**	**645**	**656**	**669**	**685**	**705**	**728**	**754**	**785**
% growth	*2.63%*	*44.08%*	*27.68%*	*2.43%*	*2.17%*	*1.91%*	*1.64%*	*2.04%*	*2.44%*	*2.83%*	*3.23%*	*3.63%*	*4.03%*
													2.64%
Average number of subscribers	6.65	6.55	6.40	6.41	6.45	6.52	6.61	6.73	6.87	7.05	7.26	7.51	7.80
Average annual revenue per subscriber *actual $ amt.*	$ 609	$ 638	$ 671	$ 701	$ 724	$ 740	$ 748	$ 755	$ 763	$ 770	$ 778	$ 786	$ 794
Total M&S Revenue	**4,053**	**4,179**	**4,293**	**4,496**	**4,674**	**4,823**	**4,940**	**5,079**	**5,243**	**5,433**	**5,652**	**5,903**	**6,188**
% growth	*4.40%*	*3.11%*	*2.74%*	*4.72%*	*3.96%*	*3.19%*	*2.42%*	*2.82%*	*3.22%*	*3.63%*	*4.03%*	*4.44%*	*4.84%*
Number of Subscribers Calc.:													
Ending Subscriber Count from 10K	6.70	6.40	6.40	6.43	6.48	6.55	6.66	6.79	6.96	7.15	7.38	7.65	7.95
Net Additions	0.10	(0.30)	-	0.03	0.05	0.08	0.10	0.13	0.16	0.19	0.23	0.27	0.31
Attrition Rate	**12.80%**	**12.90%**	**12.70%**	**12.23%**	**11.76%**	**11.29%**	**10.82%**	**10.35%**	**9.88%**	**9.41%**	**8.94%**	**8.47%**	**8.00%**
Subscribers lost to attrition	0.84	0.86	0.81	0.78	0.76	0.73	0.71	0.69	0.67	0.65	0.64	0.63	0.61
Subscribers gained	0.94	0.56	0.81	0.81	0.81	0.81	0.81	0.82	0.83	0.85	0.87	0.89	0.92
Subscribers gained as a % of total	**14.32%**	**8.42%**	**12.70%**	**12.63%**	**12.56%**	**12.49%**	**12.42%**	**12.35%**	**12.28%**	**12.21%**	**12.14%**	**12.07%**	**12.00%**
Monthly Revenue Pricing Stats:													
Recurring annual revenue per subscriber	605	653	671	701	724	740	748	755	763	770	778	786	794
Average monthly revenue per subscriber	$ 50	$ 54	$ 56	$ 58	$ 60	$ 62	$ 62	$ 63	$ 64	$ 64	$ 65	$ 65	$ 66
% growth	*2.84%*	*7.94%*	*2.74%*	*4.51%*	*3.34%*	*2.17%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*
Installation Revenue Pricing:													
Average revenue per installation	$ 348	$ 840	$ 744	$ 767	$ 785	$ 798	$ 806	$ 814	$ 822	$ 830	$ 838	$ 847	$ 855
% growth	*6.18%*	*141.24%*	*-11.36%*	*3.00%*	*2.33%*	*1.67%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*
Check for macro reasonability:													
Total US Annual Revenue (IBISWorld data and forecast through 2030)	35,100	36,600	37,900	39,000	40,100	41,600	42,800	44,000	45,100	46,002	46,922	47,860	48,818
% growth	*1%*	*4%*	*4%*	*3%*	*3%*	*4%*	*3%*	*3%*	*2%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
ADT Implied Market Share	12.48%	12.71%	12.92%	13.12%	13.23%	13.14%	13.07%	13.06%	13.14%	13.34%	13.60%	13.91%	14.28%

ADT Inc.

Cost Decomposition

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Cost of Subscriber Acquisition:		**Management given**						**Forecasted**					
Capitalized :													
Property and equipment	99	167	173	186	199	211	223	237	252	270	289	312	337
Subscriber system assets	582	632	532	572	611	649	686	728	775	828	889	958	1,036
Deferred subscriber acquisition cost	294	373	373	401	428	455	481	510	543	580	623	671	726
Intangible assets (largely related to bulk dealer purchases)	423	565	587	631	674	716	757	803	855	914	981	1,057	1,143
Total capitalized portion	1,398	1,737	1,666	1,790	1,912	2,031	2,146	2,277	2,425	2,592	2,782	2,997	3,241
Expensed:													
Security installation, product, and other	102	147	230	247	264	280	296	314	334	357	384	413	447
sg&a costs *excluding general admin*	497	495	543	583	623	662	699	742	790	844	906	976	1,056
Total expensable portion	600	643	772	830	886	942	995	1,056	1,124	1,202	1,290	1,390	1,503
Total subscriber acquisition cost	1,998	2,380	2,439	2,619	2,798	2,973	3,141	3,332	3,549	3,794	4,072	4,387	4,744
Assumed subscribers gain	0.94	0.56	0.81	0.81	0.81	0.81	0.81	0.82	0.83	0.85	0.87	0.89	0.92
Cost per additional subscriber	**$ 2,115**	**$ 4,217**	**$ 3,000**	**$ 3,240**	**$ 3,467**	**$ 3,675**	**$ 3,859**	**$ 4,052**	**$ 4,254**	**$ 4,467**	**$ 4,690**	**$ 4,925**	**$ 5,171**
% growth	*-23%*	*99%*	*-29%*	*8%*	*7%*	*6%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*

Customer Service Maintenance Costs:		**Management given**						**Forecasted**					
Monitoring & Service	597	604	617	620	625	632	642	655	671	690	712	737	767
Other general & admin expense	697	664	709	712	718	726	738	752	771	792	817	847	881
Total Customer Service Maintenance Costs:	1,293	1,269	1,326	1,332	1,342	1,358	1,380	1,408	1,442	1,482	1,529	1,584	1,648
Ending # of subscribers	6.70	6.40	6.40	6.43	6.48	6.55	6.66	6.79	6.96	7.15	7.38	7.65	7.95
Expensed cost to maintain each subscriber	**$ 193**	**$ 198**	**$ 207**	**$ 207**	**$ 207**	**$ 207**	**$ 207**	**$ 207**	**$ 207**	**$ 207**	**$ 207**	**$ 207**	**$ 207**
% growth	*-8.65%*	*2.68%*	*4.56%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*

ADT Inc.

Income Statement millions

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Revenue:													
Monitoring and related services	4,053	4,179	4,293	4,496	4,674	4,823	4,940	5,079	5,243	5,433	5,652	5,903	6,188
Security installation, product, and other	329	474	605	620	633	645	656	669	685	705	728	754	785
Total Revenue:	**4,382**	**4,653**	**4,898**	**5,116**	**5,307**	**5,468**	**5,595**	**5,748**	**5,928**	**6,138**	**6,380**	**6,657**	**6,973**
Cost of revenue:													
Monitoring and related services	(597)	(604)	(617)	(620)	(625)	(632)	(642)	(655)	(671)	(690)	(712)	(737)	(767)
Security installation, product, and other	(102)	(147)	(230)	(247)	(264)	(280)	(296)	(314)	(334)	(357)	(384)	(413)	(447)
Total cost of revenue:	**(699)**	**(752)**	**(847)**	**(867)**	**(888)**	**(912)**	**(938)**	**(969)**	**(1,005)**	**(1,047)**	**(1,095)**	**(1,151)**	**(1,214)**
Selling, general, and administrative expenses	(497)	(495)	(543)	(583)	(623)	(662)	(699)	(742)	(790)	(844)	(906)	(976)	(1,056)
Amortization of subscriber system assets (historically embedded in sg&a)	(154)	(188)	(225)	(270)	(296)	(323)	(350)	(377)	(404)	(432)	(462)	(495)	(531)
Other general admin expense (historically embedded in sg&a)	(697)	(664)	(709)	(712)	(718)	(726)	(738)	(752)	(771)	(792)	(817)	(847)	(881)
Depreciation and intangible assset amortization	(1,600)	(1,335)	(1,343)	(1,453)	(1,453)	(1,471)	(1,500)	(1,539)	(1,589)	(1,652)	(1,727)	(1,816)	(1,920)
Merger, restructuring, integration, and other	(10)	(39)	(24)	-	-	-	-	-	-	-	-	-	-
Goodwill impairment	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating income (loss)	**725**	**1,179**	**1,208**	**1,231**	**1,329**	**1,374**	**1,370**	**1,369**	**1,369**	**1,370**	**1,371**	**1,372**	**1,372**
Interest expense, net (*income is not material)*	(263)	(570)	(441)	(659)	(661)	(784)	(761)	(798)	(785)	(763)	(786)	(814)	(846)
Loss on extinguishment of debt	-	(17)	(5)	-	-	-	-	-	-	-	-	-	-
Other income (expense)	(58)	12	53	-	-	-	-	-	-	-	-	-	-
Income (loss) from cont. ops. Before taxes and equity method investee	**404**	**604**	**815**	**572**	**668**	**590**	**609**	**571**	**584**	**607**	**585**	**558**	**526**
Income tax benefit (expense)	(88)	(161)	(196)	(157)	(183)	(162)	(167)	(157)	(160)	(167)	(160)	(153)	(144)
Income before equity method investee	317	444	619	415	485	428	442	414	424	441	424	405	382
Equity in net earnings of equity method investee	(5)	7	-	-	-	-	-	-	-	-	-	-	-
Income (loss) from continuing ops.	312	450	619	415	485	428	442	414	424	441	424	405	382
Income (loss) from discontinued ops, net of tax	(180)	13	(118)	-	-	-	-	-	-	-	-	-	-
Net income (loss)	**133**	**463**	**501**	**415**	**485**	**428**	**442**	**414**	**424**	**441**	**424**	**405**	**382**
Common stock outstanding *millions*	862	867	837	777	761	747	734	722	710	696	683	670	658
Class B common stock outstanding *millions*	55	55	55	55	55	55	55	55	55	55	55	55	55
Total common shares outstanding	917	922	891	831	816	802	789	776	765	751	737	725	713
Weighted avg. common shares outstanding	909	920	907	861	824	809	795	782	770	758	744	731	719
Basic EPS	$ 0.15	$ 0.50	$ 0.55	$ 0.48	$ 0.59	$ 0.53	$ 0.56	$ 0.53	$ 0.55	$ 0.58	$ 0.57	$ 0.55	$ 0.53
Dividends per share	$ 0.14	$ 0.14	$ 0.20	$ 0.19	$ 0.24	$ 0.21	$ 0.22	$ 0.21	$ 0.22	$ 0.23	$ 0.23	$ 0.22	$ 0.21

ADT Inc.

Balance Sheet millions

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Assets													
Current assets:													
Cash and cash equivalents	257	15	96	252	1,738	1,404	1,695	1,334	813	771	694	576	412
Restricted cash and restricted cash equivalents	116	115	108	108	108	108	108	108	108	108	108	108	108
Accounts receivable	335	370	394	422	437	451	461	474	489	506	526	549	575
Inventory, finished goods, net of reserves	225	201	197	187	194	200	205	210	217	225	233	244	255
Work-in-progress	12	-	-	0	0	0	0	0	0	0	0	0	0
Prepaid expenses and other current assets	307	242	211	180	187	193	197	202	209	216	225	234	246
Current assets of discontinued ops	470	61	-	-	-	-	-	-	-	-	-	-	-
Total current assets	**1,722**	**1,005**	**1,005**	**1,148**	**2,665**	**2,355**	**2,665**	**2,329**	**1,835**	**1,826**	**1,786**	**1,711**	**1,595**
Property and equipment, net	178	168	166	176	189	200	212	224	239	256	274	296	320
Subscriber system assets, net	2,919	3,006	2,981	2,993	3,042	3,121	3,221	3,344	3,491	3,664	3,865	4,098	4,364
Intangible assets, net	4,927	4,877	4,854	4,767	4,737	4,753	4,807	4,899	5,030	5,200	5,412	5,669	5,973
Goodwill	5,430	4,904	4,904	4,904	4,904	4,904	4,904	4,904	4,904	4,904	4,904	4,904	4,904
Deferred subscriber acquisition/set-up cost, noncurrent	991	1,176	1,324	1,455	1,587	1,719	1,849	1,982	2,121	2,270	2,430	2,606	2,801
Other assets	641	699	735	768	797	821	840	863	890	921	958	999	1,047
ROU Asset	129	86	81	86	92	97	103	109	116	124	133	144	155
Noncurrent assets held for sale	886	43	-	-	-	-	-	-	-	-	-	-	-
Total assets	**17,821**	**15,964**	**16,051**	**16,299**	**18,012**	**17,969**	**18,600**	**18,654**	**18,626**	**19,165**	**19,763**	**20,426**	**21,160**
Liabilities and stockholders' equity													
Current liabilities:													
Current maturities of long-term debt	858	312	196	170	1,500	1,100	1,367	1,020	527	527	527	527	527
Accounts payable	418	277	154	327	339	349	357	367	379	392	407	425	445
Deferred revenue	310	255	248	445	462	476	487	500	516	534	555	579	606
Accrued expenses and other current liabilities	777	556	635	654	679	699	715	735	758	785	816	851	892
Current liabilities of discontinued ops	299	80	32	0	0	0	0	0	0	0	0	0	0
Total current liabilities	**2,661**	**1,480**	**1,264**	**1,596**	**2,979**	**2,623**	**2,927**	**2,622**	**2,179**	**2,238**	**2,305**	**2,382**	**2,470**
Long-term debt	8,947	7,513	7,511	7,555	7,662	7,801	7,962	8,158	8,392	8,667	8,987	9,357	9,783
Mandatorily redeemable preferred securities	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred subscriber acquisition revenue	1,581	1,915	2,068	2,159	2,240	2,308	2,362	2,426	2,502	2,591	2,693	2,810	2,943
Deferred tax liabilities	893	1,027	1,167	1,167	1,167	1,167	1,167	1,168	1,168	1,168	1,168	1,168	1,168
Other liabilities	240	219	224	271	281	290	297	305	314	325	338	353	370
Noncurrent liabilities of discontinued ops.	106	21	16	0	0	0	0	0	0	0	0	0	0
Total liabilities	**14,428**	**12,175**	**12,250**	**12,749**	**14,330**	**14,190**	**14,715**	**14,678**	**14,555**	**14,988**	**15,491**	**16,070**	**16,734**
Stockholders equity:													
Common stock	9	9	8	8	8	8	8	8	9	9	9	9	9
Class B common stock	1	1	1	1	1	1	1	1	1	1	1	1	1
Additional paid-in capital	7,381	7,413	7,117	6,617	6,458	6,299	6,140	5,981	5,822	5,663	5,504	5,345	5,186
Accumulated deficit	(3,950)	(3,618)	(3,318)	(3,069)	(2,778)	(2,521)	(2,256)	(2,007)	(1,753)	(1,489)	(1,234)	(991)	(762)
Accumulated other comprehensive income / loss	(47)	(16)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Total stockholders'equity	**3,393**	**3,789**	**3,801**	**3,550**	**3,682**	**3,780**	**3,886**	**3,975**	**4,071**	**4,176**	**4,272**	**4,356**	**4,426**
Total liabilities and stocholders equity	**17,821**	**15,964**	**16,051**	**16,299**	**18,012**	**17,969**	**18,600**	**18,654**	**18,626**	**19,165**	**19,763**	**20,426**	**21,160**

ADT Inc.

Historical Cash Flow Statement

Fiscal Years Ending Dec. 31	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Cash flows from operating activities:										
Net income / loss	(54)	(537)	343	(609)	(424)	(632)	(341)	133	463	501
Adjustments to reconcile net income to net cash provided by operating activities:										
Depreciation and intangible asset amortization	84	1,233	1,863	1,931	1,989	1,914	1,915	1,694	1,389	1,345
Amortization of deferred subscriber acquisition costs	1	6	5	60	80	97	126	163	196	225
Amortization of deferred subscriber acquisition revenue	-	-	-	(79)	(107)	(125)	(172)	(244)	(309)	(346)
Share-based compensation expense	2	5	11	135	86	96	61	67	51	49
Deferred income taxes	(30)	(273)	(777)	(27)	(118)	(173)	(139)	20	125	140
Provision for losses on accounts receivable and inventory	2	38	57	61	55	120	38	114	151	215
Loss on extinguishment of debt	-	25	4	275	104	120	37	-	17	5
Goodwill, intangible, and other asset impairments	-	-	-	88	45	-	19	206	529	24
(Gain) loss on business held for sale	-	-	-	-	62	-	-	(10)	(649)	10
Unrealized (gain) loss on interest rate swap contracts	3	60	43	(3)	9	60	(158)	(302)	38	45
Other non-cash items, net excluding unrealized loss on interest rate swap contra	-	-	-	23	129	145	149	135	100	(34)
Change in fair value of financial instruments	19	63	-		-	-	-	63	-	-
Changes in operating assets and liabilities, net of acquisitions and disp.										
Accounts receivable, net	(8)	(34)	(60)	(61)	(94)	(84)	(50)	(178)	(107)	(146)
Long-term retail installment contracts	-	-	-	-	-	(7)	65	143	185	212
Inventories and work-in-progress	(2)	(9)	5	(3)	(15)	(61)	(84)	(67)	25	25
Other assets	-	-	-	-	-	-	-	(9)	(29)	(110)
Accounts payable	(12)	(9)	(31)	9	19	65	98	9	(112)	(109)
Accrued interest	-	-	-	-	-	-	57	51	(128)	(89)
Accrued and other liabilities	-	-	-	-	-	-	5	(42)	(83)	41
Deferred subscriber acquisition costs	(17)	(145)	(165)	(185)	(190)	(240)	(324)	(394)	(387)	(366)
Deferred subscriber acquisition revenue	10	168	247	256	260	180	277	329	290	252
Other, net	4	27	46	(84)	(17)	(107)	70	10	(97)	(2)
Net cash provided by operating activities	**2**	**618**	**1,592**	**1,788**	**1,873**	**1,367**	**1,650**	**1,888**	**1,658**	**1,885**
Cash flows from investing activities:										
Dealer generated customer accounts and bulk account purchases	-	(407)	(653)	(694)	(670)	(381)	(675)	(622)	(589)	(586)
Subscriber system asset expenditures	(30)	(469)	(583)	(576)	(542)	(418)	(695)	(735)	(631)	(523)
Purchases of property and equipment (capex)	(4)	(78)	(131)	(127)	(159)	(157)	(168)	(177)	(176)	(164)
Proceeds (payments) from sale of business, net of cash sold	(1,988)	(8,502)	(64)	(353)	388	(2)	2	27	1,609	(18)
Proceeds / payments from interest rate swaps	-	-	-	-	-	-	-	-	-	(8)
Other investing, net	(40)	44	17	11	5	(179)	(160)	(27)	29	3
Net cash used in investing activities	**(2,062)**	**(9,412)**	**(1,413)**	**(1,738)**	**(978)**	**(1,137)**	**(1,696)**	**(1,533)**	**242**	**(1,295)**
Cash flows from financing activities:										
Proceeds of common stock	755	4,321	-	1,406	-	448	-	1,180	-	-
Proceeds from long-term borrowings	1,368	6,040	1,344	423	3,403	2,640	1,196	550	867	1,069
Proceeds from receivables facility	-	-	-	-	-	83	254	277	282	229
Repurchases of common stock	-	-	-	-	(150)	(0)	-	(1,200)	-	(241)
Repayment of long-term borrowings, including call premiums excluding payments o	(6)	(1,393)	(725)	(1,552)	(3,845)	(3,027)	(1,219)	(605)	(2,962)	(1,186)
Payments on finance leases	-	-	-	-	-	(28)	(32)	(45)	(44)	(29)
Repayment of receivables facility	-	-	-	-	-	(7)	(130)	(121)	(200)	(257)
Dividends	-	-	(750)	(79)	(565)	(109)	(116)	(127)	(129)	(182)
Proceeds from opportunity fund	-	-	-	-	-	-	-	101	(9)	(7)
Deferred financing costs	(39)	(104)	(0)	(0)	(54)	(38)	(56)	(19)	83	93
Other financing, net	(1)	(35)	(12)	(4)	(3)	(31)	(24)	(5)	(32)	(4)
Net cash provided by financing activities	**2,076**	**8,829**	**(143)**	**193**	**(1,214)**	**(70)**	**(128)**	**(15)**	**(2,144)**	**(515)**
Net increase / decrease in cash and cash equivalents and restricted cash	16	33	36	240	(318)	159	(174)	340	(244)	74
Beginning balance	-	58	91	127	367	49	208	33	374	130
Ending balance	**16**	**91**	**127**	**367**	**49**	**208**	**33**	**374**	**130**	**204**

ADT Inc.

Forecasted Cash Flow Statement

Fiscal Years Ending Dec. 31	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Net Income:	**415**	**485**	**428**	**442**	**414**	**424**	**441**	**424**	**405**	**382**
Plus: non-cash adjustments										
Total D&A expense	1,453	1,453	1,471	1,500	1,539	1,589	1,652	1,727	1,816	1,920
Amortization of deferred subscriber acquisition costs	270	296	323	350	377	404	432	462	495	531
ROU asset	(5)	(6)	(6)	(5)	(6)	(7)	(8)	(9)	(10)	(12)
Deferred tax liabilities	0	0	0	0	0	0	0	0	0	0
Working Capital Changes:										
Accounts Receivable	(28)	(16)	(13)	(10)	(13)	(15)	(17)	(20)	(23)	(26)
Inventory & WIP	10	(7)	(6)	(5)	(6)	(7)	(8)	(9)	(10)	(12)
Prepaid expenses & other current assets	30	(7)	(6)	(4)	(5)	(6)	(7)	(9)	(10)	(11)
Current assets of discontinued ops	-	-	-	-	-	-	-	-	-	-
Other assets	(33)	(29)	(24)	(19)	(23)	(27)	(31)	(36)	(42)	(47)
Accounts Payable	173	12	10	8	10	11	13	15	18	20
Current portion of deferred revenue	197	17	14	11	13	16	18	21	24	27
Accrued expenses and other current liabilities	19	24	21	16	20	23	27	31	35	40
Long ter deferred subscriber acquisition revenue	92	81	68	54	64	76	88	102	117	133
Other liabilities	47	10	9	7	8	10	11	13	15	17
Net cash provided by operating activities:	**2,640**	**2,315**	**2,289**	**2,344**	**2,392**	**2,491**	**2,611**	**2,713**	**2,830**	**2,963**
Cash Flows From Investing Activities:										
Restricted cash and cash equivalents	-	-	-	-	-	-	-	-	-	-
Property and equipment, net	(186)	(199)	(211)	(223)	(237)	(252)	(270)	(289)	(312)	(337)
Subscriber system assets, net	(572)	(611)	(649)	(686)	(728)	(775)	(828)	(889)	(958)	(1,036)
Intangible assets, net	(631)	(674)	(716)	(757)	(803)	(855)	(914)	(981)	(1,057)	(1,143)
Goodwill	-	-	-	-	-	-	-	-	-	-
Deferred subscriber acquisition/set-up cost	(401)	(428)	(455)	(481)	(510)	(543)	(580)	(623)	(671)	(726)
Non-current assets held for sale	-	-	-	-	-	-	-	-	-	-
Current liabilities of discontinued ops.	(32)	-	-	-	-	-	-	-	-	-
Non-current liabilities of discontinued ops	(16)	-	-	-	-	-	-	-	-	-
Net cash provided by (used in) investing activities:	**(1,837)**	**(1,912)**	**(2,031)**	**(2,146)**	**(2,277)**	**(2,425)**	**(2,592)**	**(2,782)**	**(2,997)**	**(3,241)**
Cash Flows From Financing Activities:										
Current maturities of long-term debt	(26)	1,330	(400)	268	(348)	(493)	-	-	-	-
Long-term debt	44	107	138	161	196	234	275	320	370	426
Mandatorily redeemable preferred securities	-	-	-	-	-	-	-	-	-	-
Share repurchases	(500)	(159)	(159)	(159)	(159)	(159)	(159)	(159)	(159)	(159)
Common stock account (ESOP share change)	0	0	0	0	0	0	-	-	-	-
Dividends paid	(166)	(194)	(171)	(177)	(166)	(170)	(176)	(170)	(162)	(153)
Net cash provided by (used in) financing activities :	**(648)**	**1,084**	**(592)**	**93**	**(476)**	**(588)**	**(60)**	**(9)**	**49**	**114**
Net Increase (Decrease) in Cash	**155**	**1,487**	**(334)**	**291**	**(361)**	**(521)**	**(42)**	**(77)**	**(118)**	**(164)**
Beginning Cash Balance	**96**	**252**	**1,738**	**1,404**	**1,695**	**1,334**	**813**	**771**	**694**	**576**
Ending Cash Balance	**252**	**1,738**	**1,404**	**1,695**	**1,334**	**813**	**771**	**694**	**576**	**412**

ADT Inc.

Common Size Income Statement

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Revenue:													
Monitoring and related services	92.50%	89.82%	87.65%	87.89%	88.07%	88.20%	88.28%	88.36%	88.44%	88.52%	88.59%	88.67%	88.75%
Security installation, product, and other	7.50%	10.18%	12.35%	12.11%	11.93%	11.80%	11.72%	11.64%	11.56%	11.48%	11.41%	11.33%	11.25%
Total Revenue:	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of revenue:													
Monitoring and related services (as a % of monitoring revenue)	-13.62%	-12.99%	-12.60%	-12.12%	-11.77%	-11.56%	-11.48%	-11.40%	-11.32%	-11.24%	-11.16%	-11.08%	-11.00%
Security installation, product, and other (as a % of installation revenue)	-31.05%	-31.09%	-37.97%	-39.82%	-41.63%	-43.41%	-45.13%	-46.91%	-48.77%	-50.70%	-52.71%	-54.80%	-56.97%
Total cost of revenue:	-15.95%	-16.16%	-17.29%	-16.94%	-16.74%	-16.69%	-16.77%	-16.86%	-16.96%	-17.06%	-17.17%	-17.29%	-17.41%
Selling, general, and administrative expenses	-11.35%	-10.65%	-11.08%	-11.39%	-11.73%	-12.10%	-12.50%	-12.90%	-13.32%	-13.76%	-14.20%	-14.67%	-15.14%
Amortization of subscriber system assets (historically embedded in sg&a)	-3.52%	-4.05%	-4.59%	-5.27%	-5.59%	-5.91%	-6.26%	-6.55%	-6.81%	-7.04%	-7.25%	-7.44%	-7.61%
General and admin expense (historically embedded in sg&a)	-15.90%	-14.27%	-14.47%	-13.91%	-13.52%	-13.28%	-13.18%	-13.09%	-13.00%	-12.91%	-12.81%	-12.72%	-12.63%
Depreciation and intangible assset amortization	-36.51%	-28.70%	-27.41%	-28.40%	-27.38%	-26.89%	-26.81%	-26.77%	-26.81%	-26.91%	-27.07%	-27.28%	-27.53%
Merger, restructuring, integration, and other	-0.23%	-0.84%	-0.49%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Goodwill impairment	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Operating income (loss)	16.55%	25.34%	24.66%	24.07%	25.04%	25.13%	24.48%	23.82%	23.10%	22.32%	21.49%	20.61%	19.67%
Interest expense, net	-6.00%	-12.25%	-9.00%	-12.89%	-12.45%	-14.33%	-13.61%	-13.88%	-13.24%	-12.43%	-12.33%	-12.23%	-12.13%
Loss on extinguishment of debt	0.00%	-0.36%	-0.10%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other income (expense)	-1.31%	0.26%	1.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Income (loss) from cont. ops. Before taxes and equity method investee	9.23%	12.99%	16.64%	11.19%	12.59%	10.80%	10.88%	9.93%	9.86%	9.89%	9.17%	8.38%	7.54%
Income tax benefit (expense)	-2.00%	-3.45%	-4.00%	-3.07%	-3.45%	-2.96%	-2.98%	-2.73%	-2.70%	-2.71%	-2.51%	-2.30%	-2.07%
Income before equity method investee	7.23%	9.54%	12.64%	8.12%	9.13%	7.84%	7.89%	7.21%	7.15%	7.18%	6.65%	6.08%	5.47%
Equity in net earnings of equity method investee	-0.11%	0.14%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Income (loss) from continuing ops.	7.12%	9.68%	12.64%	8.12%	9.13%	7.84%	7.89%	7.21%	7.15%	7.18%	6.65%	6.08%	5.47%
Income (loss) from discontinued ops, net of tax	-4.10%	0.27%	-2.42%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net income (loss)	**3.03%**	**9.95%**	**10.23%**	**8.12%**	**9.13%**	**7.84%**	**7.89%**	**7.21%**	**7.15%**	**7.18%**	**6.65%**	**6.08%**	**5.47%**

ADT Inc.

Common Size Balance Sheet

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
% of Revenue													
Current assets:													
Cash and cash equivalents	5.87%	0.31%	1.96%	4.92%	32.76%	25.68%	30.29%	23.21%	13.71%	12.56%	10.88%	8.65%	5.91%
Restricted cash and restricted cash equivalents	2.66%	2.48%	2.20%	2.11%	2.03%	1.97%	1.93%	1.88%	1.82%	1.76%	1.69%	1.62%	1.55%
Accounts receivable	7.63%	7.96%	8.03%	8.24%	8.24%	8.24%	8.24%	8.24%	8.24%	8.24%	8.24%	8.24%	8.24%
Inventory, finished goods, net of reserves	5.14%	4.33%	4.02%	3.66%	3.66%	3.66%	3.66%	3.66%	3.66%	3.66%	3.66%	3.66%	3.66%
Work-in-progress	0.27%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Prepaid expenses and other current assets	7.00%	5.21%	4.30%	3.52%	3.52%	3.52%	3.52%	3.52%	3.52%	3.52%	3.52%	3.52%	3.52%
Current assets of discontinued ops	10.72%	1.31%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total current assets	39.30%	21.59%	20.52%	22.45%	50.21%	43.07%	47.64%	40.51%	30.95%	29.74%	27.99%	25.70%	22.88%
Property and equipment, net	4.05%	3.61%	3.40%	3.45%	3.55%	3.66%	3.78%	3.90%	4.03%	4.16%	4.30%	4.44%	4.59%
Subscriber system assets, net	66.60%	64.60%	60.86%	58.52%	57.33%	57.07%	57.56%	58.17%	58.89%	59.70%	60.59%	61.55%	62.59%
Intangible assets, net	112.44%	104.83%	99.09%	93.19%	89.25%	86.91%	85.91%	85.23%	84.85%	84.72%	84.84%	85.16%	85.67%
Goodwill	123.93%	105.40%	100.11%	95.86%	92.40%	89.68%	87.64%	85.31%	82.72%	79.90%	76.87%	73.67%	70.33%
Deferred set-up costs, noncurrent	22.61%	25.27%	27.04%	28.45%	29.90%	31.43%	33.05%	34.49%	35.79%	36.98%	38.10%	39.15%	40.17%
Other assets	14.63%	15.03%	15.01%	15.01%	15.01%	15.01%	15.01%	15.01%	15.01%	15.01%	15.01%	15.01%	15.01%
ROU Asset	2.94%	1.84%	1.65%	1.68%	1.73%	1.78%	1.84%	1.90%	1.96%	2.02%	2.09%	2.16%	2.23%
Noncurrent assets held for sale	20.21%	0.93%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total assets	406.70%	343.11%	327.67%	318.60%	339.39%	328.61%	332.42%	324.53%	314.20%	312.24%	309.78%	306.84%	303.46%
Liabilities and stockholders' equity													
Current liabilities:													
Current maturities of long-term debt	19.57%	6.71%	4.00%	3.33%	28.26%	20.11%	24.44%	17.74%	8.89%	8.59%	8.26%	7.92%	7.56%
Accounts payable	9.54%	5.96%	3.13%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%
Deferred revenue	7.07%	5.49%	5.06%	8.70%	8.70%	8.70%	8.70%	8.70%	8.70%	8.70%	8.70%	8.70%	8.70%
Accrued expenses and other current liabilities	17.73%	11.95%	12.96%	12.79%	12.79%	12.79%	12.79%	12.79%	12.79%	12.79%	12.79%	12.79%	12.79%
Current liabilities of discontinued ops	6.82%	1.71%	0.65%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total current liabilities	60.73%	31.81%	25.80%	31.20%	56.13%	47.98%	52.31%	45.61%	36.76%	36.46%	36.13%	35.79%	35.43%
Long-term debt	204.17%	161.48%	153.34%	147.68%	144.38%	142.65%	142.30%	141.93%	141.57%	141.21%	140.88%	140.57%	140.30%
Mandatorily redeemable preferred securities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred subscriber acquisition revenue	36.08%	41.16%	42.21%	42.21%	42.21%	42.21%	42.21%	42.21%	42.21%	42.21%	42.21%	42.21%	42.21%
Deferred tax liabilities	20.38%	22.08%	23.83%	22.82%	22.00%	21.35%	20.87%	20.31%	19.70%	19.02%	18.30%	17.54%	16.75%
Other liabilities	5.48%	4.71%	4.58%	5.30%	5.30%	5.30%	5.30%	5.30%	5.30%	5.30%	5.30%	5.30%	5.30%
Noncurrent liabilities of discontinued ops.	2.43%	0.44%	0.32%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total liabilities	329.27%	261.68%	250.08%	249.21%	270.02%	259.49%	262.98%	255.37%	245.53%	244.20%	242.82%	241.41%	239.99%
Stockholders equity:													
Common stock	0.20%	0.19%	0.17%	0.16%	0.16%	0.15%	0.15%	0.15%	0.14%	0.14%	0.13%	0.13%	0.12%
Class B common stock	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
Additional paid-in capital	168.44%	159.33%	145.29%	129.35%	121.69%	115.19%	109.73%	104.05%	98.21%	92.26%	86.27%	80.29%	74.37%
Accumulated deficit	-90.13%	-77.75%	-67.74%	-59.99%	-52.35%	-46.10%	-40.32%	-34.93%	-29.57%	-24.26%	-19.34%	-14.89%	-10.93%
Accumulated other comprehensive income / loss	-1.08%	-0.35%	-0.14%	-0.14%	-0.13%	-0.13%	-0.13%	-0.12%	-0.12%	-0.11%	-0.11%	-0.11%	-0.10%
Total stockholders'equity	77.44%	81.43%	77.59%	69.39%	69.38%	69.12%	69.45%	69.16%	68.67%	68.04%	66.96%	65.43%	63.47%
Total liabilities and stocholders equity	406.70%	343.11%	327.67%	318.60%	339.39%	328.61%	332.42%	324.53%	314.20%	312.24%	309.78%	306.84%	303.46%

ADT Inc.

Value Driver Estimation

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
NOPLAT:													
Revenue	4,382	4,653	4,898	5,116	5,307	5,468	5,595	5,748	5,928	6,138	6,380	6,657	6,973
Cost of revenue	(699)	(752)	(847)	(867)	(888)	(912)	(938)	(969)	(1,005)	(1,047)	(1,095)	(1,151)	(1,214)
Selling, general, and administrative expenses	(497)	(495)	(543)	(583)	(623)	(662)	(699)	(742)	(790)	(844)	(906)	(976)	(1,056)
Amortization of subscriber system assets	(154)	(188)	(225)	(270)	(296)	(323)	(350)	(377)	(404)	(432)	(462)	(495)	(531)
Other general and admin expense (historically embedded in sg&a)	(697)	(664)	(709)	(712)	(718)	(726)	(738)	(752)	(771)	(792)	(817)	(847)	(881)
Depreciation and intangible assset amortization	(1,600)	(1,335)	(1,343)	(1,453)	(1,453)	(1,471)	(1,500)	(1,539)	(1,589)	(1,652)	(1,727)	(1,816)	(1,920)
Implied interest in rental expense payments	11	11	7	7	7	8	8	9	9	10	11	11	12
EBITA	**746**	**1,229**	**1,240**	**1,238**	**1,336**	**1,382**	**1,378**	**1,378**	**1,379**	**1,380**	**1,382**	**1,383**	**1,384**
Less Adjusted Taxes:													
Income Tax Benefit (Expense)	88	161	196	157	183	162	167	157	160	167	160	153	144
Tax shield on interest expense	72	156	121	181	181	215	209	219	215	209	216	223	232
Tax shield on merger expenses	3	11	7	-	-	-	-	-	-	-	-	-	-
Tax shield on debt extinguishment loss	-	5	1	-	-	-	-	-	-	-	-	-	-
Tax on other income	16	(3)	(15)	-	-	-	-	-	-	-	-	-	-
Tax on ROU expense	3	3	2	2	2	2	2	2	3	3	3	3	3
Total adjusted taxes	181	332	312	340	366	379	378	378	378	379	379	379	380
Plus: Change in Deferred Taxes	26	134	140	0	0	0	0	0	0	0	0	0	0
NOPLAT	**590**	**1,031**	**1,067**	**899**	**970**	**1,003**	**1,000**	**1,000**	**1,001**	**1,002**	**1,003**	**1,004**	**1,004**
Invested Capital (IC):													
Normal cash	14	15	15	16	17	17	18	18	19	19	20	21	22
Accounts receivable	335	370	394	422	437	451	461	474	489	506	526	549	575
Inventory (FG + WIP)	237	201	197	187	194	200	205	210	217	225	233	244	255
Prepaid expenses	307	242	211	180	187	193	197	202	209	216	225	234	246
Operating current assets	**892**	**828**	**816**	**805**	**835**	**861**	**881**	**905**	**933**	**966**	**1,004**	**1,048**	**1,097**
Accounts payable	418	277	154	327	339	349	357	367	379	392	407	425	445
Deferred revenue	310	255	248	445	462	476	487	500	516	534	555	579	606
Accrued expenses and other current liabilities	777	556	635	654	679	699	715	735	758	785	816	851	892
Non interest-bearing current liabilities	**1,505**	**1,089**	**1,036**	**1,426**	**1,479**	**1,524**	**1,559**	**1,602**	**1,652**	**1,711**	**1,778**	**1,855**	**1,943**
Plus: Net property, plant, and equipment	**178**	**168**	**166**	**176**	**189**	**200**	**212**	**224**	**239**	**256**	**274**	**296**	**320**
Plus: Net other operating assets (net of d&a)													
Subscriber system assets	2,919	3,006	2,981	2,993	3,042	3,121	3,221	3,344	3,491	3,664	3,865	4,098	4,364
Intangible assets	4,927	4,877	4,854	4,767	4,737	4,753	4,807	4,899	5,030	5,200	5,412	5,669	5,973
Deferred set-up costs	991	1,176	1,324	1,455	1,587	1,719	1,849	1,982	2,121	2,270	2,430	2,606	2,801
Other assets	641	699	735	768	797	821	840	863	890	921	958	999	1,047
Capitalized PV of future operating lease	129	86	81	86	92	97	103	109	116	124	133	144	155
Other operating assets	**9,606**	**9,844**	**9,976**	**10,070**	**10,255**	**10,510**	**10,819**	**11,197**	**11,648**	**12,179**	**12,799**	**13,516**	**14,341**
Less: Other operating liabilities													
Deferred subscriber acquisition revenue	1,581	1,915	2,068	2,159	2,240	2,308	2,362	2,426	2,502	2,591	2,693	2,810	2,943
Other liabilities	240	219	224	271	281	290	297	305	314	325	338	353	370
Other operating liabilities	**1,821**	**2,134**	**2,292**	**2,430**	**2,521**	**2,598**	**2,658**	**2,731**	**2,816**	**2,916**	**3,031**	**3,163**	**3,313**
Total Invested Capital	**7,350**	**7,618**	**7,630**	**7,195**	**7,278**	**7,449**	**7,694**	**7,993**	**8,352**	**8,774**	**9,268**	**9,841**	**10,502**
Free Cash Flow (FCF):													
NOPLAT	590	1,031	1,067	899	970	1,003	1,000	1,000	1,001	1,002	1,003	1,004	1,004
Change in IC	(504)	268	12	(435)	83	171	245	299	358	423	494	573	661
FCF	**1,094**	**763**	**1,055**	**1,334**	**887**	**832**	**755**	**701**	**642**	**579**	**509**	**431**	**343**
				26%	-33%	-6%	-9%	-7%	-8%	-10%	-12%	-15%	-20%
Return on Invested Capital (ROIC):													
NOPLAT	590	1,031	1,067	899	970	1,003	1,000	1,000	1,001	1,002	1,003	1,004	1,004
Beginning IC	7,854	7,350	7,618	7,630	7,195	7,278	7,449	7,694	7,993	8,352	8,774	9,268	9,841
ROIC	**7.52%**	**14.03%**	**14.01%**	**11.78%**	**13.48%**	**13.78%**	**13.43%**	**13.00%**	**12.52%**	**11.99%**	**11.43%**	**10.83%**	**10.21%**
Economic Profit (EP):													
Beginning IC	7,854	7,350	7,618	7,630	7,195	7,278	7,449	7,694	7,993	8,352	8,774	9,268	9,841
x (ROIC - WACC)	-0.13%	6.38%	6.36%	4.13%	5.83%	6.13%	5.78%	5.35%	4.87%	4.34%	3.78%	3.18%	2.56%
EP	**(10)**	**469**	**485**	**315**	**419**	**446**	**430**	**412**	**389**	**363**	**332**	**295**	**252**

ADT Inc.

Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:		*ASSUMPTIONS:*
Risk-Free Rate	4.29%	*10-year treasury bond*
Beta	0.89	*Bloomberg Raw Beta*
Equity Risk Premium	5.00%	*Henry Fund Consensus*
Cost of Equity	**8.72%**	
Cost of Debt:		
Risk-Free Rate	4.29%	*10-year treasury bond*
Implied Default Premium	4.26%	
Pre-Tax Cost of Debt	8.55%	*YTM on longest term bond*
Marginal Tax Rate	22%	
After-Tax Cost of Debt	**6.67%**	

Market Value of Common Equity:		**MV Weights**
Total Shares Outstanding	891	
Current Stock Price	$7.88	
MV of Equity	**7,024**	47.68%
Market Value of Debt:		
Current Portion of LTD	196	
Long-Term Debt	7,511	
MV of Total Debt	**7,707**	52.32%
Market Value of the Firm	**14,731**	100.00%

Estimated WACC	**7.65%**

ADT Inc.

Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models

Key Inputs:

CV Growth of NOPLAT	2.00%
CV Year ROIC	10%
WACC	7.65%
Cost of Equity	8.72%

Fiscal Years Ending Dec. 31	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
DCF Model:										
Free Cash Flow (FCF)	1,334	887	832	755	701	642	579	509	431	
Continuing Value (CV)										14,295
PV of FCF	1,239	765	667	562	485	413	346	282	222	7,364
Value of Operating Assets:	12,345									
Non-Operating Adjustments										
Excess cash	81									
Restricted cash and restricted cas	108									
Current maturities of LT Debt	(196)									
Long-Term Debt	(7,511)									
ESOP	(76)									
Underfunded pension plan	(8)									
Operating lease liability	(166)									
Value of Equity	4,576									
Shares Outstanding	891									
Intrinsic Value of Last FYE	$ 5.13									
Implied Price as of Today	$ 5.19									
EP Model:										
Economic Profit (EP)	315	419	446	430	412	389	363	332	295	252
Continuing Value (CV)										4,454
PV of EP	293	362	358	321	285	250	217	184	152	2,294
Total PV of EP	4,714									
Invested Capital (last FYE)	7,630									
Value of Operating Assets:	12,345									
Non-Operating Adjustments										
Excess cash	81									
Restricted cash and restricted cas	108									
Current maturities of LT Debt	(196)									
Long-Term Debt	(7,511)									
ESOP	(76)									
Underfunded pension plan	(8)									
Operating lease liability	(166)									
Value of Equity	4,576									
Shares Outstanding	891									
Intrinsic Value of Last FYE	$ 5.13									
Implied Price as of Today	$ 5.19									

ADT Inc.

Dividend Discount Model (DDM) or Fundamental P/E Valuation Model

Fiscal Years Ending	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**	**2034E**
EPS	$ 0.48	$ 0.59	$ 0.53	$ 0.56	$ 0.53	$ 0.55	$ 0.58	$ 0.57	$ 0.55	$ 0.53
Key Assumptions										
CV growth of EPS	2.00%									
CV Year ROE	8.76%									
Cost of Equity	8.72%									
Future Cash Flows										
P/E Multiple (CV Year)										11.48x
EPS (CV Year)										$ 0.53
Future Stock Price										$ 6.10
Dividends Per Share	$ 0.19	$ 0.24	$ 0.21	$ 0.22	$ 0.21	$ 0.22	$ 0.23	$ 0.23	$ 0.22	
Discounted Cash Flows	$ 0.18	$ 0.20	$ 0.16	$ 0.16	$ 0.14	$ 0.13	$ 0.13	$ 0.12	$ 0.10	$ 2.87
Intrinsic Value as of Last FYE	$ 4.20									
Implied Price as of Today	**$ 4.24**									

ADT Inc.

Relative Valuation Models

Ticker	Company	Price	EPS 2025E	EPS 2026E	P/E 25	P/E 26	
ARLO	Arlo Technologies	$8.59	$0.59	$0.73	14.56	11.77	
SKYX	SKYX Platforms	$0.97	($0.28)	($0.18)	(3.46)	(5.38)	* Excluded
ALLE	Allegion	$120.67	$7.77	$8.40	15.53	14.37	
				Average	15.04	13.07	
ADT	ADT Inc.	$7.88	$ 0.48	$ 0.59	16.3	13.4	

Implied Relative Value:

P/E (EPS25)	**$ 7.25**
P/E (EPS26)	**$ 7.69**

ADT Inc.

Key Management Ratios

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Liquidity Ratios:													
Current Ratio: Current Assets / Current Liabilities	0.65	0.68	0.80	0.72	0.89	0.90	0.91	0.89	0.84	0.82	0.77	0.72	0.65
Quick Ratio : (Cash + AR) / CL	0.22	0.26	0.39	0.42	0.73	0.71	0.74	0.69	0.60	0.57	0.53	0.47	0.40
Operating Cash Flow Ratio: Op. CF / CL	0.71	1.12	1.49	1.65	0.78	0.87	0.80	0.91	1.14	1.17	1.18	1.19	1.20
Asset-Management Ratios:													
Asset Turnover: Rev. / Avg. Total Assets	0.25	0.28	0.31	0.32	0.31	0.30	0.31	0.31	0.32	0.32	0.33	0.33	0.34
Fixed Asset Turnover: Revenue / Avg. (PPE+ Sub System Assets)	1.19	1.25	1.37	1.42	1.31	1.23	1.24	1.24	1.30	1.33	1.33	1.33	1.34
A/R Turnover: Revenue / Avg. AR	11.28	13.20	12.83	12.55	12.36	12.32	12.27	12.30	12.32	12.34	12.37	12.39	12.41
Days Sales Outstanding: (Avg. AR * 365) / Rev.	32.35	27.64	28.45	29.08	29.54	29.64	29.74	29.68	29.63	29.57	29.51	29.46	29.40
Financial Leverage Ratios:													
D/E: Total debt / Total Equity	2.89	2.07	2.03	2.18	2.49	2.35	2.40	2.31	2.19	2.20	2.23	2.27	2.33
D/A: Total Debt / Total Assets	0.55	0.49	0.48	0.47	0.51	0.50	0.50	0.49	0.48	0.48	0.48	0.48	0.49
Interest Coverage: EBIT / Interest Exp.	1.84	2.09	2.58	1.87	2.01	1.75	1.80	1.72	1.74	1.80	1.74	1.69	1.62
Debt-to-EBITDA: Total Debt / EBITDA	4.38	2.88	2.85	2.61	2.98	2.81	2.90	2.79	2.65	2.66	2.67	2.68	2.70
Profitability Ratios:													
Return on Equity (NI/Beg TSE)	0.04	0.14	0.13	0.11	0.14	0.12	0.12	0.11	0.11	0.11	0.10	0.09	0.09
Gross Profit Margin: ((Rev. - COGS) / Rev.)	0.84	0.84	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83
Operating Profit Margin: (EBIT / Rev.)	0.11	0.26	0.23	0.24	0.25	0.25	0.24	0.24	0.23	0.22	0.21	0.21	0.20
Return on Assets: Net Income / Beg. Total Assets	0.01	0.03	0.03	0.03	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Payout Policy Ratios:													
Dividend Payout Ratio (DPS/EPS)	0.96	0.28	0.36	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Total Payout Ratio ((Divs. + Repurchases)/NI)	10.00	0.28	0.84	1.60	0.73	0.77	0.76	0.78	0.78	0.76	0.77	0.79	0.82
Retention (Plowback): Retained Earnings Change (Accumulated deficit) ,	0.02	0.72	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60

ADT Inc.

Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding

Number of Options Outstanding (shares):	21
Average Time to Maturity (years):	5.90
Expected Annual Number of Options Exercised:	4
Current Average Strike Price:	$ 6.77
Cost of Equity:	8.72%
Current Stock Price:	$7.88

Fiscal Years Ending Dec. 31	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**	**2034E**
Increase in Shares Outstanding:	4	4	4	4	4	3	0	0	0	0
Average Strike Price:	$ 6.77	$ 6.77	$ 6.77	$ 6.77	$ 6.77	$ 6.77	$ 6.77	$ 6.77	$ 6.77	$ 6.77
Increase in Common Stock Account:	**24**	**24**	**24**	**24**	**24**	**22**	**-**	**-**	**-**	**-**
Share Repurchases ($)	500	159	159	159	159	159	159	159	159	159
Expected Price of Repurchased Shares:	$ 7.88	$ 8.37	$ 8.89	$ 9.44	$ 10.03	$ 10.65	$ 11.31	$ 12.02	$ 12.76	$ 13.56
Number of Shares Repurchased:	**63**	**19**	**18**	**17**	**16**	**15**	**14**	**13**	**12**	**12**
Shares Outstanding (beginning of the year)	891	831	816	802	789	776	765	751	737	725
Plus: Shares Issued Through ESOP	4	4	4	4	4	3	0	0	0	0
Less: Shares Repurchased in Treasury	63	19	18	17	16	15	14	13	12	12
Shares Outstanding (end of the year)	**831**	**816**	**802**	**789**	**776**	**765**	**751**	**737**	**725**	**713**

ADT Inc.

Sensitivity Tables

ERP (rows) × Pre-tax cost of debt (columns)

5.19	5.02%	5.27%	5.52%	5.77%	6.02%	6.27%	6.52%
3.50%	12.87	12.29	11.74	11.22	10.73	10.26	9.81
4.00%	11.70	11.18	10.69	10.22	9.78	9.36	8.95
4.50%	10.65	10.19	9.74	9.32	8.92	8.54	8.17
5.00%	9.71	9.29	8.89	8.51	8.14	7.79	7.46
5.50%	8.86	8.47	8.11	7.76	7.43	7.11	6.80
6.00%	8.08	7.73	7.40	7.08	6.78	6.48	6.20
6.50%	7.37	7.06	6.75	6.46	6.18	5.91	5.65

2034 attrition rate (rows) × 2028-'34 maintenance cost/existing subscriber growth (columns)

5.19	-0.75%	-0.50%	-0.25%	0.00%	0.25%	0.50%	0.50%
5.00%	9.71	9.38	9.04	8.69	8.34	7.99	7.99
6.00%	8.44	8.12	7.80	7.47	7.14	6.80	6.80
7.00%	7.22	6.92	6.61	6.30	5.98	5.66	5.66
8.00%	6.06	5.77	5.48	5.19	4.88	4.58	4.58
9.00%	4.96	4.68	4.40	4.12	3.83	3.54	3.54
10.00%	3.90	3.64	3.37	3.11	2.83	2.55	2.55
11.00%	2.89	2.65	2.39	2.14	1.88	1.61	1.61

CV NOPLAT growth (rows) × Risk-free rate (columns)

5.19	3.54%	3.79%	4.04%	4.29%	4.54%	4.79%	5.04%
1.25%	5.68	5.41	5.14	4.88	4.63	4.40	4.17
1.50%	5.81	5.52	5.24	4.97	4.72	4.47	4.24
1.75%	5.94	5.64	5.35	5.07	4.81	4.56	4.31
2.00%	6.09	5.77	5.47	5.19	4.91	4.65	4.39
2.25%	6.25	5.92	5.61	5.31	5.02	4.74	4.48
2.50%	6.43	6.08	5.75	5.44	5.14	4.85	4.58
2.50%	6.43	6.08	5.75	5.44	5.14	4.85	4.58

2025 cost/new subscril (rows) × CV new subscribers as a % of base (columns)

5.19	9.00%	10.00%	11.00%	12.00%	13.00%	14.00%	15.00%
5.00%	10.08	9.38	8.62	7.80	6.93	5.99	5.00
6.00%	9.42	8.65	7.82	6.94	5.99	4.98	3.90
7.00%	8.75	7.92	7.02	6.07	5.05	3.96	2.80
8.00%	8.07	7.17	6.21	5.19	4.09	2.92	1.68
9.00%	7.39	6.42	5.39	4.29	3.12	1.87	0.54
10.00%	6.69	5.66	4.56	3.39	2.14	0.81	(0.60)
11.00%	5.99	4.90	3.73	2.48	1.15	(0.26)	(1.76)

2028-'34 monthly fee g (rows) × Beta (columns)

5.19	0.59	0.69	0.79	0.89	0.99	1.09	1.19
0.25%	2.76	2.31	1.89	1.50	1.15	0.82	0.52
0.50%	4.18	3.64	3.15	2.70	2.29	1.91	1.56
0.75%	5.62	5.00	4.44	3.92	3.45	3.01	2.61
1.00%	7.08	6.38	5.75	5.16	4.63	4.13	3.67
1.25%	8.57	7.79	7.07	6.42	5.82	5.27	4.76
1.50%	10.08	9.21	8.42	7.70	7.04	6.42	5.86
1.75%	11.61	10.66	9.79	9.00	8.27	7.60	6.97

2028-'34 Installation pr (rows) × 2028-'34 cost/new subscriber growth (columns)

5.19	2.00%	3.00%	4.00%	5.00%	6.00%	7.00%	8.00%
-0.50%	11.37	9.34	7.19	4.93	2.55	0.04	(2.61)
0.00%	11.46	9.42	7.28	5.02	2.63	0.12	(2.53)
0.50%	11.54	9.51	7.36	5.10	2.72	0.20	(2.44)
1.00%	11.63	9.59	7.45	5.19	2.80	0.29	(2.36)
1.50%	11.71	9.68	7.53	5.27	2.89	0.38	(2.27)
2.00%	11.80	9.76	7.62	5.36	2.97	0.46	(2.19)
2.50%	11.89	9.85	7.71	5.44	3.06	0.55	(2.10)