

March 19, 2018

**Alarm.com Holdings, Inc. : (ALRM)**  
 Ryan O'Connor

**Sector: Technology**  
**Industry: Internet Software & Services**  
**Current Price: \$37.99**  
**Target Price: \$52.25**

**Company Description:** Alarm.com Holdings, Inc. provides cloud platform solutions for both residential and commercial properties in the US and internationally. They offer cloud based solutions for homes and businesses including: interactive security, video monitoring, intelligent automation, and energy management. Included are: door locks, motion sensors, thermostats, garage doors, video cameras, and video alerts. Added to the security solutions are energy management solutions which adjust thermostat schedules, responsive savings/comfort, and energy usage and environmental monitoring. The company provides training services, installation, and support tools- to both residential and business subscribers. Alarm.com Holdings, Inc. was founded in 2000 and is headquartered in Tysons, Virginia.

## BUY

Current Price: \$37.99  
 Target Price: \$52.25  
 Market Cap: 1.8B  
 WACC: 11.1%  
 ROC GAAP: 51.3%  
 Revenue Growth: 8%  
 52wk High/Low: \$49.49/\$29.70  
 Daily volume: 0.40M  
 Float: 64%  
 EBITDA Margin: 16%  
 D/E: 3.7%

## ALRM:1Y Comps: SOXX, SKYY



## Thesis:

Alarm.com Holdings, Inc. is uniquely positioned within the growing market of cloud technology. The integration of their security solutions provides extensive application to residential, commercial, and international properties. Their strong CF and profitability has fostered a powerful competitive advantage with in the industry where many are switching from traditional security solutions, to the smart home. Alarm has proven themselves quarter after quarter that they are the leaders in this industry, and will continue to provide value to their shareholders, both short and long-term.

## Catalysts:

- **Short Term(within the year):** Highly scalable platform with strong cash flow, margins, and profitability
- **Mid Term(1-2 years):** High SaaS and license recurring revenue model, renewal rates of 93%, strong competitive advantage
- **Long Term(3+):** Increasing demand/shift to smart home security, replacing traditional security solutions (residential, commercial & international)

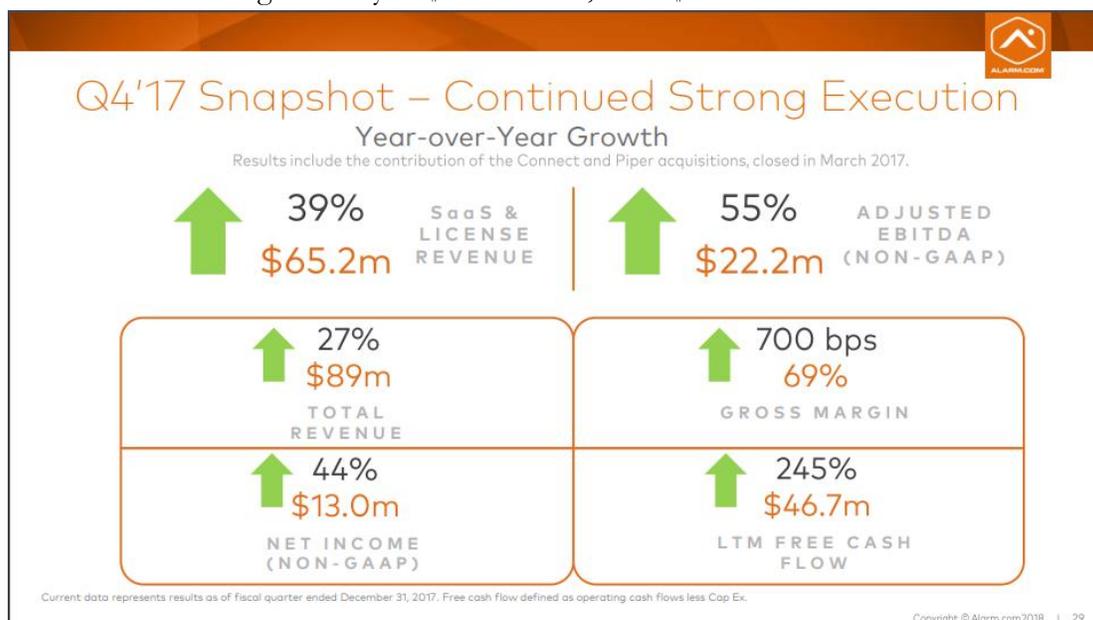
## Earnings Performance:

Alarm.com Holdings, Inc. has set an ambitious agenda over the last year. They have worked to strengthen their lead as the innovative service provider of smart security systems for both residential and commercial properties. Over the last year they have enhanced their video service, expanded their security platform, and increased intelligent and adaptive capabilities through data analytics, as well as acquired smaller business units *Connect* and *Piper*. Alarm’s management team has successfully integrated these businesses into their operations as well as increased R&D and distribution capacities for further expansion.

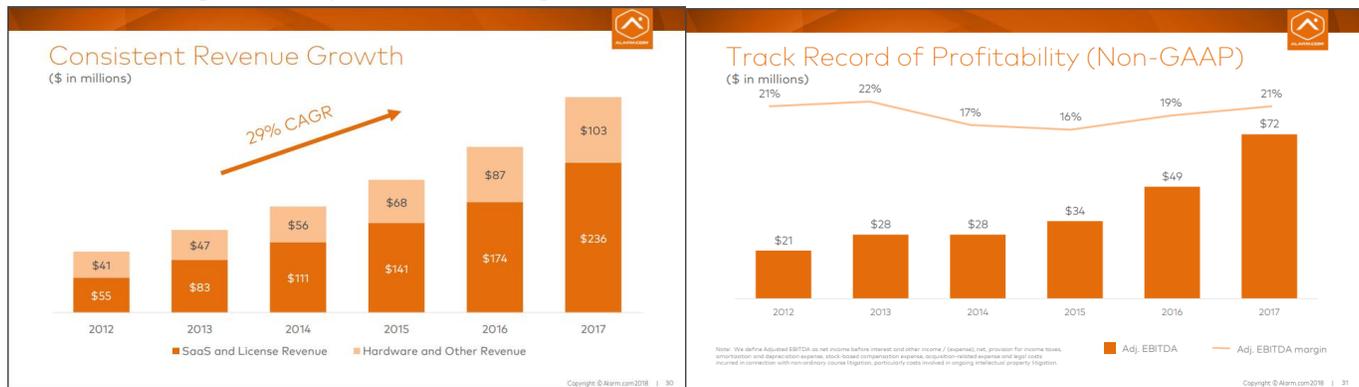
Last quarter, SaaS (Software as Service- applications made available over the internet) grew by 39% y/y to \$65.2 million. And SaaS and license revenue grew 36% from 2016 to \$236.3 million, the revenue renewal rate on SaaS and license revenue remains extremely high, hovering around 94%. Hardware and other revenue also grew last quarter to \$23.6 million, up from \$22.9 million. Total revenue is growing at a fast past, last quarter they saw an increase of 30% reaching \$338.9 million. Margins have been the main driver of revenues. Gross margins for SaaS and license revenue was up 350 bps y/y, gross margins for hardware were up 150bps y/y, and total gross margins were up over 700bps y/y. These higher margins in SaaS and license revenue accounted for 73% of total revenue, up from only 67% of total revenue in 2016.

Turning to Alarm’s operating expenses. R&D expense last quarter was 21% of total revenue at \$18.9 million, from \$12 million in 2016. In 2016, the R&D Department had only 320 employees, they now have 447 employees. This shows massive growth. Sales and marketing expenses were 12% of total revenue compared to 14% of total revenue in 2016. However, they expect to increase marketing spending in 2018 as they transition Ann Ferguson to VP of Marketing. Ann has led the partner marketing team since 2011, and has a strong reputation within the industry. Alarm views this transition as an additional growth driver.

Non-GAAP adjusted EBITDA increased to \$22.2 million for the first quarter, which was up 55% y/y, adjusted EBITDA was \$71.6 million for 2017 which was up 46% from 2016. With the new tax law they will be taxed at 21%, down from 35%. This will have a strong impact on their net income and further solidify their strong balance sheet. Alarm ended the fourth quarter with \$96.3 million of cash and cash equivalents. For 2017, they generated nearly \$58 million in cash flow from operations, which is way up from \$22.6 million in 2016. Free cash flow has increased significantly to \$46.7 million, from \$13.5 in 2016.



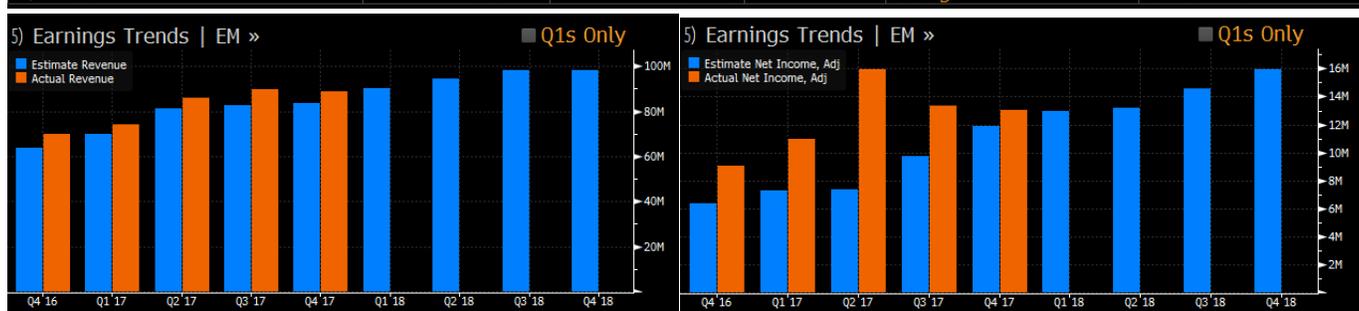
Turning to the 2018 financial outlook, Alarm expects SaaS and license revenues of \$283 million, representing a growth of 20% y/y. Total revenue is projected to be \$382 million (hardware will make up \$100 million of this). This is slightly lower than 2017 (below), due to market shift in manufacturing that will lower the cost for subscribers. Over the last 5 year period, Alarm has a CAGR of 29% in revenue growth and a strong track record of profitability over that same period.



Alarm has maintained an adjusted EBITDA margin between 21% and 16% over the last 5 years. From 2016 to 2017 EBITDA increased by \$23 million. The estimates for 2018 are that adjusted EBITDA reach \$82 million. Alarm is well positioned build upon this expanding market in smart properties, both residential and commercial. Alarm will continue to deliver strong financial results.

Below are the earnings consensus overview as well as the earnings trends. Alarm has strong y/y growth in all measures, notably revenue and EBITDA. They are stronger than comps and have beat 8 of their last 8 on nearly all measures as well. Their earnings trends also paint a similar picture, revenues and net income have beat estimates over the last 5Qs.

4) Consensus Overview   EEO »		2) Current Period Overview (Q1/18)			2) Prior Period Analysis (Q4/17)	
Measure	Q1/18 Est	4Wk Chg	YoY Gr	Growth vs Comps	Past Surprise	
1) EPS, Adj+	0.266	19.28%	15.6%	Stronger	Beat 8 of 8	
2) EPS, GAAP	0.144	-11.66%	80.4%	Stronger	Missed 6 of 8	
3) Revenue	90.317M	1.62%	21.7%	Stronger	Beat 8 of 8	
4) Net Income, Adj+	12.960M	23.19%	17.8%	Stronger	Beat 8 of 8	
5) Operating Profit	11.305M	-33.89%	--	--	--	
6) EBITDA	18.650M	1.22%	32.2%	Stronger	Beat 8 of 8	



## Evolving Industry:

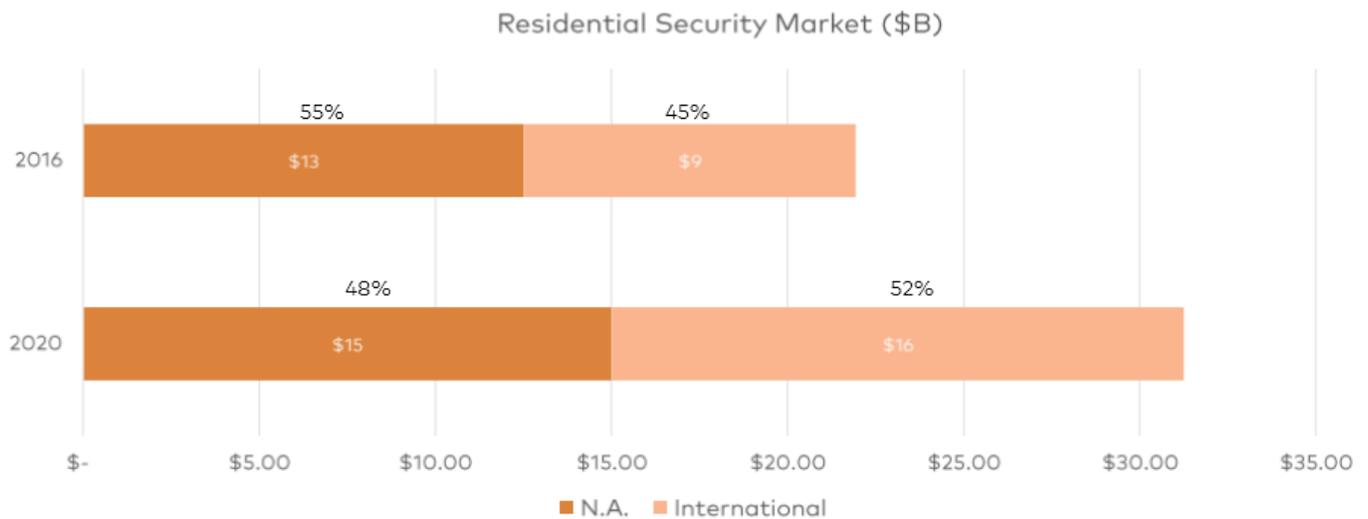
If we just focus on North America, there are approximately 22 million residential households with either some form of smart home security, or a traditional security platform. Of these only 8 million households have some sort of smart home security in 2016. This is projected to increase to 16 million households by 2021, driven by the increase in millennial first time home buyers and the integration of technology into the common household. Most of the traditional systems were deployed by dealers that actually partner with Alarm, which

provides Alarm with a strong advantage since there is already an existing relationship here. The growth is shown below. This adoption has already begun to take place. Alarm is built to integrate with almost all third party equipment including the Amazon Echo, Schlage locks, Apple devices, android devices, and Google Play and allows for control of your entire house from the mobile app.



This growth is also projected to continue internationally as well as commercially. The demand for home security devices has grown internationally, and Alarm has targeted various areas internationally to expand to. The cheaper labor costs in many of the regions that they targeted cause buyers to prefer partners of Alarm. Below is a chart outlining the projected international growth into 2020.

## Residential Security Projected to Grow Globally



The overall market size of residential home security is estimated to be around \$22B in 2016, growing to over \$31B by 2020, shown with a significant mix of the international markets as well. These numbers show huge growth potential, but don't even include commercial properties. There are approximately 4 million commercial properties in the United States alone (that are less than 10,000 sqft) that are the primary candidates for security provided by Alarm. Alarm even reported that business activations have grown over 200% since 2015, which shows the tremendous growth opportunity here.

The last area in which Alarm has shown plans to enter are vacation/ rental properties. This industry consists of nearly 45 million single/ multi-family rentals and vacation homes. The use of the Alarm security cloud would be critical in terms of property managers reducing risk in their investments as well as cutting costs, i.e. being able to adjust thermostats, security of property, flood sensors, water valves etc. Owners of the property would have remote access to all of these aspects for monitoring vacant properties.

## Competitor Analysis:

Alarm.com does not cost the customer much at all for peace of mind and security. Typically, there is an upfront charge between \$100-200 for a smart home security system, followed by the monthly subscription payments of \$40-60 for the life of the contract. Alarm allows for state of the art systems, professional installation and support without investing thousands of dollars upfront. Alarm even allows for compatibility with old security systems. They are compatible with DSC, GE Security, Interlogix, Qolsys, and 2GIG. Alarm sells their devices, technology, and service through dealers. This is the competitive advantage and differentiator of Alarm versus DIY service providers. They provide their product through more than 7,000 service providers that take care of subscriber acquisition, installation and ongoing support. Most end users don't even know they are using Alarm's platform. The distribution channel provides access to brands such as ADT and Monitronics- who hold most of the market share in this industry. Competitors have a riskier business model with high CAC costs (Customer acquisition costs) and they do not provide professional installation. Customers prefer a "do it for me" solution. They would prefer a relationship with a person, to maintain the apparatus installed in their home. They want to make sure that the carbon monoxide detector installed in the baby's room is installed correctly, and more importantly is always going to work- and if it is not operational someone will come to their home to fix it.

The majority of the market for home security is fragmented with thousands of smaller shops that own more than 50% of the market. This actually works to Alarm's advantage since they are the leading provider of smart platforms to most of these dealers, since they are so small and can't afford to develop their own softwares. ADT also owns about 27% of the market share, Monitronics 4%, and Alarm Force 1%- adding to a total of 88% of the market share, of which all are customers of Alarm. The other competitors (Simplisafe, Abode, Ring and Nest) all don't compete with Alarm's target market. Although Honeywell, Telular, and Secure Net offer their platforms to smaller dealers, they don't have even close to the penetration that Alarm has.

Below is a relative equity chart outlining where Alarm stands in comparison to their competitors. Alarm has very strong revenue growth and NI/Profit growth over the past year- revenue growth of nearly 30%. EBITDA margins are just below the average, however these comps include companies that don't just specialize in cloud security, and have a diversified business. Most notably Alarm's Free Cash Flow growth over the past year is incredible, almost 245%, and the FCF/Share growth over the past year is 238%. Alarm also has great inventory turnover in comparison to the industry.

Name	Mkt Cap1 (USD)	Rev Gr Adj YoY:Y	T12M NI / Profit - 1 Yr Gr	ROIC:Y	EBITDA Mrgn Adj:Y	Inv Turnover:Y	FCF 1Yr Gr	FCF/Sh Gr:Y	NOPAT:Y
Median	7.50B	7.61%	7.63%	13.67%	23.34%	5.98	12.08	12.41%	571.30M
100) ALARM.COM HOLDINGS INC	1.87B	29.81%	48.05%	17.88%	19.23%	9.40	244.95	237.81%	30.28M
101) HONEYWELL INTERNATIO...	113.56B	3.13%	7.63%	14.79%	23.34%	6.14	12.08	12.41%	880.26M
102) BCE INC	38.82B	4.60%	0.31%	8.92%	40.76%	33.97	15.74	12.48%	2.81B
103) ASSA ABLOY AB-B	24.03B	6.79%	5.00%	12.55%	18.26%	4.86	3.90	3.90%	1.06B
104) TELUS CORP	21.20B	3.95%	2.01%	8.50%	36.93%	17.05	85.44	85.13%	1.46B
105) ALLEGION PLC	8.22B	7.61%	22.28%	24.37%	23.88%	5.81	-11.07	-10.42%	342.28M
106) ADT INC	6.77B	46.30%	--	5.04%	51.73%	8.30	171.10	61.19%	800.31M
107) DORMAKABA HOLDING AG	3.33B	19.10%	7.42%	36.52%	15.65%	3.73	-7.78	-7.90%	282.71M
108) AXIS COMMUNICATIONS AB	2.79B	16.48%	14.24%	28.55%	13.83%	4.34	-26.80	-26.80%	86.49M

(Accounting Adjustments: Adjusted for Abnormal Items When Applicable)

## Profitability:

Below shows Alarm's profitability over the past few years. There has been increasing revenue growth, gross profit, EBITDA, and net income. Alarm's revenue growth rate of nearly 30% will trail off to around 13% for the forecasted periods to 2020. Alarm.com Holdings Inc. is still in the early growth stages of the company, and as outlined earlier they have tremendous room for growth within the evolving industry. Free Cash Flow has increased dramatically to \$47 million, while CAPEX remains the same. Alarm shows great profitability.

Alarm.com Holdings Inc (ALRM US) - Adj Highlights							
In Millions of USD 12 Months Ending	FY 2015 12/31/2015	FY 2016 12/31/2016	FY 2017 12/31/2017	Current/LTM 12/31/2017	FY 2018 Est 12/31/2018	FY 2019 Est 12/31/2019	FY 2020 Est 12/31/2020
<b>Revenue, Adj</b>	208.9	261.1	338.9	338.9	381.3	427.5	474.5
<i>Growth %, YoY</i>	24.8	25.0	29.8	29.8	12.5	12.1	11.0
<b>Gross Profit, Adj</b>	131.5	161.7	222.7	222.7	260.2	298.8	345.9
<i>Margin %</i>	63.0	61.9	65.7	65.7	68.2	69.9	72.9
<b>EBITDA, Adj</b>	31.0	49.9	65.2	65.2	82.2	98.3	125.0
<i>Margin %</i>	14.9	19.1	19.2	19.2	21.6	23.0	26.3
<b>Net Income, Adj</b>	-2.6	30.1	40.9	46.3	56.7	68.1	85.7
<i>Margin %</i>	-1.3	11.5	12.1	13.6	14.9	15.9	18.1
<b>EPS, Adj</b>	-0.11	0.63	0.83	0.95	1.13	1.34	1.69
<i>Growth %, YoY</i>	—	—	32.1	45.5	36.9	18.4	25.6
<b>Cash from Operations</b>	28.0	22.6	57.2	57.2			
<b>Capital Expenditures</b>	-10.3	-9.1	-10.5	-10.5	-11.4	-12.6	
<b>Free Cash Flow</b>	17.7	13.5	46.7	46.7	47.0	58.0	

Source: Bloomberg

## Management/Ownership:

The ownership chart for Alarm is shown below. Most of the shares are held by investment advisors at 82.93%, followed by individuals at 7.30%, and Hedge Fund Managers at 5.02%. All ownership types have increased their investment in Alarm over the last 25 days. Technology Crossover Management VII holds 27.79% of shares outstanding within investment advisors, followed by Blackrock and Vanguard. Next to this chart is the short interest chart. The short interest days to cover is 4.87 days. This has increased lately, mostly due to lack of volume since Alarm is a relatively low traded stock. There has also been a decline in short interest of 26,085 shares to 3,186,191 shares.



Mr. Stephen S. Trundle has been President and CEO at Alarm.com Holdings, Inc. since 2003. Mr. Trundle has been at Alarm since 1994, and before that he worked as a consultant with MicroStrategy. The Chief Product Officer of Alarm is Mr. Daniel Kerzner. He has been with Alarm since 2013 and is also a Venture Partner at NextGen Venture Partners. Previously he was CEO of Emotive Communications Inc., as well as SVP and GM at MicroStrategy. Below is a chart outlining the management compensation from 2013-2016. Over this period the stock went public at the end of June 2015, and to the end of 2016 the stock had a total return of 219.66% while compensation hardly changed. Alarm’s management team is dedicated to growing their company and not their own salaries. The company is growing much faster than their compensation. Mr. Trundle also owns 5.59% of the total shares outstanding.

Name	Title	FY 2013 (USD)	FY 2014 (USD)	FY 2015 (USD)	FY 2016 (USD)
Kerzner, Daniel	Chief Product Officer	-	468,091	519,263	505,500
Trundle, Stephen S.	Chief Executive Officer, President and Director	450,500	450,559	675,991	448,000
Valenzuela, Steve	Chief Financial Officer	-	-	-	119,942

## Valuation:

Below outlines a valuation done by Value Alpha, from Seeking Alpha. Outlined is a valuation based on multiples of revenue for the next twelve months- since most of the comps are companies that have not reached a steady EBITDA level, and are still in providing strong growth. The average multiple is 10.7x, but since Alarm is on the lower end of these growth rates, an estimated 6-7x multiple can be used.

ALRM Comps			
Company	Market Cap (\$B)	2018E Revenue Growth	EV/NTM Revenue
Adobe	104	23%	11.2x
Salesforce.com	86	19%	6.8x
Workday	30	28%	10.4x
ServiceNow	30	34%	11.1x
Shopify	14	45%	13.7x
Veeva	10	18%	11x
<b>Average</b>		<b>28%</b>	<b>10.7x</b>

<b>ALRM Valuation based on comps</b>	
2018E Revenue (\$M)	381
Applicable Multiple	7x
EV (\$M)	2,667
Less: Net Debt	(25)
Equity Value (\$M)	2,692
Shares Outstanding (M)	49.3
<b>Value Per Share</b>	<b>\$55</b>
<i>Upside from current price</i>	<i>41%</i>

By using a multiple of 7x, and the estimated revenue of \$381 million for 2018, you arrive at a current Value Per Share of \$55. This gives Alarm a 41% upside from their current price of \$37.99. If a 6x multiple was used with a 12% growth rate (compared to 14%) the Value Per Share comes out to \$47, which still is a 27% upside from the current market price. If an 8x multiple was used with a 14% growth rate in revenue the Value Per Share comes out to be \$63, which is a 70% return from the current market price.

Citations:

<http://investors.alarm.com/static-files/7572b0f2-f834-4666-a0b2-be91ab7a3cc6>

<https://seekingalpha.com/article/4155489-alarm-com-well-protected-vs-diy-invasion-along-many-growth-catalysts>

## Conclusion:

Overall, Alarm.com Holdings, Inc. is uniquely positioned within a growing market. They are well protected against serious competition, or have a strong competitive advantage. The company has been leveraging many different avenues of growth by not only growing their revenue base but also having a 93% renewal rates of service. Their expanding margins make for a great investment opportunity. The most recent pullback was due to investor fear surrounding DIY competitors, however there is no traction to this. The stock is currently undervalued, with 1YR target returns over 35%. Alarm will continue to expand globally and foster strong relationships, through targeted marketing and awareness for their top of the line cloud security solutions.

Alarm.com Holdings, Inc.

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

(ALRM)

Analysis by Al Capone

Current Price:

\$37.99

Intrinsic Value

\$46.09

Target 1 year Return: 37.54%

3/21/2018

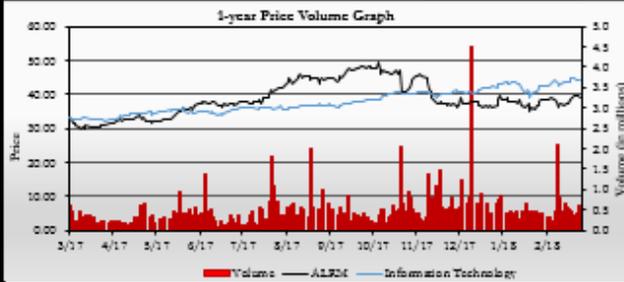
Dividend Yield:

0.0%

Target Price

\$52.25

Probability of Price Increase: 100%



**Description**  
Alarm.com Holding, Inc. provider cloud-based software platform solutions for smart residential and commercial properties in the United States and internationally.

General Information

Sector: Information Technology  
Industry: Internet Software and Services  
Last Guidance: February 12, 2018  
Next earnings date: May 9, 2018

Market Assumptions

Estimated Equity Risk Premium: 5.08%  
Effective Tax rate: 21%

Market Data

Market Capitalization	\$1,837.72
Daily volume (mil)	0.40
Shares outstanding (mil)	47.21
Diluted shares outstanding (mil)	49.15
% shares held by institutions	109%
% shares held by investment Managers	54%
% shares held by hedge funds	4%
% shares held by insiders	3.29%
Short interest	6.75%
Days to cover short interest	5.11
52-week high	\$49.49
52-week low	\$29.70
Volatility	0.00%

**Part Earning Surprises**

Quarter ending	Revenue	EBITDA
12/31/2016	9.19%	13.76%
3/31/2017	6.91%	-8.67%
6/30/2017	6.55%	12.06%
9/30/2017	9.25%	-2.77%
12/31/2017	6.59%	-4.59%
Mean	7.70%	1.96%
Standard error	1.1%	5.0%

**Market and Credit Scores**

Recommendation (STARS) Value--0	
Recommendation (STARS) Description--0	
Quality Ranking Value--0	
Quality Ranking Description--0	
Short Score--2	
Market Signal Probability of Default % (Non-Rating)--0.279%	
Credit Model Score (Non-Rating)--bb-	

Industry and Segment Information

LTM Revenue by Geographic Segment	LTM Revenue by Business Segment
United States--100%	Alarm.Com--94%
--	Other--7%
--	Intersegment--1%
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**Management**

Management	Parities	Total Compensation Grant	Stock Price Growth During Tenure
Trundle, Stephen	Chief Executive Officer, President and Director	-22.7% per annum over 3y	
Valenzuela, Steve	Chief Financial Officer		0% per annum over 0y
Korzner, Daniel	Chief Product Officer	27.99% per annum over 2y	
Martin, Jean-Paul	Co-Founder and Chief Technology Officer	-100% per annum over 1y	66.85% per annum over 1y
Slavin, Aliran	Co-Founder and Senior Vice President of Credit		
Gallinger, Allan	Principal Accounting Officer and Controller		

**Peer's 5 forces (Scores are percentiles)**

- Eargaining Power of Suppliers-- MIDDLE TIER 33
- Eargaining Power of Customers-- LOWEST TIER 29
- Threats of New Competition-- LOWEST TIER 17
- Intensity of Existing Rivalry-- MIDDLE TIER 42
- Threats of Substitutes-- LOWEST TIER 23
- Overall Position among Peers-- LOWEST TIER 25

**Profitability**

	ALRM (LTM)	ALRM Historical	Peer's Median (LTM)
Return on Capital (GAAP)	51.3%	27.41%	27.89%
Operating Margin	26%	16.02%	5.68%
Revenue/Capital (GAAP)	1.95	1.71	4.91
ROE (GAAP)	21.1%	19.9%	-25.3%
Net margin	16.5%	13.2%	4.3%
Revenue/Book Value (GAAP)	1.28	1.51	-5.89

**Valuation**

	ALRM (LTM)	ALRM Historical	Peer's Median (LTM)
Carh/Capital	22.3%	37.6%	56.2%
NWC/Capital	3.3%	6.2%	-16.6%
Operating Assets/Capital	59.8%	44.6%	54.0%
Goodwill/Capital	14.7%	11.6%	6.3%

**Capital Structure**

	ALRM (LTM)	ALRM Historical	Peer's Median (LTM)
Total Debt/Market Capitalization	0.22	0.10	0.21
Cost of Debt	5.7%	3.8%	5.8%
CGFS Rating (F+ score, Z+ score, and default Probability: BBB			
WACC	11.1%	7.8%	10.7%

**Forecast Assumptions**

	Explicit Period (10 years)	Continuing Period
Revenue Growth CAGR	8%	2%
Average Operating Margin	25%	26%
Average Net Margin	24%	21%
Growth in Capital CAGR	12%	2%
Growth in Claims CAGR	5%	2%
Average Return on Capital	14%	8%
Average Return on Equity	16%	8%
Average Cost of Capital	8%	8%
Average Cost of Equity/Kc	8%	8%

