

November 6, 2018

**Company Name: Alarm.com  
(ALRM)**

Samantha St.Germain

**Sector:**

**Industry: Commercial and Residential Building  
Equipment and Systems**

**Current Price:**

**Target Price: \$57.80**

**Company Description: Alarm.com offers smart home and security solutions for residential and commercial properties. Major revenues come from SaaS and hardware.**

## BUY

Current Price: \$49.65  
 Target Price: \$57.8  
 Market Cap: 2,181.6M  
 ROIC: 10.71  
 ROIC/WACC: 3.74  
 SaaS Renewal: 94%



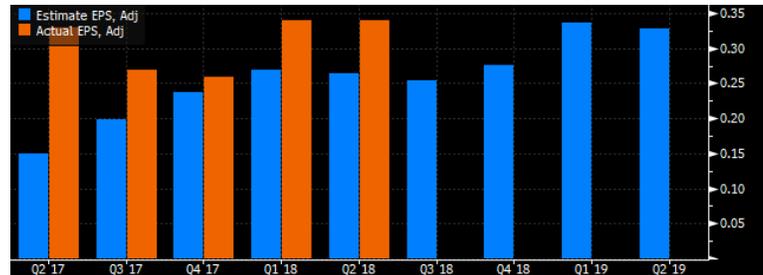
**Thesis:** The Smart Home market is a huge industry that firms have barely scratched the surface of. As a leader in the smart home security market, Alarm.com is positioned to highly benefit from the growth in the market as well as from factors more unique to the firm itself. Alarm.com is currently targeting new and growing markets to continue its rapid growth.

**Catalysts:** Forward looking projections that call for positive/negative outlook that will strengthen your thesis. Example:

- Growing Market for Home Security and Smart Home Technology
- Partnering With Insurance Companies to Encourage Adoption of Systems
- Partnering With Builders to add Systems to Housing Starts
- International Expansion
- Opportunities for Growth in the Smart Home Market Beyond Security

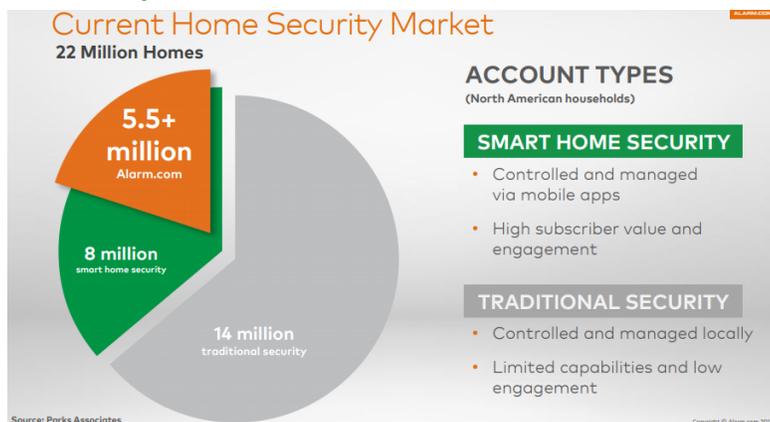
## Earnings Performance:

Earnings for Q2FY18 grew 26.2% YOY. A large part of this came from a growth in SaaS and license revenue, increasing 20.4% from \$8.5 million in Q2FY17 to 10.2 million in Q2FY18. Cash flows for Q2FY18 were \$11.7 million, slightly down from \$11.8 in Q2FY17. EBITA margin for the 12 month period ending June 30, 2018, increased to 21% from 19.2% in 2017.



Alarm.com's main revenue segment grew from \$247.8 million in 2016 to \$320 million in 2017, an increase of 29%. Other revenue, which accounted for 6.94% of total revenues in 2017, grew from \$18.8 million to \$23.9 million. Alarm.com has shown strong revenue growth in the past, with strong prospects for the future which will be discussed further in the subsequent narrative.

## Industry Growth:



Alarms.com provides integrated home security solutions for households and small businesses. The market for home security systems in the United States is currently 22 million homes, projected to rise to 26 million by 2021. Of the current 22 million homes with security systems, 8 million have smart home security systems. Alarm.com has 25% of the market share for the whole home security market at 5.5 million homes, and almost 69% of the smart home security market share.

In a highly fragmented market such as home security, Alarm.com has considerable market share.

As mentioned, homes with security systems are expected to increase approximately 18% by 2021. Smart home security will also see an increase, growing from 8 million homes to 16 million, taking their market share from the current 36% to a projected 61%. As the leader in smart home security, Alarm.com is poised to benefit from this expansion in the market.

With renewal rates at 94% for Q2FY18, the firm has historically been able to retain customers, proving the strength of the product. This also reflects that as of now, the firm is not losing customers, so focus can be put on acquiring new consumers.

## Collaborating With Insurance:

Alarm.com recently announced that it will be partnering with insurance company Aviva to offer Aviva policy holders smart home security solutions tailored to their needs. Aviva is a European insurance company and the partnership will benefit policy holders in Ireland. Ireland currently has a smart home market

worth \$27.3 million. The Irish market is currently 5.1% penetrated, giving Alarm.com an early mover advantage in the market. International expansion will be discussed further in later sections.

Aviva Smart Home will protect homes from things such as fires, break-ins, and water damage. The service will be available through an app with will control security, heating and lighting for the property. Aviva Smart Home will have multiple features including door, motion, and glass break sensors, and heating and lighting controls. Chief Underwriting Officer for Aviva Ireland stated,

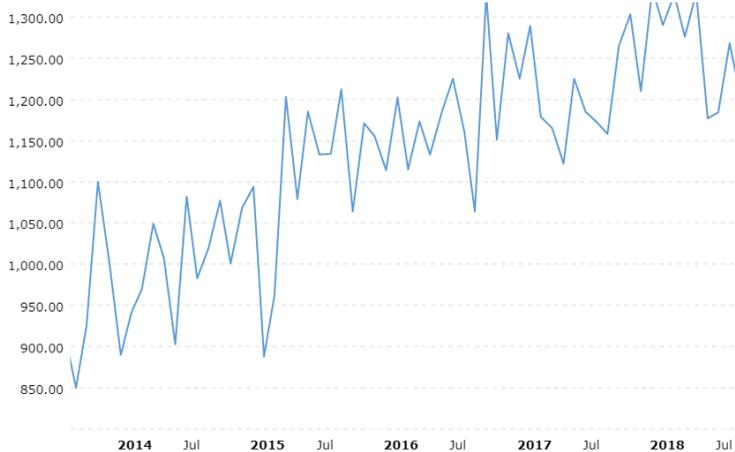
*"As the global leader in smart home services, Alarm.com was the right partner for Aviva. We're confident that Alarm.com's platform provides both the reliability and ongoing innovation we need to extend our market leadership and brand into the smart home space."*

Collaborating with insurance companies has the potential to yield benefits for both the insurance and security companies. The insurance companies get an extra layer of protection on the properties they insure, reducing the claims made. Alarm.com will benefit from the exposure to new customers. Alarm.com will also benefit from the insurance company offering incentives to policy holders to adopt smart home technology, particularly the one offered through the insurance company and Alarm.com.

This type of partnership is new for Alarm.com. The firm has benefited in the past from incentives offered by insurance companies to adopt home security measures, but never in such a direct partnership. If this is successful, Alarm.com may seek to expand their partnership with Aviva or find other insurance providers in other markets.

## Housing Starts:

### Housing Starts 2014-2018



Data from Macrotrends ; <https://www.macrotrends.net/1314/housing-starts-historical-chart>

ALRM announced a new home builder program. This program will facilitate partnerships with home builders, encouraging them to include Alarm.com Smart Home products into their new builds. The program allows service providers to provide new home builders with discounted hardware and a new automation-only service with will give home owners the opportunity to upgrade to a full security solution. Toll Brothers, one of the nation's leading luxury home builders, already uses Alarm.com for their smart home projects.

New homes tend to be early adopters of Smart Homes. By partnering with homebuilders to install Alarm.com products into these new homes, it will promote new

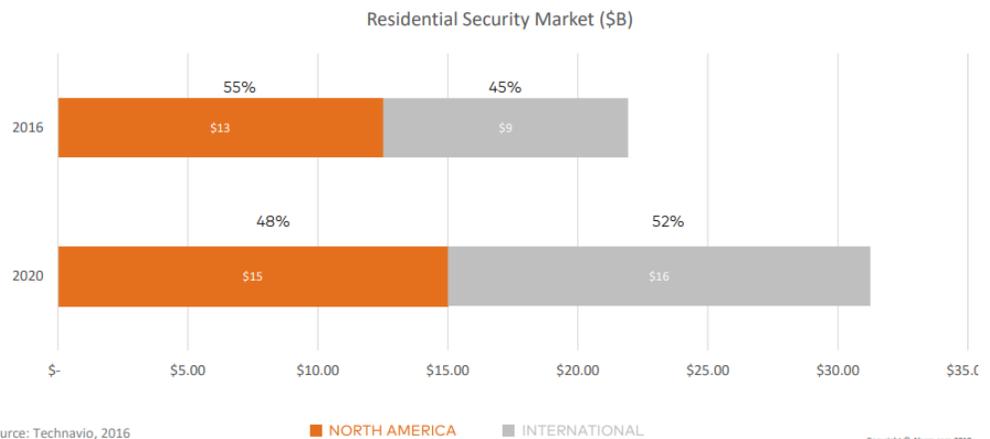
home buyers to use these products instead of switching to different products. It will also promote

homeowners who may not consider getting a security system or adopting smart home technology otherwise to keep the systems and upgrade to full security if they already have the necessary hardware installed.

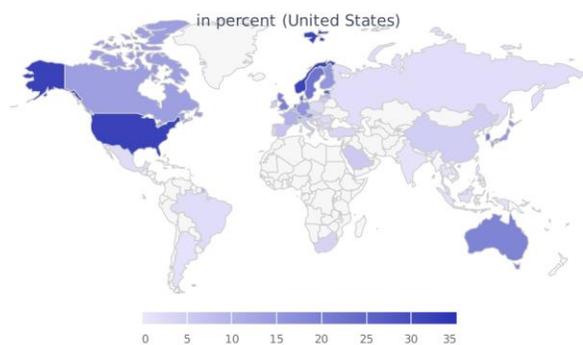
## International Expansion:

The potential for international expansion is another avenue Alarm.com is pursuing. The global market for smart homes has only been 5.3% penetrated, giving Alarms.com an early advantage. Currently Alarms.com products are protecting approximately 1.4 billion homes worldwide. Alarms.com partners with firms such as ADT, Chubb United Technologies, Securitas, Pronet, and Spark both domestically and internationally. The international market for residential security is projected to grow from \$9 billion in 2016 to \$16 billion by 2020, a 43% increase.

## Residential Security Projected to Grow Globally



## Global Comparison - Household Penetration in the Smart Home market



Source: Statista, September 2018 © Natural Earth

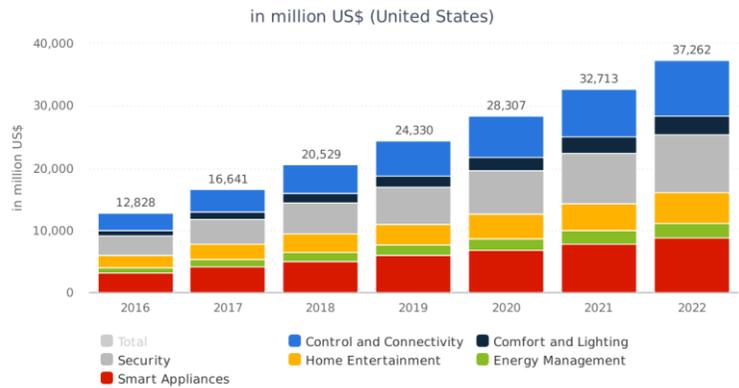
The smart home market is the most penetrated in the United States at 32%. While growth domestically is still a more than viable option, moving into areas with much lower market penetration, such as Mexico with only 1.9% penetration or France with 10.2% penetration, gives Alarm.com an early mover advantage, rapidly gaining market share before more competitors enter the market.

## Other Opportunities in the Smart Home Industry:

In Q2FY18, Alarms.com saw an increase in revenue of 59% for products other than their security production. Alarms.com is uniquely positioned to capture the market for smart home products as 5.5 million homes own at least one Alarm.com product and Alarm.com's commitment to integration and smart home technology.

One currently offers a smart thermostat, which gained ENERGY STAR Certification in October, 2018. By offering a product that automatically monitors energy consumption and can adjust the heating and cooling of a house, consumers can see real economic benefits from what they save in energy bills, not just the benefit of having a secured home. More than 4 million smart thermostats were sold in 2015, reflecting a viable market for the product and others like it. It is projected that in 2021, there will be over 32 million homes equipped with smart thermostats.

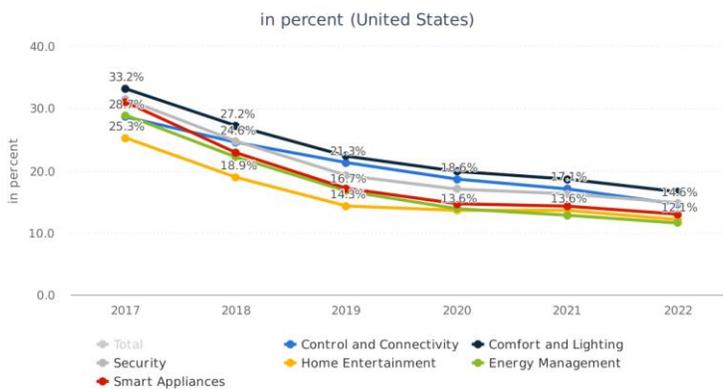
### Revenue in the Smart Home market



Source: Statista, September 2018



### Revenue Growth in the Smart Home market



Source: Statista, September 2018



Alarms.com reports that its subsidiary companies in the "Other" segment of its business. While this segment only accounted for 7% of FY17 revenues, over the past quarter these subsidiaries saw a 59% increase in SaaS revenue for these products. This high growth proves that, while only a small portion of business for Alarms.com, that there is potential in the upcoming years for expansion and growth in these subsidiaries to play a larger role in revenues and sales.

## Conclusion:

Alarm.com offers smart home security solutions for residential and commercial properties. The smart home industry is growing at a rapid rate both domestically and internationally. Alarm.com has an early mover advantage in international markets which have barely scraped the surface of the market. Alarm.com is also collaborating with entities outside of the smart home market including insurance companies and homebuilders to grow market share and revenue. With historically strong growth, all signs point to continued strong growth throughout the future.

**Alarm.com Holdings, Inc.**  
**(ALRM)**

**CENTER FOR GLOBAL FINANCIAL STUDIES**

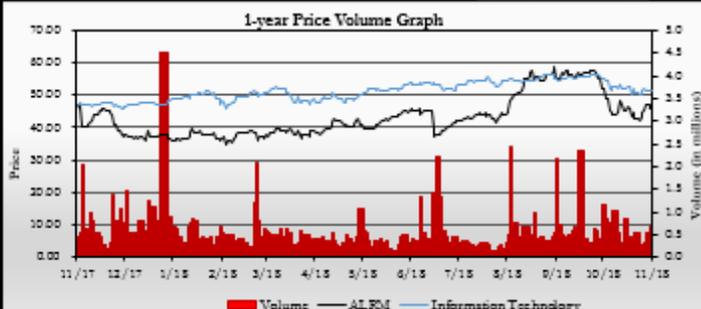
**BULLISH**

Analysis by **Sam St. Germain**  
11/6/2018

Current Price: **\$45.74**  
Dividend Yield: **0.0%**

Intrinsic Value: **\$53.24**  
Target Price: **\$57.80**

Target 1 year Return: **26.36%**  
Probability of Price Increase: **100%**



<b>Description</b>	
Alarm.com Holdings, Inc. provides cloud-based software platform solutions for smart residential and commercial properties in the United States and internationally.	
<b>General Information</b>	
Sector	Information Technology
Industry	Software
Last Guidance	May 8, 2018
Next earnings date	November 7, 2018
<b>Market Assumptions</b>	
Estimated Equity Risk Premium	5.00%
Effective Tax rate	13%

<b>Market Data</b>	
Market Capitalization	\$2,181.60
Daily volume (mil)	0.43
Shares outstanding (mil)	47.70
Diluted shares outstanding (mil)	49.40
% shares held by institutions	77%
% shares held by investments Managers	71%
% shares held by hedge funds	3%
% shares held by insiders	3.78%
Short interest	9.09%
Days to cover short interest	7.42
52 week high	\$60.20
52-week low	\$33.39
Volatility	0.00%

<b>Past Earnings Surprises</b>	
<b>Quarter ending</b>	<b>Revenue</b>
6/30/2017	6.55%
9/30/2017	3.25%
12/31/2017	6.59%
3/31/2018	3.14%
6/30/2018	10.25%
Mean	7.16%
Standard error	1.1%
<b>EBITDA</b>	
6/30/2017	-4.11%
9/30/2017	-2.77%
12/31/2017	-4.59%
3/31/2018	2.90%
6/30/2018	0.43%
Mean	-1.63%
Standard error	5.0%

<b>Market and Credit Scores</b>	
Recommendation (STARS) Value--0	
Recommendation (STARS) Description--0	
Quality Ranking Value--NR	
Quality Ranking Description--Not Ranked	
Short Score--2	
Market Signal Probability of Default % (Non-Ratings)--0.23%	
CreditModel Score (Non-Ratings)--bb-	

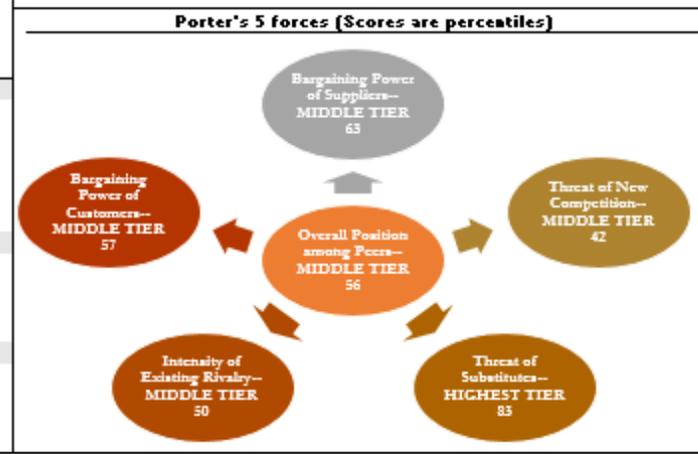
<b>Industry and Segment Information</b>	
<b>LTM Revenues by Geographic Segment</b>	<b>LTM Revenues by Business Segments</b>
--	Alarm.Com--34%
--	Other--7%
United States--100%	Intersegment--1%
--	--
--	--
<b>Peers</b>	
Control4 Corporation	--
Echelon Corporation	--
Apollo Global Management, LLC	--
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<b>Management</b>		<b>Position</b>	<b>Total Compensation Growth</b>	<b>Stock Price Growth During Tenure</b>
Trundle, Stephen	CEO, President & Director		-13.8% per annum over 4y	
Ramos, Daniel	Senior VP of Corporate Development & Corp.			0% per annum over 0y
Bedell, Jeffrey	Chief Strategy & Innovation Officer		-100% per annum over 3y	
Kerzner, Daniel	Chief Product Officer		28.4% per annum over 3y	
Martin, Jean-Paul	Co-Founder & CTO		-100% per annum over 1y	35.64% per annum over 1y
Slavin, Alison	Co-Founder & Senior VP of Creation Lab			

<b>Profitability</b>		<b>ALRM (LTM)</b>	<b>ALRM Historical</b>	<b>Peers' Median (LTM)</b>
Return on Capital (GAAP)		32.3%	28.14%	20.13%
Operating Margin		26%	16.73%	22.83%
Revenue/Capital (GAAP)		1.26	1.68	0.88
ROE (GAAP)		26.8%	-10.1%	17.5%
Net margin		14.5%	13.5%	11.6%
Revenue/Book Value (GAAP)		1.854058635	-0.75	1.51

<b>Invested Funds</b>		<b>ALRM (LTM)</b>	<b>ALRM Historical</b>	<b>Peers' Median (LTM)</b>
Cash/Capital		35.6%	33.4%	25.3%
NWC/Capital		11.1%	8.8%	13.3%
Operating Assets/Capital		36.8%	39.2%	50.6%
Goodwill/Capital		14.5%	14.4%	1.6%

<b>Capital Structure</b>		<b>ALRM (LTM)</b>	<b>ALRM Historical</b>	<b>Peers' Median (LTM)</b>
Total Debt/Market Capitalization		0.21	0.10	0.05
Cost of Debt		3.3%	3.0%	5.0%
CGFS Rating (F-score, Z-score, and default Probability)	A			
WACC		10.0%	7.8%	11.2%



<b>Forecast Assumptions</b>		<b>Explicit Period (15 years)</b>	<b>Continuing Period</b>
Revenue Growth CAGR		14%	6.0%
Average Operating Margin		20%	15%
Average Net Margin		24%	16%
Growth in Capital CAGR		16%	6%
Growth in Claims CAGR		0%	6%
Average Return on Capital		16%	9%
Average Return on Equity		16%	9%
Average Cost of Capital		10%	10%
Average Cost of Equity		10%	10%

