

ADT Still Holding Off Cable/Telecom, Pulse Performing Well, Commercial Success Unclear

Companies: ADT, CMCSA, DTV, GOOG, TWC, TYC, VZ

January 16, 2015

Research Question:

Will cable and telecom companies' home security offerings materially affect ADT's customer growth or attrition rate in the next six months?

Summary of Findings

- Cable/telecom home security offerings will not materially affect [ADT Corp.](#)'s (ADT) customer growth or attrition rate in the next six months, a finding consistent with previous Blueshift Research reports, including our most recent [Oct. 10, 2014](#) report.
- Just two of 17 sources said cable and telecom companies' offerings were a bigger threat to ADT than traditional competitors, though two other sources said cable/telecom would affect ADT's bottom line but not its growth or attrition.
- Cable and telecom companies are not taking customers from ADT, but instead are convincing existing customers to add home security to current bundles.
- ADT's strength is [Pulse](#), lauded by nine sources who said it provides valuable interactive control for customers and helps to improve retention.
- ADT's challenge stems from poor service delivery leading to attrition, giving traditional security companies with a more personal approach an opportunity to lure those customers to switch. Thirteen sources, including three of five repeat sources, noted poor service as ongoing and showing no improvement.
- Five dealer sources said overall demand for residential security is on the rise, with two adding that there is enough to go around for all competitors in the industry. On a related note, sources said the heavy advertising from cable and telecom companies has benefitted all security companies.
- Sources are divided on ADT's prospects in the commercial market. Some believe ADT will succeed by pursuing small local businesses, while others think the company has better chances with national accounts. Sources are split on whether ADT's pursuit of the commercial market will distract it from its residential business.

Silo Summaries

1) Home Security System Dealers from Traditional Players

Eight of 11 sources said poor service continues to plague ADT, including two repeat contributors who have not seen any changes in the last three to six months. One repeat source, however, has seen improvement in service and customer retention. Five said Pulse is performing well for ADT and adding value that increases the likelihood of customer retention. **Cable/telecom is making incremental gains, but still is limited in its effect on ADT and others. Two sources singled out AT&T as the leader among cable/telecom home security offerings.** Traditional security companies are a bigger threat to ADT because of their experience, reliability, and superior service with a personal touch. Demand is growing across the residential security market, and two sources said there was enough room for all the competitors. Sources are divided on ADT's likelihood of success in the commercial market.

2) Commercial System Dealers

Two of three sources interviewed said ADT's efforts in the commercial space held promise, and will include a focus on small businesses, aggressive pricing to gain new clients, and a chance to win national accounts due to its national footprint. One of the sources does not believe ADT's efforts in the commercial space will distract the company from its residential business. Two sources said cable and telecom companies' security offerings are a bigger threat to ADT than traditional security companies because cable and telecom companies have deeper pockets and are inundating the market with ads. Sources also believe there is enough security demand for everyone in the market. **Vivint, Protection One, and Stanley are ADT's biggest national challengers.**

3) Industry Specialists

Two of three sources interviewed said ADT has poor service delivery and lacks the personal touch of traditional competitors. **ADT's Pulse is a good product, even if it is not unique, and has helped ADT improve customer retention.** These sources said ADT is wise to pursue a partnership with Google's Nest, which could pay dividends nicely. The threat from cable and telecom companies' security offerings is more to ADT's bottom line than anything else. ADT's size is a disadvantage in competing against regional and local companies, and keeps ADT from customizing products for residential and commercial customers alike. ADT's national footprint and reach, however, gives the company a chance with some commercial clients.

	Cable/Telecom Taking Share from ADT	Pulse	ADT In Commercial Accounts
Traditional Dealers	↓	↑	→
Commercial Dealers	→	↑	→
Industry Specialists	→	↑	→

Background

ADT's Q4 results were mixed, as sales came in ahead of expectations but profits dipped. Q4 revenue increased 3%, however net income fell 14.5% to \$82 million. Total accounts grew 3.7% to 6.7 million customers, and unit attrition rate fell to 13.2%. ADT attributed the recurring revenue growth to a [3.7% increase](#) in its organic average revenue per customer and the consolidation of its previously announced acquisition of [Reliance Protectron Security Services](#). On Dec. 5, Moody's issued an unflattering Ba2 rating on ADT's new debt offering, and a week later Barclays downgraded ADT due to the debt it has accumulated, most of which was borrowed to purchase 26% of its outstanding shares over the last two years.

ADT's 2015 plans include: growing its Pulse suite; investigating more M&A opportunities; boosting flat sales in its dealer channel; reducing attrition below the 13% mark; and expanding its commercial and personal health systems franchise. ADT Pulse now has more than one million customers, makes up 16% of ADT's customer base, and is selected [by 70% of new ADT customers](#). ADT's expansion into the \$7 billion mid-sized commercial market is underway as the company recently added 45 employees to spearhead this segment. Within this segment, ADT plans to bundle fire monitoring and multi-location services with its standard commercial security plans. ADT believes the home security market is underpenetrated, and that it has the potential to expand its services threefold if the home security penetration rate of 19% and home automation rate of 1% were to reach the penetration levels of other household services such as wireless, internet, HDTV and landline phone service, all of which have a 64% penetration rate or higher in homes.

Telecom and cable companies continue to grow their home security offerings to their enormous customer bases. [DirecTV](#) (DTV) is offering its customers a discounted home security service, [Life Shield](#). Unlike ADT, LifeShield and other up-and-coming home security offerings have relatively good customer satisfaction rates. [TycoIS](#) (Tyco Integrated Security), a new product offered by [Tyco International PLC](#) (TYC), should be considered as a significant threat in small business security space. Through the new product—a [new HD IP camera line](#) bundled with an app and standard options priced below ADT's comparable offering—Tyco is poised to expand its small business footprint. Tyco's small business line has [kicked off in five markets](#) and will expand once it fully understands the smaller business model, likely in late 2015. The quality of ADT's security recently came into question when an Illinois [class action](#) claimed ADT's wireless signal is unencrypted and can be hacked with a \$10 software-defined radio available on the open market. Hackers can exploit such flaws to disable homeowners' systems, cause false alarms, and even use the [system's cameras](#) to spy on people in their homes.

In our [Oct. 23](#) home security customer survey, we found ADT is the predominant home security company, but respondents indicated growing trust in cable and telecom companies' ability to run home security systems. Subscribers choosing ADT did so based on perceived quality over price, and cable/telecom home security subscribers were enchanted by the value of bundled services. As a group, customers with lower incomes are subscribing to home security systems at a higher rate than other groups. Our [Oct. 10](#) report found ADT was fending off cable and telecom companies and making little progress in its commercial business, and that ADT had not improved its service performance. Pulse reviews were mixed, with some saying the service was not unique and others claiming it benefited from telecom and cable companies' advertising. Our [July 23](#) report had similar findings in regard to competition from cable and telecom companies. Twelve out of 14 sources stated cable/telecom was not a threat to ADT. The company was accelerating its marketing campaigns, focusing on safety and reliability rather than price.

Current Research

In this next study, Blueshift Research assessed whether cable/telecom home security offerings will materially affect ADT's customer growth or attrition rate in the next six months. We employed our pattern mining approach to establish five independent silos, comprising 17 primary sources (including five repeat sources) and nine relevant secondary sources focused on a lawsuit against ADT, home security hackers, Tyco technology investments, and home automation:

- 1) Home security system dealers from traditional players (11)
- 2) Commercial system dealers (3)
- 3) Industry specialists (3)
- 4) Secondary sources (9)

Next Steps

Blueshift Research's next report on ADT will continue to focus on ADT's growth and attrition in the residential market. We will aim to include installer sources as a silo, as well as home security system dealers from cable and telecom companies. We'll delve into ADT's efforts in the commercial markets, and will pursue additional data on ADT and Google Inc.'s (GOOG/GOOGL) [Nest](#), as well as any threats from the DIY market.

Silos

1) Home Security System Dealers from Traditional Players

Eight of 11 sources said poor service continues to plague ADT, including two repeat contributors who have not seen any changes in the last three to six months. One repeat source, however, said he has seen improvement in service and customer retention. Five said Pulse is performing well for ADT and adding value that increases the likelihood of customer retention. Cable/telecom is making incremental gains, but still is limited in its effect on ADT and others. Customers are not leaving ADT to go to cable and telecom companies, which draw most of their customers from current subscribers adding security to their bundles. Two sources singled out [AT&T Inc.](#) (T) as the leader among cable/telecom home security offerings. Traditional security companies are a bigger threat to ADT because of their experience, reliability, and superior service with a personal touch. Demand is growing across the residential security market, and two sources said there was enough room for all the competitors. Sources are divided on ADT's likelihood of success in the commercial market, with three suggesting it will distract ADT from its residential business and three others saying it will not be a distraction.

Key Silo Findings

ADT

- 8 of 11 said ongoing poor service is ADT's biggest challenge and is the cause behind its high attrition numbers.
 - o 2 repeat sources said there has been no change in the last three to six months.
 - o 1 repeat source said service has improved and attrition is lower as a result.
 - o 2 said service varies regionally and is high quality in some areas, bad in others.
- Other reasons for leaving ADT, or not choosing it to begin with: high price and long-term contract.
- 3 said ADT is discounting aggressively to attract and/or retain customers.
- 5 said Pulse is selling well, is a strong product, adds value, and helps address some retention issues.
 - o 2 others said it Pulse is expensive or not unique to the marketplace.
- 3 said ADT is not increasing its advertising.
- 3 said dealers are not leaving ADT, 2 said dealers are leaving, and 1 said ADT is reducing its dealer program.
- 1 said ADT needs to upgrade its technology and equipment.

Competition from Cable/Telecom

- 6 said cable/telecom is not hurting ADT or others, service and product is not improving.
- 5 said cable/telecom is doing well and making incremental gains.
 - o 1 said it will affect ADT's growth, but not its attrition as customers are not leaving ADT to go to cable/telecom.
 - o 2 singled out AT&T as the strongest in the group.
 - o 2 said cable/telecom is a threat to ADT.
- Bundling is the biggest attraction to cable/telecom services, but sources said it is fool's gold, as bundling does not represent the savings customers think it does.
- 2 said the marketing from cable/telecom is raising awareness for the entire industry.
- 1 said ADT needs to increase its advertising to keep pace with cable/telecom.

Competition from Established Security Companies

- 4 said traditional companies are the biggest threat to ADT because of their experience, reliability, and personal approach to customer service.
- 5 said demand for residential security is growing steadily.

- 2 said there is enough business for everyone.
- 2 said the DIY company [SimpliSafe Inc.](#) is a disruptor and potential threat.
- ADT's potential partnership with Google's [Nest](#) makes sense for ADT, though it is too early to tell its effect.

ADT in Commercial Business

- 3 said focusing on the commercial business could distract ADT from its residential business.
- 3 said ADT will not be distracted from its residential business.
- 1 said ADT can attract small business customers and experience less churn on the commercial side, but service is still important to this group.
- 1 said ADT is adding some large customers with its national reach.
- 1 said commercial business is more lucrative, but it is unclear if ADT can succeed in this arena.
- 1 said ADT and Tyco are fighting for each other's customers instead of going after new customers.

1) CEO of a multistate surveillance and security firm; repeat source

Cable companies pose little threat to ADT or other traditional home security companies. The security industry is more worried about Google, but right now Google is selling trendy thermostats and social media cameras rather than home security products. The potential ADT/Google Nest partnership is a smart business move for ADT: rather than trying to fight Google, it is looking to join forces. Customer attrition remains a major problem for ADT. Getting a stake in the small business market would help dilute the attrition rate, since businesses traditionally keep the same security system for life. ADT's poor customer service record, however, may be a deterrent in the commercial arena.

Oct. 10, 2014: ADT is using a lot of incentives to sign on new customers, including cash gift cards, but it does not appear to be moving the needle. Although ADT's brand identity is unbeatable, it may not be a good enough product to stay alive on its own. ADT is struggling from high attrition rates, but the impending expiration of the noncompete agreement with Tyco could help it acquire new customers. Pulse is doing well although it is based on a third-party platform, which gives [Vivint Inc.](#) an advantage as it is refining its own integrated system. ADT's business platform is better suited to commercial contracts, which are higher-dollar and are for customers that do not move as often. Tyco, however, will have access to residential accounts and, perhaps more importantly, is better positioned to make smaller acquisitions, particularly of hardware companies. This could strengthen Tyco's edge from the financial side by giving it ownership of its own system vs. ADT's franchise model. One possible scenario batted around at the [ASIS confab](#) was that Comcast was looking to buy ADT and ditch its home security packages for the already well-known company.

July 23, 2014: ADT's main opportunity to grow its revenue was from acquisitions, but many customers of the acquired companies had opted not to go with ADT. The company's advertising spending continued to increase, but the ROI on those dollars did not appear to be paying off given the significant customer churn. ADT was not offering discounts. Rather, the company lured customers with a teaser price and then upsold at the point of contact. Cable and telecom companies had an edge by marketing directly to their subscriber base, either through company-owned TV channels or mail inserts. However, they were making more progress selling home automation services as customers were unfamiliar with their security services. ADT would face additional competitive challenges from Tyco once the noncompete clause expired in September. Tyco would then be able to market security services to residential customers.

March 10, 2014: ADT needed to significantly improve its customer service if it was to decrease its churn rate. Comcast might get some existing customers to add its security service, but it would not take business from others. Meanwhile, the convergence of life safety and lifestyle improvements brought on by automation presented a huge opportunity for the industry to increase its marketplace.

ADT

- "ADT hasn't improved its service [since we last spoke]. ADT has a very fragmented approach to the market. They sell to customers and buy dealerships and buy accounts. This leads to churn if ADT buys another alarm company. The customers there knew about ADT but chose another dealer, so when acquired, they may very well leave. It's not surprising since they are customers who specifically chose not to work with ADT."
- "We've seen that in our own business. Sometimes we'll get a flood of customers who were acquired by ADT when it bought their alarm company. They wait a year or so until their contracts run out, and then there's mass attrition."

- “ADT Pulse is not actually an ADT creation. It’s IControl, which is also used by Comcast and Time Warner. They’re outsourcing someone else’s service.”
- “ADT is like the McDonald’s and Starbucks of security companies, and I don’t say that derogatorily. They’re both two fantastically successful companies.”
- “We’ve been approached several times in the past to become an ADT dealer but we decided not to do it because we wanted to build our own brand.”
- “Getting hacked is very expensive. Look what happened to Target and Home Depot. I would hate to be in ADT’s shoes if their product is found to be insecure.”
- “ADT is more of a finance company than a security company. Their primary growth is through acquisitions. They’re so big that they’re buying other companies to get more accounts, and that always results in churn.”

Competition from Cable/Telecom

- “I don’t think the cable industry is hurting ADT too much. No one goes to the cable industry to get security unless they have no other choice. Customers who are persuaded to use cable for security are more opportunistic buyers. I don’t see cable making real inroads into ADT and other real security companies, just attracting some people who are already their customers.”
- “Cable companies also have a terrible reputation for customer service. It’s not a big inducement when they’re trying to sell a security product.”

Competition from Established Security Companies

- “A Nest partnership with ADT does make a lot of sense. ADT has other apps that control the lights and locks; why not support the thermostat? Now consumers have got one more thermostat they can add. They’re all pretty ugly, and Google has a nicer-looking thermostat. If people are doing home automation, well, they may want the trending new thermostat. Instead of fighting it, ADT is embracing it.”
- “Google has more cachet than ADT. In the security space, though, ADT carries more weight. Some security folks are kind of paranoid about Google, but I think it’s an excellent move for ADT to develop a partnership with them.”

ADT in Commercial Business

- “It’s going to be interesting to see what plays out with ADT and Tyco now the non-compete clause has expired. One problem ADT has with its churn rate is that it doesn’t have business accounts to dilute it.”
- “Business rarely change security companies; they will generally keep a system as long as they’re in existence. We do have some businesses who move and have to get set up again. In New York City, rents go up very fast and it’s not unusual to have to jump from office to office. But compared to residential, business accounts almost always stay the same.”
- “ADT is a very well-known brand, so small business may be interested. But soon they may be asking, why is service so bad, so unresponsive?”

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CEO, Multistate Surveillance & Security Firm

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CEO, Multistate Surveillance & Security Firm

2) Vice president of a custom residential and commercial alarm company in Northern California; repeat source

Cable is not undermining ADT since it has no advantage over the alarm company other than the ability to bundle services. Cable and telecom customer service records are far worse than ADT’s, and they have made few improvements to their security offerings. As more customers get interested in security systems, the differences between client monitoring systems and an alarm with a police response will become more apparent.

July 23, 2014: ADT is running a more aggressive ad campaign compared with six months ago. It has a strong emphasis on online marketing, in which ads will pop up each time a potential customer opens his or her computer. Pulse has not lost its cachet yet, but the source’s company has picked up some customers from ADT after their contracts ran out. The reason most give for switching is customer service, including both response time and in reaching a live representative

when needed. Cable and telecom are not a threat to either ADT or the industry in general; in fact, their massive marketing campaigns have raised consumer awareness of security needs and helped the source's company save on TV advertising. Cable may hurt some small companies unable to change with the times.

March 10, 2014: ADT is still the market leader in security, with a market penetration of one-third. The problem is that it pours so most of its resources into sales and customer acquisition that its service end is weak, and it loses too many customers before it even recoups its costly investment in them. ADT customers defecting to this source's small company did so because of difficulty in reaching an ADT representative on the phone or getting a tech to the house. Relocation is responsible for a large percentage of the customers that ADT loses annually, but the company operates nationwide. When the noncompete agreement with Tyco expires, ADT might have growth potential in the small business sector but not in the large, commercial market because it lacks the infrastructure.

ADT

- "We haven't seen an appreciable change at ADT over the last six months, but it's hard as a small business to have that kind of data."
- "We still get the occasional customer who is defecting from ADT because of poor customer service, but it isn't a flood of people. And it's all anecdotal."
- "Pulse definitely has a value for ADT because the customer places a high value on monitoring and is not inclined to cancel it."

Competition from Cable/Telecom

- "I don't see any real improvement. I have heard customers say that cable is influencing their perception of what to expect from a security system, to expect touchscreens or a web. Cable is good at showcasing its wares."
- "Cable might affect ADT's growth rate somewhat but not its attrition rate. Still, many people in the industry have said that cable's collective advertising is like a rising tide that lifts all boats."
- "Cable really has no advantage over ADT except being able to bundle services like HBO and security."
- "I can't imagine customers are leaving ADT for cable companies. ADT isn't known for its stellar customer service, but cable companies are well known for being the worst service companies in the United States."

Competition from Established Security Companies

- "The one trend I'm really interested in is non-traditional models of selling when monitoring is an offering. I'm wondering how some of these companies who offer monitoring are pricing things—ways of doing it to offset the deficit created by a new customer account."
- "You have places like SimpliSafe that don't want to be part of the security industry. They advertise over satellite radio or through pop-ups on your computer."
- "For example, some companies are charging more to sell a system and then have low monthly fees, such as \$15, and no contract [that the customer is locked in to for a certain time period]. But it could be good financially."
- "Installation and layout of security systems has been so devalued that it's nice to think of a model that places some value on it. If a company doesn't have to spend months recovering the cost of installation when it signs up a new customer, that is a big advantage. You get cash ahead on the sale of the system, without having to wait to recoup the money. So someone is getting rich off the contract."
- "As security becomes more appealing and popular to more people, it will illuminate the fact that security is only as good as the layout of the system. To act like alarm company stickers [and a monitor] are a deterrent is disingenuous and borderline abusive. For the love of god, if I see there's a break-in, I'm not going to go downstairs in my tidy-whiteys with a baseball bat and hit somebody. I want an alarm to go off and the cops on the way."

ADT in Commercial Business

- "I haven't seen or heard anything about ADT marketing in the small commercial space. It makes sense for them to approach that market, but I haven't seen an uptick in ADT activity there."

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VP, Custom Residential & Commercial Alarm Company, Northern California

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3) President of an alarm systems company in Massachusetts; repeat source

Cable still poses no threat to ADT or traditional security companies, and as long as cable continues its poor customer service, it will remain innocuous. ADT has drifted away from its core values in its marketing since last fall, offering freebies and specials rather than home safety and protection. It has improved its customer service in some regions, however, and its well-known brand may give it an advantage in the commercial space as it prepares to compete with Tyco for small and medium-size commercial accounts. ADT's alliance with Google is an effort to expand its recurring revenue, but it's too soon to tell whether that will be successful. ADT should take the opportunity to upgrade its video equipment, since the quality of its analog video is appalling.

Oct. 10, 2014: ADT should be more concerned with entrants like Google Nest rather than cable and telecom companies. ADT is getting back to its mission of protecting homes and lives, but its lack of customer service is still a big problem. With the expiration of the Tyco noncompete, the two companies likely will cannibalize each other's business. ADT would benefit from buying [Protection One, Inc.](#), but it is too weighed down with lawyers and "bean counters" to move quickly and aggressively.

July 23, 2014: ADT and the security industry as a whole were doing better. ADT had made some remarkable improvements during the previous six months and had even staunched some of its customer attrition. It was getting back to its core values: home protection and security. ADT's new advertisements promoted [peace of mind](#) rather than money-saving deals. A sense of mission and improved customer service would be important later this year once ADT, Tyco and Tyco's [SimplexGrinnell](#) began competing for a bigger share of the security industry. The threat from the cable/telecoms had shrunk to almost nothing. Instead, the blanket advertising had helped the security industry take on the new challenges of home automation and wireless security.

March 10, 2014: ADT's weak showing was a result of not just increased competition from cable and telecom but also not paying enough attention to its authorized dealer program. ADT also bypassed experienced talent within its own ranks to hire new leaders from Motorola and the cellular industry, who were not familiar with the home security business model. However, ADT was taking a smart approach with its new advertisement focus on peace of mind rather than just dollar savings. A shift to its core values and improved customer service would become important once ADT, Tyco and Tyco's SimplexGrinnell began competing for a bigger share of the security industry.

Oct. 7, 2013: Cable and telecom companies were advertising more heavily, but the focus was on home automation rather than security. They were losing TV customers as people fled to such alternatives as Apple's Apple TV and Hulu, and were trying to survive by getting into the home security business. Their security product advertising raised awareness for the industry. The most likely scenario was that a giant like Comcast would buy a large home security company, possibly ADT.

ADT

- "ADT appears to be improving its customer service and attrition rates. We have to remember that ADT customer service varies by region and dealer. In some areas, they're capable, competent, and professional; in others, they're terrible."
- "The last time we talked, ADT was really getting back to its roots, emphasizing security and peace of mind in its advertising. Interestingly, I see them drifting away from that again. Now I see them talking less about security and more about what freebies and specials there might be. It's 180 degrees from what they were advertising last fall; they have definitely changed their direction."
- "Regarding the lawsuit against ADT [charging its wireless security product can be hacked], I don't think there's much to it. I don't think there will be a lot of fanfare. ANSI has to review its standards every five years, and any issues involve more companies than ADT."
- "One trend ADT needs to pay attention to is the upgrading of video equipment. Video is coming together with alarm systems and card access systems. The analog technology for video is so passé, so barbaric. It used to cost \$10,000

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*President, Alarm Systems Company
Massachusetts*

for a good quality [security] camera; now you can get 10-mega-pixel cameras at much lower prices. The problem is that customers want CSI quality at Costco prices.”

Competition from Cable/Telecom

- “Cable does not have a good reputation for customer service. I don’t see any improvement in their [security] services. And as long as cable industry continues its typical customer service levels, the alarm industry will be just fine.”

Competition from Established Security Companies

- “ADT is the big lion, but in a sea of Fortune 50 and 100 companies, they’re relatively small. So anytime they get an alliance to get recurring revenue, they’ll take it.”
- “The jury is still out on the Nest/ADT partnership. Nest has had a significant amount of black eyes, including having to pull its smoke detectors due to problems with them. Even if you look at the documentation, you’ll see they call it a smoke detector but not a life safety smoke detector.”
- “It’s silly money that Google is dealing with. They can throw five things at the wall and they only need one of them to stick.”
- “The Googles of the world will come and go. Security companies need to get back to our core DNA: peace of mind and life protection.”

ADT in Commercial Business

- “As far as the expiration of ADT’s noncompete clause with Tyco goes, what I predicted when we last talked about this was cannibalism. Now we’re starting to see just that. It’s too soon to tell what is going to happen.”
- “ADT and Tyco are going to be mortal enemies. They’re going to compete right down to the wire. Tyco’s brand isn’t as well-known, and ADT may be able to take over some of its accounts. Rather than go after new market share, it’s easier to go after each other’s existing customers than generate new customers and services.”
- “Both ADT and Tyco have been getting rid of people with institutional experience, and I see that as a failure on the part of both parties. Instead of yearly returns, they’re looking at quarter to quarter returns.”

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4) President, Northeastern security company; repeat source

ADT is a company in search of a new identity. On the cable front, AT&T’s equipment has gotten much better, but cable and telecoms are not really a threat because they are content with upselling and incremental growth. Much more of a risk are the DIY companies like SimpliSafe, which are targeting low-end dealers and ADT. But the biggest dangers to ADT, and nearly all other security companies using wireless systems, are cyber hacking and lawsuits alleging cyber hacking. ADT may have trouble breaking into the small and medium business market, and it should buy up Protection One if it hopes to make inroads there. The outcome of a class action against ADT alleging that its wireless system is insecure and its advertising fraudulent may have important implications for the industry. Google’s partnership with ADT is not the rosy picture some imagine. On ADT’s part, it was self-defense, but Google’s Nest will simply bleed ADT until it’s ready to take over the home automation market.

Oct. 10, 2014: ADT is more threatened by the potential entrance of Google’s Nest than by cable and telecom offerings. The risk is that Google will turn security into a checkbox on a list of home automation features. Cable, telecoms and free apps offer low-cost or free home automation features, which have watered down the value of Pulse. ADT also will have a lot of competition as it expands its offerings to small and midsize businesses, for which [Stanley](#), Tyco, Protection One and others already offer compelling products. ADT’s brand is a bit stale compared with that of Protection One, which has done an outstanding job in the commercial space. Vivint will not be a viable competitor in that arena.

July 23, 2014: ADT is at risk because its premium Pulse offering is disintegrating under pressure from an influx of free home automation apps. Customers are savvy about security technology now and realize that they do not need to pay a monthly fee for home automation. Rather than attracting customers to ADT, Pulse is pushing them away. ADT also will have a hard time entering the commercial security space because Protection One and Stanley are so far ahead. Finally, ADT has been left behind by the shift to video verification of alarm calls, which was part of new guidelines just released by a coalition of security, law enforcement and insurance companies. ADT needs to incorporate video alarms that central

stations can use to verify a break-in and ensure a priority response from the police, but the break-up with Tyco has strained its resources.

March 10, 2014: The source cited a growing push for video verification in alarm systems, with law enforcement officials in four of the five largest U.S. cities supporting it. This is the most important trend in security systems today, because it would allow central stations and police to verify a crime or emergency and reduce false alarms. Protection One and AT&T have both joined [PPVAR](#), the law enforcement/security coalition backing video verification in central stations. But ADT is ignoring video verification and giving up a significant opportunity to upsell this key innovation.

Oct. 7, 2013: In the last three months, the most striking change in the home security landscape is that Honeywell has joined an industry/insurance/law enforcement coalition promoting video verification of alarm calls. The effects from cable/telecom are minimal. Telecom offerings lack the technology to verify a crime in progress, but they are sophisticated enough that this source maintains his belief that they will cause a significant disruption, especially for smaller dealers. He also still expects ADT to be an acquisition target and that it continues to position itself for such an outcome. Video verification is the key turning point in further legitimizing the cable and telecom products. Traditional dealers' best strategy is to incorporate video alarms that central stations can use to verify a break-in and ensure a priority response from police.

May 29, 2013: Telecoms' entry into the security market will be enormously disruptive, especially for smaller dealers. The effect was slight to date because telecoms still were testing their home security programs. Many industry veterans point to new entrants' previous failures, but the technology base has changed and the threat is quite real, at least over the long term. Telecom offerings' fatal flaw was that they lack the technology to verify a crime in progress, so they were likely to flood law enforcement with false alarms, undermine or even end police response to alarm calls, and put the entire home security industry at risk. Traditional dealers' best strategy was to incorporate video alarms that central stations can use to verify a break-in, weed out false alarms, and ensure a priority response from the police. ADT appeared to be positioning itself to be bought by a telecom company, and already had [joined](#) AT&T in trying to weaken state licensing requirements for alarm companies.

ADT

- "ADT seems like it's looking for a new identity. And what is it? Pulse is not a security product, it's a lifestyle product. And if Google starts owning lifestyle, then what is ADT?"
- "If Google does a partnership with ADT, they'll suck ADT dry. If there's anything to learn from being sold by ADT, they will learn it. They'll make Nest a product they'll support—they don't have to run it by ADT. ADT is just one of their channels. And ADT will have to do it."
- "ADT is saying it's a partnership, but what it's really saying is we can't control the thermostat market, so we'd better partner or we're toast. Google will still take over, but not as quickly. Google gets into your home, laptop, data. ... ADT is forced into a corner, and Google gets that much of a bigger base to work from. I don't see it as a win for ADT at all. They feel like they have to do it; they have no choice."
- "Everyone is doing home automation. And Google will win because it will play all the ends against the middle. They don't have to do it one way, they can do it 20 ways. They don't have to confine themselves to one channel."
- "Google Nest has already had to recall some 100,000 of its smoke detectors. That kind of thing isn't cheap. It's the kind of thing that could have ruined some companies, but Google doesn't care. For them, it's just a learning curve exercise."

Competition from Cable/Telecom

- "AT&T has gotten a better security product, it may actually be encrypted. I'm not convinced they care about ADT. Cable is playing their own game and they're doing fine. I was talking with someone at a cable company, and the footprint of the install base was their cable base. They're not targeting ADT, and if they don't have cable in a certain area, it doesn't make sense [to go there]."

AT&T has gotten a better security product, it may actually be encrypted. I'm not convinced they care about ADT. Cable is playing their own game and they're doing fine. I was talking with someone at a cable company, and the footprint of the install base was their cable base. ... So cable and telecom are not disappointed. They're happy with upselling on the business side. The growth is incremental but fine.

*President
Northeastern Security Company*

- “So cable and telecom are not disappointed. They’re happy with upselling on the business side. The growth is incremental but fine. We’ll see how it pans out.”
- “A bigger threat to ADT is DIY like SimpliSafe, which is getting rid of the security dealer base. SimpliSafe is the antithesis of Pulse. They only do security. You pay up front for the equipment. SimpliSafe has its own staff, and they’re gutting the low-end [of the security industry]. The low end becomes the lower end.”
- “You don’t see them in the security industry press because they don’t care. They’re not looking for dealers. They use a UL, a central station, so it’s as real a system as ADT’s. It’s \$15 or \$20 a month and no contract.”

Competition from Established Security Companies

- “The big issue is cyber hacking. Nearly all the wireless systems are at risk, except one or two systems, including ours. We spent millions to get our system encrypted. ADT has pooh-poohed the issue of cyber hacking, but the equipment has been hackable for years.”
- “The difference is that in the old days you would need a \$100,000 lab to break in, and crooks don’t go running around with \$100,000 stuff to rob people. But SDRs [software-defined radios] have taken this \$100,000 worth of lab equipment and put it on a chip, so now the equipment drops to \$100 or \$200. There are how-to hacking manuals and blogs on the internet. So it’s not that the equipment got worse, it’s that the tools to exploit and hack it became something a video game-playing kid could buy on his allowance. You don’t have to be a genius to figure it out.”
- “Imagine a burglar using this equipment, or a stalker. Or just your neighborhood crank who would love to set off false alarms in your house. Or open your front door via wireless and be waiting for you when you get home.”
- “The story is that this equipment is available for any snot-nosed kid who wants it. He can false alarm you into oblivion, and who is going to believe you? He can do that until the cops don’t come anymore.”
- “There’s a class-action suit against ADT charging the wireless system is hackable. It’s a fraud case and if the judgment is against ADT, it could void their contracts, including their limited liability clause. That’s huge.”
- “The industry is trying to ignore the issue to death. After ‘Good Morning America’ showed how easy it is to hack the wireless system, [Honeywell \[International Inc./HON\]](#), I believe, had a response that was really funny. The issue was jamming AND hacking, and they said, ‘Well, we have an anti-jamming device.’ Which was like saying ‘I have a flat tire but it’s ok because I run on diesel.’”
- “The outcome of the lawsuit will affect everyone who is not encrypted, so there’s huge interest in it.”
- “The thing is, it’s hard to go backwards. Wired systems are safer—though wires can be cut—but the whole industry has migrated to a different business model.”
- “The security industry partnership with the police over video verification of break-ins is still growing. That issue is as important as ever.”

ADT in Commercial Business

- “The residential market is not where the money is. ADT is stuck there, so it has to tell everybody that it’s good.”
- “The money is there in small commercial, but I’m not sure they’ll be successful. They should buy Protection One if they’re serious about commercial.”
- “Commercial is hard to break into, and they don’t care about Pulse. It’s not their thing.”

A bigger threat to ADT is DIY like SimpliSafe, which is getting rid of the security dealer base. SimpliSafe is the antithesis of Pulse. They only do security. You pay up front for the equipment. SimpliSafe has its own staff, and they’re gutting the low-end [of the security industry]. The low end becomes the lower end.

*President
Northeastern Security Company*

5) COO for a residential, commercial and large industrial security provider in the West

ADT customers continue to be dissatisfied and they switch services to other competitors. Customers are enticed by cable and telecom companies’ security offerings and these companies do pose a threat to ADT. Some customers are attracted to the bundles that cable and telecom companies can offer. Traditional security companies are also a threat to ADT because of their quality and service. This source said there is plenty of business to go around despite the stiff competition.

ADT

- “We hear from ADT customers that the service is not working, that the alarm goes off and they do not get a phone call. And from our experience, ADT does not have a good presence here as far as quality. In other cities they have good quality. Other cities have good offices, but we do not see it here.”
- “I have heard that Pulse is pricey.”
- “In the first quarter last year ADT increased its advertising, but in the third and fourth quarters advertising dropped down. Now, I have not seen anything.”
- “I have not heard of any dealers leaving ADT for competitors.”

Competition from Cable/Telecom

- “Early on we saw an effect from Cox in their first nine months in the security space, but in the last year or year and a half the effect of them has gone away. They hurt our business initially—but not now. We do not lose to them anymore.”
- “Customers like the features that the cable and telecom companies offer. We had to ramp up as far as the Smartphone apps were concerned, and the camera systems we provide to the end users.”
- “The cable and telecom companies are doing a lot of advertising—they are giving away free cameras. I have not seen credit cards or cash-back type of offers. And they are doing the bundling thing. We have lost some business because of that.”
- “ADT and other security system providers have to increase their advertising in order to compete with cable and telecom companies in the space.”
- “Early last year I saw ADT advertising and competing against the cable companies. It is definitely having an effect on them.”

Competition from Established Security Companies

- “Both cable/telecom and traditional security companies are a threat to ADT. The traditional companies are a threat if the customer is looking for real security, someone who will handle the system. Then some are tired of ADT—they like the bells and whistles and will bundle and change. The small companies have been a threat to ADT because of word of mouth and quality of service. We run technicians full time.”
- “We are doing great. Everyone in our local area is doing pretty well. There is enough business to go around.”
- “The mom-and-pop shop is still a threat to ADT. Cable companies are even a bigger threat to ADT. Cox is here. I receive mailings from them about their services.”
- “We have not seen a lot of Nest—so no impact.”

ADT in Commercial Business

- “I have not heard anything about ADT in the commercial security business.”
- “ADT’s growth in the commercial market might distract them. Their biggest threat is the cable companies.”
- “We are seeing Tyco in the small commercial market a little bit. They are trying to buy the jobs and are cutting the price pretty low.”
- “Cox is not licensed for the commercial market here.”

“Early on we saw an effect from Cox in their first nine months in the security space, but in the last year or year and a half the effect of them has gone away. They hurt our business initially—but not now. We do not lose to them anymore.”

COO, Residential, Commercial & Large Industrial Security Provider, West

“We are doing great. Everyone in our local area is doing pretty well. There is enough business to go around.”

COO, Residential, Commercial & Large Industrial Security Provider, West

6) President of a residential and commercial security firm in Texas

ADT continues to face problems retaining disgruntled customers who are upset by annual rate increases and shoddy service. ADT also has reduced the size of its dealer program, which could pose a problem if its small commercial business ramps up, since customers already complain about long service wait times. Most ADT customers are ordering Pulse, as today’s security system customers want interactive control and are willing to pay more for it. ADT faces stiff competition both from cable and telecom providers, as well as from traditional security companies like [ASG Security](#), which is making inroads nationally. Cable and telecom companies have increased awareness among consumers about security, and other companies are taking advantage of that awareness to build their businesses.

ADT

- “I have seen a change in ADT’s advertising; it seems like its advertising is now geared more toward the smart-home customer—the customer looking for a Smartphone-type set-up where they can control locks and thermostats as well as operate their security remotely.”
- “I went on an appointment just this morning, a small commercial business, and this commercial client has been a client of mine for 12 years, but the owner is not close to his business because he has managers who run it for him. The owner committed to have ADT do an installation on his business, where we were already providing the security at the location. The owner wanted to automate his building and wants to operate lights and unlock his door with his Smartphone. So ADT sold him a package. But ADT never showed up to do the installation. ADT had closed the sale, signed the contract and even taken a deposit of \$2,000 and never showed up to do the installation. So today, the manager had me come out.”
- “Customers leaving ADT say they do not get service in a timely manner.”
- “ADT is losing a lot of customers but with the dealer program that they have, I would imagine that they are doing a good job covering the attrition.”
- “From time to time we get a customer who calls up and says he wants to move his alarm system to us. We are told that ADT raises its rates almost annually and customers finally get fed up after three to five years of every year receiving this increase. But then ADT offers to keep the rate prior to the latest increase—or sometimes we are told that they offer to match a written offer from another company.”
- “ADT has reduced the size of its dealer program. ADT basically set a standard and if that dealer did not meet that standard, then they de-authorized them. So the ADT dealer program has actually gotten smaller.”
- “The vast majority of the alarms ADT is selling are with Pulse; 99% of the alarms we sell include interactive control. We market it as Total Connect. Others market it has Home Control. Pulse is interactive control.”
- “It seems that the foremost thought for every client is being able to operate from their smart devices. Security is kind of the last thought so they are calling up and saying, ‘I would like to control lights or locks and have a camera—and by the way, throw security in.’”
- “Customers who used to pay \$20 or \$25 for alarm monitoring and who used to shop competitively now have no problem signing a new agreement for \$50, \$65 or \$75 a month if they can operate it from their Smartphone. Give them an app and they will pay more for it.”

I have seen a change in ADT’s advertising; it seems like its advertising is now geared more toward the smart-home customer—the customer looking for a Smartphone-type set-up where they can control locks and thermostats as well as operate their security remotely.

President, Residential & Commercial Security Firm, Texas

Competition from Cable/Telecom

- “Cable/telecom companies are doing a lot of advertising and it is great—it is creating awareness for us. We are taking advantage of the fact that they have spent a lot of money on advertising. They have created awareness for our current customers, who call to see if we do the same thing, which we do. The advertising has created the interest that we need.”
- “I have seen an increase in marketing in the industry because of the cable providers, or multiple system operators [MSOs]. MSOs have come into our market and have started offering security along with the smart-home attraction.”
- “We have not increased our marketing but have taken advantage of the fact that the MSOs have increased marketing because it is a new offering for them. We have a good referral base and existing customer base—and our customers are seeing the MSOs’ marketing and calling us first before they call their MSOs or cable providers.”
- “The cable and telecom companies are the biggest threat to ADT. I do not knock my competitors—they are trying to do the same things we are doing. ADT does it in a different manner than a lot of companies. They have changed their model to where they are using dealers to put their product in and then they buy the paper. So a dealer sells the customer agreement to ADT—and it seems like ADT has become a monitoring company who buys paper and services alarms after they are installed, mostly on the residential side, and small commercial.”
- “I was told that when AT&T came out with security offerings, they came out like gangbusters—but then they closed their security dealers, shut them all down. They came in heavy and hard and did not do well. Customers wanted a combination smart burglar alarm and fire alarm and they are telling customers that they cannot be the primary fire alarm company. Also, the customers have in the past experienced long delay times to get service. They come out quickly to install new service but after you have service installed and there is a hiccup or a service call to service the product, they give you this long window two weeks from now, 8 a.m. to 5 p.m., and someone has to be home. They do not service the product quickly after the installation. That is the consensus from people whom I have talked to.”

- “People look at the ease of bundling the package. It may not be cheaper. Cable/telecom companies will advertise their very inexpensive package but when it comes down to what the customer wants, the inexpensive package does not meet their needs. It is a hook—it gets an appointment and that is the key. They get in the door. Once they are in the door, customers are hoping it is going to be a \$99 setup and \$29 a month but they end up buying a \$1,000 package and end up signing up for \$75 a month. The cable and telecom companies do offer that basic package but the package that is cheap is not one that anyone wants.”
- “Everybody thinks the easiest thing to do is bundle. Regardless if you are happy, it is one bill to pay.”
- “The cable and telecom companies have not hurt us. They may be doing well by the way of communication with new service startups. So for example, if you order cable service, you are made aware that in addition to cable the company offers phone, internet and smart home security systems. I think the cable and telecom companies are doing well—but we do not have customers that are leaving us to go to their cable providers.”
- “Most people know Nest for the thermostat. When we install a thermostat it comes with a monthly fee to operate it, where Nest offers an expensive thermostat—at least double the cost—but there is no monthly fee. I think that will change. I think that Nest is building a client base and will contact that client base after so much time. Once they reach a certain customer level, due to the cost of providing the service and keeping up with the latest tech for the service, they may not charge a minimal fee. I believe it is coming. ADT will charge a monthly fee for their thermostat and currently Nest will not. That will hurt ADT.”
- “Our utility provider is offering thermostats that they can remotely control. Utility companies are hurting the alarm companies in this area. When utilities are at peak demand, the utility company has the ability to remotely reduce that demand by shutting down certain thermostats for a period of time.”

Cable/telecom companies are doing a lot of advertising and it is great—it is creating awareness for us. We are taking advantage of the fact that they have spent a lot of money on advertising. They have created awareness for our current customers, who call to see if we do the same thing, which we do. The advertising has created the interest that we need.

President, Residential & Commercial Security Firm, Texas

Competition from Established Security Companies

- “In my area, companies have increased their business by single- or double-digit percentages in the last 18 months.”
- “ASG is ADT’s biggest competitor [among established security companies]. ... They are buying smaller to medium-size alarm companies and entering the marketplace in the area where they bought the companies. They are national.”

ADT in Commercial Business

- “ADT is going to go after Tyco’s commercial business.”
- “ADT is not taking a lot of our business in the commercial market.”
- “Growth in ADT’s commercial business could hurt their business because the company is already known by a consensus of people that it does not service its products fast enough. If ADT gets bigger and the company does not increase its forces, it will hurt them.”

7) Owner of a residential and commercial security system firm in the Los Angeles area

ADT is discounting services to gain and retain subscribers, though the company has not increased its advertising in the Los Angeles market. The company faces steep competition from cable and telecom companies like AT&T and traditional security providers such as Protection One Inc. and Bay Alarm Company in his local market, and in Atlanta, [Ackerman Security Systems Inc.](#) This source said ADT has hurt its business by not taking care of its customers, many of whom have jumped ship to smaller competitors that give them one-on-one attention. Some dealers also are fed up with ADT. Pulse and similar platforms are doing well in the market.

ADT

- “ADT is having to discount services to get or retain subscribers. They are giving away their first sons to get a new client.”
- “Clients are leaving ADT because of terrible customer service and because it takes two weeks to get a service call.”
- “Pulse is performing great. It is the same platform that I use—Total Connect 2.0.”
- “I have not heard of any dealers leaving ADT for competitors. I know some are definitely tired of ADT.”

- “ADT is acquiring new customers by advertising. Their long-standing name is what does it for them. I am not seeing any more advertising from ADT than usual.”

Competition from Cable/Telecom

- “AT&T is taking a lot of security customers from what I hear.”
- “I do not know whom is signing up with cable and telecom companies but they cannot compete with the quality of equipment that security companies sell to clients. Cable companies’ equipment looks Mickey Mouse.”
- “Cable/telecom companies are offering the same price and a package deal—a one-stop shop.”
- “It is too early to tell what kind of headway Nest is making. A lot of people are using Nest and like the options of it.”

Competition from Established Security Companies

- “Security companies are the bigger threat to ADT. ADT beat themselves out by not taking care of their clients and the clients jump ship to companies like mine that cater to them more on a one-to-one.”
- “Protection One and Bay Alarm in the L.A. area are the biggest threats to ADT among traditional competitors. In Atlanta—Ackerman Security is killing them. ADT is giving away a ton of equipment to compete with them, but they are really killing the market in essence.”

ADT in Commercial Business

- “Growth in ADT’s commercial business will not distract or hurt ADT’s home security business.”

ADT is having to discount services to get or retain subscribers. ... Clients are leaving ADT because of terrible customer service and because it takes two weeks to get a service call. ... Pulse is performing great. It is the same platform that I use—Total Connect 2.0.

Owner, Residential and Commercial Security System Firm, Los Angeles Area

8) Sales and marketing manager for a residential and commercial security firm in North Carolina

ADT continues to offer heavy discounts to consumers, though these customers are beginning to realize that the company is relying on gimmick pricing to win business. Customers are leaving ADT because of lack of responsiveness, service delays and pricing, and they do not want to be tied into a long-term contract with the company. Cable and telecom companies are bringing awareness in the residential industry, but customers are not interested given that cable companies have a hard time managing cable correctly. Larger traditional security providers pose the biggest threat to ADT because of their expertise and good customer service.

ADT

- “ADT and its dealers are known in the industry for their ‘free’ offers. They have promoted themselves as heavy discounters and will always have to discount to get and retain customers. Consumers are beginning to understand that ADT relies on ‘gimmick’ pricing and on the handcuffs of extended contracts to get and retain their customers. It is a problem that they created for themselves.”
- “Unfortunately, in our markets, ADT and ADT dealers are lowering themselves to the same standards of the other big players—gimmick pricing, and questionable sales tactics.”
- “I am not sure how Pulse is performing at this point. We are still in the early adopter stage. Performance, cost and service issues will be the deciding factors.”
- “Customers tell us they are leaving ADT because of lack of responsiveness on ADT’s part, the amount of time it takes to get a service call, price—and they do not want to be tied into a long-term contract.”
- “I am not seeing increased advertising from ADT. They have always been heavy advertisers.”
- “I have heard of dealers leaving ADT for competitors.”

Competition from Cable/Telecom

- “Do ADT and other security system competitors have to increase their advertising in order to compete with cable and telecom companies? No. The telecom companies are bringing additional awareness to this industry, and the traditional security companies will be the beneficiaries of this increased awareness.”

The uptake has been slow for cable and telecom companies—at least in our area. Consumers are still wondering why these companies want to branch out to security when they cannot even do cable correctly.

*Sales & Marketing Manager
Residential & Commercial Security Firm, North Carolina*

- “The uptake has been slow for cable and telecom companies—at least in our area. Consumers are still wondering why these companies want to branch out to security when they cannot even do cable correctly”
- “It appears these companies are drawing from their internal customer base for customers.”
- “It appears that the majority of cable/telecom customers are signing up because of bundled services. You can get your cable television, home phone service and home security all on one bill.”
- “Cable and telecom is mainly in the residential market at this time in our area.”

Competition from Established Security Companies

- “Traditional security providers are a bigger threat to ADT because they are ‘experts’ in security, while providing ancillary services like home automation. It all still revolves around security.”
- “ADT’s biggest competitors are other national and mega-regional companies, as well as the door-to-door summer sales programs.”
- “We have no problem competing with ADT on a local/regional level. Even though we are the third largest independently owned security company in our region, we are still a traditional company. For example, we do not offer ‘free.’ Customers pay for the product. We also only ask for a one-year contract, and customers like the flexibility this offers. And we operate a local central station.”
- “Our business is built around customer service. A human answers each telephone call, and we generally have a same day, or, at most, a 24-hour turnaround on service calls. We are the anti-ADT and other national types; we listen to, and offer, what the customer wants, and our growth has been phenomenal.”
- “It’s too early to tell what kind of headway Nest is making. Everyone is waiting to see the impact that Google ownership will make. But the anticipation is causing companies like Honeywell to ramp up their offerings.”

ADT in Commercial Business

- “In our markets, we’ve seen little to no impact of ADT in the commercial security market.”
- “ADT is still known primarily as a residential company in our area with the exception of fire alarms.”
- “It appears to be the larger commercial projects that ADT is adding.”
- “Growth in ADT’s commercial business will not hurt ADT’s home security business.”
- “We have seen little to no impact after the non-compete agreement with Tyco has expired. In the short term, I do not think we will see much erosion of the residential market to Tyco.”

9) Owner and president of a local security systems integrator in California

ADT continues to acquire new customers with its abundant advertising, and by partnering with utilities to offer bundled deals. Customers also continue to flee the company because of poor and impersonal customer service, in addition to high monitoring rates. Some dealers have left, too. Both cable and telecom giants and established security providers pose a threat to ADT in the residential arena. ADT has had no impact on the commercial market in his area, but he believes any growth in ADT’s commercial offerings could hurt the company by distracting it from its home security business.

ADT

- “ADT is acquiring new customers and retaining existing customers by excessive advertising and partnering with other utilities to package their products together.”
- “But I have not noticed more advertising from ADT than they normally do.”
- “Customers are leaving ADT because of poor customer service, impersonal interaction, high monitoring rates.”
- “I have heard of dealers leaving ADT for competitors. ADT does not pay subcontractors well.”

Competition from Cable/Telecom

- “Cable and telecom companies are offering local personal service at reasonable rates, including lower monthly rates, which is of course ... your long-term expense.”
- “Both cable and telecom companies and traditional security providers are big threats to ADT. Traditional security providers compete directly against ADT with similar price packages. Integrators provide a more comprehensive

ADT is acquiring new customers and retaining existing customers by excessive advertising and partnering with other utilities to package their products together.

*Owner & President
Local Security Systems Integrator
California*

custom installation and can fill all of the customer's technology needs within one firm."

Competition from Established Security Companies

- "ADT operates in a different arena than smaller local companies. ADT does install many systems, but their client base is typically less desirable than clients who want a custom system, with complete service, from a local vendor. The attrition rate for people that pay little to nothing for the installation is extremely high because they have not made a real investment in the system."
- "Myself and the competitors I associate with continue to have steady growth."

ADT in Commercial Business

- "I rarely compete against ADT for commercial security business."
- "ADT has not had any impact locally in the commercial market. There are a few small business owners that use them because they already have ADT at their homes."
- "Growth in ADT's commercial business will likely distract the company or hurt their home security business."
- "I suspect Tyco will try to acquire/reacquire national accounts to begin with."

10) Owner of a residential and commercial security systems company in Ohio

ADT continues to spend plenty on advertising, and, like most companies, has had to increase its advertising due to cable and telecom companies' foray into the market. ADT lures customers by subsidizing up front and then locking them into long-term contracts. Customers then leave ADT because of no personal service or because the monthly rates are too high. This source views traditional security providers as the largest threat to ADT, since they have the experience and are more reliable than a corporate giant like ADT. Cable and telecom companies are doing a lousy job—just like they do with cable services—though they do have an audience. Tyco does not have a large presence in his market and is not a threat to ADT.

ADT

- "The monthly rates that ADT charges are considerably more than your average local company, but they also subsidize everything up front to get people into long-term contracts. They seem well established and are doing fine, but we take over a lot of systems from them as well."
- "ADT is subsidizing the equipment up front to acquire customers, that's for sure."
- "I've seen Pulse—it seems to be a nice system. It costs a lot per month, relatively speaking. We offer everything comparably. You have to, or you will lose a lot of sales."
- "Customers are leaving ADT because of no personal service, and because of monthly rates that are higher relative to other companies."
- "ADT's advertising it is definitely out there. They spend a lot of money on mailings, the Internet etc. If you send a mailing out once a week and spend enough money, people will remember the name."

Competition from Cable/Telecom

- "ADT and other security system providers have had to increase their advertising slightly because of cable and telecom companies in the space. The newest technology is in home automation, integrating with the alarm systems, and the market is just flooded with people trying to compete with that."
- "Cable companies are doing just as bad with security as they have done with cable. They are attracting customers who do not know any better, people who do not care about how much it costs a month—all they value is how much it costs up front initially."
- "The cable and telecom companies are definitely spending a lot of money on advertising and basically giving away the system up front, but then with high monthly rates."
- "Cable/telecom is non-existent in our commercial market. We do the majority of the small businesses in our local area, and I honestly have known of one cable company alarm system in our whole area—and I know a

Traditional security providers are the biggest threat to ADT, because these providers will be more experienced and more reliable than a conglomerate like ADT. ... Traditional competitors are doing very well compared to ADT. There is enough business to go around. You have people like us that give great service, and then some companies that do only enough to get by.

Owner, Residential & Commercial Security Systems Company, Ohio

ton of people in the region. Cable/telecom would be geared more toward bigger cities.”

- “Nest seems to be popular. There are no monthly fees associated with the service.”

Competition from Established Security Companies

- “Traditional security providers are the biggest threat to ADT, because these providers will be more experienced and more reliable than a conglomerate like ADT.”
- “Customers come to us for the same reasons people will not sign up for a cable company’s services.”
- “Traditional competitors are doing very well compared to ADT. There is enough business to go around. You have people like us that give great service, and then some companies that do only enough to get by.”

ADT in Commercial Business

- “Growth in ADT’s commercial business will not hurt ADT’s home security business.”
- “In our area Tyco has very limited accounts. I doubt Tyco will take share from ADT in the residential market.”

11) Security consultant and designer for a home and commercial security firm in Northern California

ADT does lose customers due to poor service, but it continues to reel in new customers and retain current customers by discounting services. ADT is the advertising king—newspaper ads, phone book ads, TV commercials, emails. Nothing much has changed in that regard, despite heightened competition from cable and telecom companies and traditional security companies such as Bay Alarm and Stanley Security. Cable and telecom companies are attracting customers by offering bundled packages, but many do not have satellite offices and as a result, installations in his area are difficult. Established security providers pose the biggest threat to ADT. This source noted that the security industry today is thriving and is only getting stronger, with interactive capabilities being the latest trend.

ADT

- “ADT is fairly saturated all of the time so I cannot say I have noticed their advertising changing. They are kind of always there—everything from a spam email to a newspaper ad, phone book listing, TV commercials. So I would not say their advertising has increased.”
- “ADT is always playing that game of discounting services to get people to sign up or remain subscribers. ADT is constantly reworking the same deal, or trying to throw a new spin on an old idea—and in my opinion, they do us a great justice because they create a lot of security awareness. Then people open the book and see who is around their area that does that that type of security.”
- “We have the same type of service as ADT’s Pulse. It is just their term for interactive capabilities. And it is another thing where ADT gets into the same boat, where Pulse will not work everywhere. A lot of times there is a marginal signal and it quits working one month or two later. In a city where there are more cell areas—it probably works out great for them. Customers are definitely on the bandwagon [with Pulse and other interactive controls]. It is getting to be more popular all the time—people want that connectivity. They want their phone to do everything. I do not see the trend going the other way.”
- “I have not heard of any dealers leaving ADT for competitors.”
- “I do not see ADT being in any big trouble following the Tyco split. ADT will have more accounts than anyone. What is Tyco? How many people really know about Tyco? But they know what you are talking about when you mention AT&T.”

Competition from Cable/Telecom

- “Cable and telecom companies are attracting the customer who believes cheaper is better and quality is not important.”
- “Cable and telecom companies are definitely trying to push the whole bundling thing. The problem they are running into is the equipment is not that cheap. When it comes down to the nuts and bolts, people are taken back.”
- “I have seen quite a few of the TV commercials of cable and telecom companies. That is the extent of advertising I have seen in our areas. I did have a couple clients of ours who said their phone or internet or cable provider had mentioned they could install security for them, but the companies do not have any satellite offices—so it becomes a

Customers are definitely on the bandwagon [with Pulse and other interactive controls]. It is getting to be more popular all the time—people want that connectivity. They want their phone to do everything. I do not see the trend going the other way.

*Security Consultant & Designer
Home Commercial Security Firm
Northern California*

bit of a complex process. One of the problems is they are trying to slap it in when a lot of times it can be more complex.”

- “I do not believe ADT and other competitors have to increase their advertising in order to compete with cable and telecom companies—but it can largely depend on your demographic. In the area we are in, I have not seen a real push from cable and telecom companies in security, but we are also in a mountainous area. Their big selling point is they will slap in all of those cellular communicators, which unbeknownst to them do not really work in this area. They have taken a couple stabs at the area but have been unsuccessful in a few things. Possibly in a metro area you may see more.”
- “Cable and telecom providers are going to run into problems because they are TV/internet/phone providers but not security industry people—so there are a lot of growing pains now.”

Competition from Established Security Companies

- “The traditional security providers are ADT’s biggest competition. We do takeovers on almost a weekly basis, one to two accounts from ADT, from people who are not happy with them. It comes down to a service thing; customers have a problem with ADT down the road, and the closest service provider is an acting dealer and they are three to four hours away.”
- “I do not think ADT is a nuisance—they do a lot of advertising for us. I do not view ADT as a problem.”
- “The smaller providers that have one, two or three employees and that are dealing with a smaller number of accounts, they have more of a problem because they have to charge so much more to make all of the numbers make sense. With our effort we can be in the ballpark no matter what the other guys are doing, but our service cannot even be compared. Maybe the smaller guys do get hurt by bigger competition.”
- “In California, Bay Alarm is a large company. They have a Southern California office and Northern California office—so they are steeper competition to ADT. Stanley Security is a big outfit nationwide.”
- “I have almost zero competition from ADT and the cable/telecom providers in the commercial market.”
- “People really like the fact that when it is all said and done they will talk to me on the phone and I will be the person who comes down to their house.”
- “Security is a pretty thriving industry and the one thing that is a benefit, as far as I am concerned, is that there is always a need for us—whether fire protection or burglary. The industry is in a good place right now and is only getting stronger.”

ADT in Commercial Business

- “I have almost zero competition where we are [from ADT in the commercial market].”
- “I’ve seen zero competition [from cable/telecom in the commercial space].”

Cable and telecom companies are attracting the customer who believes cheaper is better and quality is not important.

*Security Consultant & Designer
Home Commercial Security Firm
Northern California*

2) Commercial Systems Dealers

Two of three sources interviewed said ADT’s efforts in the commercial space held promise, and will include a focus on small businesses, aggressive pricing to gain new clients, and a chance to win national accounts due to its national footprint. One of the sources does not believe ADT’s efforts in the commercial space will distract the company from its residential business. All three sources said ADT’s performance on the residential side is challenged by its poor service, the main reason for its customer attrition. Two sources said they have gained customers who have left ADT. Two sources also said Pulse was a successful product, and is succeeding because of ADT’s marketing support along with customer demand for automation and monitoring. One source followed up that Pulse was not unique and many competitors offered similar services. Two sources said cable and telecom companies’ security offerings are a bigger threat to ADT than traditional security companies because cable and telecom companies have deeper pockets and are inundating the market with ads, while traditional companies are smaller and the market is fractured, reducing the effect on ADT. No source thinks the cable/telecom option is very effective, and that the bundling option is fooling customers into believing they will get their security for less. Sources also believe there is enough security demand for everyone in the market. Vivint, Protection One, and Stanley were referenced as larger traditional companies that are giving ADT a run for its money.

Key Silo Findings

ADT Commercial

- 1 of 3 said ADT's commercial attempts are focused on small businesses and use aggressive pricing to keep the cost of entry low for new customers.
- 1 said ADT's commercial business is growing and the company stands a good chance of winning national accounts because it has a national footprint.
- 1 said ADT's commercial business will not take away from its residential business.

ADT Residential

- 3 said ADT's service is sub-standard and a leading reason customers leave.
- 2 said they have gained customers from ADT because of dissatisfaction with ADT.
- 2 said Pulse is a good product for ADT.
 - o 1 said it was not unique in the marketplace.
 - o 1 said part of its success is because of heavy advertising.
- 1 chose not be an ADT dealer because it is too controlling and restrictive of its dealers.
- 1 has heard of ADT dealers that are leaving the company.
- 1 has not hear about ADT dealers leaving the company.

Competition from Cable/Telecom

- 2 said cable/telecom service is poor.
 - o 1 said it is worse than ADT's.
- 2 said customers are drawn to the option of bundling services and fooled into believing this makes cable/telecom cheaper.
- 2 said cable/telecom is a bigger threat to ADT than traditional security companies.
- 1 said cable/telecom's presence is forcing ADT and others to increase their advertising to compete.
- 1 said cable/telecom is not doing well with its security product.

Competition from Established Security Companies

- 2 said there is enough demand in the security business for everyone involved.
- 1 said the traditional players are fractured and small, and pose less of a threat to ADT than cable/telecom.
- Vivint, Protection One, and Stanley were referenced as larger traditional companies that are giving ADT a run for its money.

1) Vice president for a systems integration firm focused on commercial and government security

ADT's primary focus in the commercial space is small business. The company is going after recurring revenue and thus is aggressively pricing its installation fee. ADT will likely concentrate on the small to mid-size commercial space while Tyco focuses on large, higher-end security clients. The company's biggest threats overall come from Protection One Inc., and Stanley Security Solutions Inc. Cable and telecom companies are not doing well in this source's metro area, largely because their service is worse than ADT's. This source also noted that cable and telecom companies also are not focused on the customer, but rather on recurring revenue. Cable and telecom companies are, however, forcing ADT and other competitors to boost their advertising.

ADT Commercial

- "ADT's focus is small business. They are definitely going after the recurring revenue piece and being very aggressive on installation pricing. ADT keeps the cost of entry way down because their focus is truly return on investment."
- "I do not know if the company is stealing business from anybody. It competes for new business and has a ton of legacy business because of acquisitions."
- "ADT is not a competitor to me—I do not play in their business. A lot of small companies that are like mine are focused on alarms and cameras and things like that—and they definitely compete against ADT when it comes to service. ADT is so big, and you do not become efficient by becoming larger."

ADT Residential

ADT's focus is small business. They are definitely going after the recurring revenue piece and being very aggressive on installation pricing. ADT keeps the cost of entry way down because their focus is truly return on investment.

VP, Systems Integration Firm Focused Commercial & Government Security

- “I am seeing increasing advertising from ADT compared to last fall.”
- “Customers are leaving ADT because of poor service.”

Competition from Cable/Telecom

- “I do not think the cable and telecom companies are doing really well here in our metro area. They have name recognition and marketing capabilities, but when it comes to service they are worse than ADT. They are not focused on the customer—they are focused on recurring revenue.”
- “ADT and other security system providers are going to increase their advertising just because the telecom/cable companies are changing the message.”

Competition from Established Security Companies

- “In the space that ADT is in, its biggest threat will be Protection One or Stanley—or hopefully the American small businessman. There are a thousand guys out there saying, ‘I can do a better job.’”
- “Alarm systems for residents and small commercial establishments should be customized to the business. There is a difference from a law firm to a bakery. They have different requirements.”

2) President of a commercial and residential electronics security firm in Missouri

ADT is growing its commercial business, and its national footprint gives it an advantage when working with or pitching national companies. ADT has left a trail of dissatisfied customers who leave ADT because of cheap equipment or terrible service. Still, the company likely will continue to grow, either organically or through acquisitions. Cable and telecom providers pose the biggest threat to ADT overall, since they have deep pockets and similar advertising ploys to reel in consumers. Plus, they offer bundling, which is attractive to many people. Among established security providers, Vivint is growing fast and could threaten ADT’s business. Smaller security system providers do not threaten ADT, as they operate in different spaces and offer a higher quality and more costly service than ADT. Regardless of competition, there seems to be plenty of business to go around.

ADT Commercial

- “ADT is continuing to grow its commercial security business. I have heard that ADT does a good job with huge enterprise-level systems, private or government. ADT has an advantage in dealing with national companies and can get a national contract. All the business also seems to be headed in the direction of mergers and acquisitions, and ADT has a great advantage in that area.”
- “I would not anticipate growth in ADT’s commercial business to distract or hurt the company’s security business. They are so well known so it is just a matter of taking advantage of their name recognition, which is significant.”

ADT Residential

- “Customers are leaving ADT because of dissatisfaction—whether it is the cheap junkie Fisher Price equipment they use, or whether the customers called for help and it was three days before they could not get a return phone call or a technician. ADT does not allow for high-quality equipment installation or service. So about the third time somebody gets mad, they call us.”
- “ADT is constantly advertising based on how cheap they do something, so I suppose you would consider that to be discounting. They normally advertise a lower monitoring rate than what an independent company charges.”
- “I would assume ADT is continuing to grow at a substantial rate. Their marketing efforts are rather successful and they achieve a lot of their growth by acquisition rather than by organic growth.”
- “Pulse is performing very well. ADT certainly does very successful marketing with it, though I resent that they seem to present that they are the only ones who do that stuff. Our product line is through Alarm.com, and many other independent dealers like us also use Alarm.com. It was co-engineered with the guys at Interlogix so it is a very close relationship.”
- “I have not heard of any dealers leaving ADT for competitors. Nobody in my area has done anything like that.”

ADT is continuing to grow its commercial security business. I have heard that ADT does a good job with huge enterprise-level systems, private or government. ADT has an advantage in dealing with national companies and can get a national contract. All the business also seems to be headed in the direction of mergers and acquisitions, and ADT has a great advantage in that area.

President, Commercial & Residential Electronics Security Firm, Missouri

- “When I see an ADT commercial on TV I quickly change the channel. I do not have any desire to throw mud at a competitor, but we are of a very different philosophy and business model. They are the 800-pound gorilla and the biggest guy on the block, and I rarely run into a customer who likes them. We are more about high-grade service and custom design and relationships with our clients.”

Competition from Cable/Telecom

- “ADT and other competitors so far have not had to increase their advertising in order to compete with cable/telecom providers. Our area is usually one of the last places in the country to see a trend or a change happening; the security companies in New York, Los Angeles, Dallas and Chicago will see things before we do.”
- “I have not personally been in a competitive ‘situation’ with a phone company or a cable provider, but my industry peers are saying that phone companies are doing their usual rotten job. They spend money right and left and say, ‘Here is a business we can get into and make some money.’ What they are realizing is that the security industry has its own skills, and they are doing a terrible job, so they do not serve their clients well.”
- “If you were interested in a security system for your home, do not do business with somebody like Cox. There is no way they know what they are doing, and I have never come across people who are fond of their phone company. It is an awful idea.”
- “First and foremost cable and telecom companies are bundling security with their other services, so it looks to their clients that they are getting security service for much less money. That is a fantasy, but they are very good at making it look that way. So it is appealing to people who do not otherwise have any reason to have loyalty. Their advertising also makes a difference probably. They certainly have a bigger ad budget than I do.”
- “The phone companies and the cable providers are a bigger threat to ADT other than traditional security providers. They are the ones that have deep enough pockets and advertising budgets so they can go to war, toe to toe, with ADT, and pose a real threat to them. ADT has nothing to fear from a company like mine.”
- “From what I hear about other markets, cable/telecom providers are continuing to get attention and they are causing people to be more confused.”

Competition from Established Security Companies

- “The industry is too fractured. When you look at companies in our market, you will see three or four companies that are the real players in the market. You will also see ADT. The other 28 are retired phone guys who are doing this as a hobby and will get one new monitor account a week. Nobody will damage ADT. ADT will not even sneeze.”
- “From what I have heard, the company that stands to bring the biggest threat among established security providers to ADT is Vivint. They are growing at a tremendous rate and it is imaginable that they could pose a real threat to some of the ADT business units.”
- “Crime will continue to increase. Fire is going to happen. We are in a growth industry where demand is growing. The only time I see a legitimate security company go out of business is when the owners believe it is time to cash in.”
- “There are a lot of family security companies that take this business personally. That is why I get angry when it is treated as a numbers business, where companies see how much money they can pry out of customers. And I think the American consumer has been beaten into the mindset that if it is not the cheapest price, it is not good value. When you are talking about something that directly affects the safety of you and your family, you need to go and spend the money to do it right—and the companies that advertise, ‘Here is how cheap we can do it,’ absolutely are not doing it right.”

Pulse is performing very well. ADT certainly does very successful marketing with it, though I resent that they seem to present that they are the only ones who do that stuff. Our product line is through Alarm.com, and many other independent dealers like us also use Alarm.com.

*President, Commercial & Residential
Electronics Security Firm, Missouri*

3) Owner of a commercial security and residential security company in Arizona

There is plenty of business to go around for all of the players in the space—mom-and-pop shops, ADT, and even cable and telecom companies. This source’s business has increased 50% over the past year. He does not view ADT as a threat to his business because ADT’s customers regularly are unhappy with the company’s service, and as a result he gains new business. ADT dealers have also jumped ship. He does not want to become an ADT dealer but instead is a dealer for the

[Central Security Group](#), an ADT competitor. Cable and telecom companies are reeling in customers by offering bundled packages with very little money down, and these companies pose the biggest threat to ADT—though traditional providers also are a potential threat to the company, particularly in the residential market.

ADT Commercial

- N/A

ADT Residential

- “ADT is trying to get people like me to be dealers for them. I am an authorized dealer for the Central Security Group. I looked at being an ADT dealer but ADT is the 800-pound gorilla and everything has to be their way. There is no motivation for me to be an ADT dealer.”
- “I have heard of dealers leaving ADT for competitors. Five years ago when I was looking at becoming a security systems dealer I looked at ADT as a possibility and I decided against it. ADT wants to have control over what you do. For example, if you are an ADT dealer you cannot be in any other authorized dealer program. The other thing with ADT is that it does not matter if I sell 10 deals a month or 100 deals a month—the pay is all the same.”
- “ADT and other competitors probably have to increase their advertising in order to compete with cable and telecom companies in the space.”
- “I have no issue with ADT because a lot of times I get ADT customers because they are unhappy with ADT.”
- “Customers are leaving ADT because ADT does not really care about the customer. ADT is so big that it is just about the numbers.”
- “The bigger the companies are, the more impersonal they are. That is why I say ADT is not really a threat to anybody.”
- “Basically Pulse is remote access to your security system via your phone or droid. Honeywell has got it, Alarm.com has it, everybody has it. For security dealers like myself, business is not just security systems—we do camera systems, access control and fire systems.”

Competition from Cable/Telecom

- “A lot of the cable and telecom competitors are not doing commercial work—they are just doing residential. With residential people, everything is about bundling today—so Cox, Comcast, AT&T and other cable companies have a captive audience. They can bundle up their offerings with security. People are dumb enough to go for that. It allows consumers to get a security system for little or no money down—that is the big attraction of it.”
- “Cable and telecom companies are not in the commercial security business. Cox offers voice, data and Internet services to commercial businesses but they do not offer security.”
- “Cable providers are the bigger threat to ADT—but very possibly both cable/telecom providers and traditional security providers are a threat. There are a lot of companies out there that sell residential and commercial security systems. A dealer in Scottsdale just sold his residential business for \$60 million.”
- “The fact of the matter is there is enough business out there for everybody, and I have been in business on my own for 28 years. I do not worry about the cable companies putting me out of business. There is so much business out there—nobody will put me out of business except myself. I get customers who are unhappy with Cox. I have customers who will text me or call me on Sunday morning and I will take their call. You cannot get a Cox technician to take your call.”

Competition from Established Security Companies

- “From 2013 to December, 31, 2014, my business increased 50%. I meet with other alarm dealers—and there is plenty of business out there. Companies here in my city have so much business that I have one company refer business to me what they cannot handle.”
- “I do not think anybody is a threat to anybody.”

They can bundle up their offerings with security. People are dumb enough to go for that. It allows consumers to get a security system for little or no money down—that is the big attraction of it.

*Owner, Commercial Security & Residential Security Company
Arizona*

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*Owner, Commercial Security & Residential Security Company
Arizona*

- “I cannot find good quality help. I have had to hire guys with no experience; there are not enough qualified people in the industry.”
- “There are two groups of people that buy a security system. The first is the planned buyer who plans to buy a system before they get broken into. The second group is buying a security system as a reaction to a break-in. These people in the second group cannot sign the contract fast enough.”
- “Nest is not in the security business yet but I am sure they will be at some time in the future. Nest is going to be, I believe, more of a do-it-yourself-type system. The consumer buys it and maintains it on their own.”

3) Industry specialists

Two of three sources interviewed said ADT has poor service delivery and lacks the personal touch of traditional competitors. ADT's Pulse is a good product, even if it is not unique, and has helped ADT improve customer retention. These sources said ADT is wise to pursue a partnership with Google's Nest, which could pay dividends nicely. The threat from cable and telecom companies' security offerings is more to ADT's bottom line than anything else, though one source believes this iteration of the cable/telecom security business has better staying power since it is connected to the internet prevalent in so many homes. The entry of cable and telecom companies in the security market has caused ADT and other security companies to spend more on advertising and marketing, as well as prompted them to adopt or introduce home automation services. ADT's size is a disadvantage in competing against regional and local companies, and keeps ADT from customizing products for residential and commercial customers alike. ADT's national footprint and reach, however, gives the company a chance with some commercial clients.

Key Silo Findings

ADT

- 2 said ADT has low levels of service and lacks the personal touch of others.
- 1 said ADT's service issues are overblown and expects the company to continue to do well.
- 2 said Pulse is helping retention.
 - o 1 said the product is not unique.
- 2 said ADT's potential partnership with Nest could be a success and is a smart move.
- 1 suggests ADT needs updated technology, especially its cameras.

Competition from Cable/Telecom

- 2 said cable/telecom is likely to hurt ADT's bottom line, but neither envisions it being a success in the industry.
- It is pushing competitors to do more home automation and spend more on advertising and marketing.
- 1 said cable/telecom has staying power because its internet services are in so many home.
- 1 said cable/telecom's product as in the same unsophisticated boat as ADT's.

Competition from Established Security Companies

- 1 said traditional companies are the biggest threat to ADT.
- Protection one and Stanley are the two main competitors.
- Regional and local companies have the advantage of delivering more personal service and customization that ADT cannot.

ADT in Commercial Business

- 1 said ADT's most likely target remains small businesses and lauded the company's reach.
- 1 said ADT has an opportunity because of its national footprint, but was not nimble enough to grow commercially because of a lack of customization.

1) Home security expert and journalist

This source said ADT will continue to flourish in a market that is increasingly fragmented, and it will enjoy better customer retention thanks to its Pulse offering. Cable may affect ADT's bottom line, but is unlikely to take real market share. ADT is well-suited to move into the small business space, where its brand recognition and professionalism will put it ahead of

most firms. The Google/ADT partnership is a promising venue in which to market their products. ADT does need to update its camera technology, however, or risk being left behind by competitors.

ADT

- “I haven’t followed the numbers for ADT but it really is a great company. You don’t get that big in the security industry by accident. I think they’ll continue to do well in this market, even though it’s increasingly fragmented by DIY products.”
- “Pulse has helped ADT retain customers; there’s no doubt about it.”
- “ADT needs to update its camera technology. There are so many great technology products that are hitting the market, and so many can do the job more efficiently, that ADT will lose out if it doesn’t upgrade its systems.”
- “Google Nest is a great product, and the partnership is a good way for Google and ADT to combine their products.”
- “The recent news about [the potential to hack ADT’s wireless products] is more sensationalism than anything. Certainly there are issues with anything wireless, even a pacemaker. It boils down to companies doing their due diligence. The technology needs to be tested every step of the way. If a vulnerability is discovered, a company needs to quickly offer patches.”

Pulse has helped ADT retain customers; there’s no doubt about it.

Home Security Expert & Journalist

Competition from Cable/Telecom

- “Cable will certainly affect ADT’s bottom line. But Comcast has been voted the worst consumer company in the United States. There are so many moving parts in the security business that cable won’t be able to pay attention to; it’s a recipe for failure.”
- “One effect of cable is that home security companies by and large are moving into home automation as well.”

Competition from Established Security Companies

- N/A

ADT in Commercial Business

- “For small businesses to use ADT, it’s a non-brainer. They can make one phone call and ADT will send out a rep and get the job done.”
- “Any company that can offer that type of service is poised to do well. ADT has significant reach, and that will trump a lot of the mom and pops or VCs. ADT has such a dominance.”
- “From my experience, ADT’s customer service has gotten a bad rap. Things are always handled very professionally; ADT reps know exactly how to handle a disgruntled customer, they know how to direct you to someone who can help you. You can always get someone on the phone, while at many other companies these days you don’t even get to speak to a live person.”

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Home Security Expert & Journalist

2) Western regional sales manager for a company that provides communications products to security system dealers

ADT continues to advertise heavily, and this source has seen little change in that pattern. The company also continues to offer lousy service, leaving itself open to tough competition from cable and telecom companies and established security players like Protection One and Stanley Security Solutions. A certain customer base will gravitate toward the easy and simple—the cable and telecom providers. Other, more sophisticated users will go with security system providers that offer more personalized services. ADT is the established security player in the small commercial market, but he says the company is not nimble enough to handle the diversifications in the market.

ADT

- “When customers call the 800 number for ADT they do not know who they are talking to. There is no personalized service—they cannot pick up a phone and call a branch. As manufacturer I cannot call a branch of ADT—I have to call some gigantic calling center and am routed back.”
- “ADT’s service is terrible. You cannot get a response from anybody. They are too big, and I see constant reorganization.”

- “I see the same advertising from ADT as I always have. They are just there, sponsoring a sporting event, running cable ads on all of the cable channels, and ads in the newspapers. They use their ADT dealers to promote as well. I have not seen any difference from what they have done in the last decade.”

Competition from Cable/Telecom

- “I have seen companies like AT&T and Comcast get into our industry in the past and they did not last very long and they pulled out. The difference today is the Internet. They have the Internet connection through the home, and they hook it through the same Internet connection that they have. I do not know what company can go head to head with AT&T and Comcast.”
- “There will always be a percentage of the customer base who are attracted to those types of companies like cable/telecom providers—simple and easy to use. A sophisticated customer would choose to go somewhere else. I think the same thing of ADT. I would put ADT in the same bucket as cable and telecom companies.”
- “I personally do not know anyone who has one of those cable/telecom security systems in place. But they are making a dent in some areas because of advertising and marketing. There is a certain segment of the market that is attracted to that.”

Competition from Established Security Companies

- “Protection One and Stanley Security are ADT’s biggest threat. From a national standpoint, the threat comes from the other nationals that work in the space. The small companies are a threat, but again it goes back to the educated user. If the person is an educated user they will not want to use a national company.”
- “A lot of the big companies like ADT use subcontractors, and subcontractors are not IT-centric or in my case, they do not know my product. They are not as highly qualified or trained. You would think that a local mom and pop would not be trained, but that is not the case. It is the opposite.”
- “ADT is more cookie cutter where the other smaller companies can really sit down and interview a potential client and offer them a solution.”

ADT in Commercial Business

- “I have seen ADT for the last 25 years go in and out of the commercial business. They broke up ADT between light commercial and residential, and in that regard they are poised to do a better job but they are also a company that reorganizes a lot.”
- “I think of ADT as an established player. They are *the* established player. ADT has always been in residential, and has been heavy in commercial but light commercial—the little boutique store. But ADT is not nimble enough to handle the different diversifications in the industry. They do not give the personal touch customers are looking for, and that makes it more difficult. On the positive side, they can provide national service to companies that have a national footprint, and there they do a fair job.”
- “Today’s commercial market requires cameras, access control, security.”
- “In my opinion Tyco and ADT play in totally different places. ADT is residential and small commercial. Tyco does the big stuff, so their crossover is small.”
- “[Convergent Technologies](#) only has maybe 20 to 25 locations, mostly in large cities, but offers a high level of service. Its customers are Boeing and other large corporate customers. You would never see ADT in that type of space. They do not have the knowledge.”

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*Western Regional Sales Manager
Communications Products Supplier*

ADT is not nimble enough to handle the different diversifications in the industry. They do not give the personal touch customers are looking for, and that makes it more difficult. On the positive side, they can provide national service to companies that have a national footprint, and there they do a fair job.

*Western Regional Sales Manager
Communications Products Supplier*

3) Jim Wooster, CEO of [Alarm Financial Services](#), which invests in alarm companies and lends to others for acquisitions; repeat source

Cable can only help ADT by increasing awareness of home security. Pulse definitely helps ADT lower customer attrition rates, and 70% of the new equipment ADT installs is interactive. Meanwhile, the ADT/Google Nest partnership makes sense because it's the world's largest search engine partnering with the country's largest security company. Google has an enormous footprint, so an alliance with it may be a smart move for ADT.

Oct. 10, 2014: ADT's customer service model has not moved an inch toward the positive end of the scale since this source first spoke with Blueshift in March. ADT is running an extremely aggressive advertising campaign and making several dealers very nervous. This is likely due to the ongoing loss of customers who are unhappy with ADT's service model, not its product. Attrition does not appear to have slowed in the last six months. Takeovers are increasing, further adding to the contentious landscape between ADT and the smaller operators. The cable and telecom sectors, however, are not posing a real threat, and neither is Google's Nest. ADT's push into larger commercial territory will not be easy given the large, established regional companies prepared to wage battle against it.

March 10, 2014: ADT remains vulnerable to competitors. Determining whether Comcast can make a difference in the industry is difficult at this point, but Time Warner has done nothing that is disruptive. The real wild card is Google, which acquired Nest for \$3.2 billion.

ADT

- "ADT is its own worst enemy in terms of service."
- "There's no question that Pulse is helping ADT retain customers, and 70% of the new installs are interactive. Every alarm dealer in the world now has to have an interactive system."
- "But Pulse is not unique; it's not exclusive. The alarm industry is an extremely mature industry. There's not technology that isn't universally used. Anything that ADT has, Joe Bag of Donuts has. There are no unique aspects of equipment, service, anything."
- "In addition, in home automation, there's no standardization, no continuity of technology. That's a fundamental problem with the 'smart home.'"
- "Google will want to do [the partnership] in four hours, and ADT will take 2 ½ years to get it through its committees. But it would have a significant impact. Just look at the footprint that Google has."
- "I'd be more concerned if Nest went after the do it yourself space (DIY). ADT is traditional—it has sales reps and call centers and vehicles and unions and installers. Why are they talking with ADT? Well, maybe it's obvious—why not talk with the biggest players in the industry? You're the biggest in search, why not partner with the biggest security company?"

There's no question that Pulse is helping ADT retain customers, and 70% of the new installs are interactive. Every alarm dealer in the world now has to have an interactive system.

CEO, Alarm Company Investor & Lender

Competition from Cable/Telecom

- "Cable has to be an influencing factor on ADT's bottom line, with just 22% to 25% market penetration in the whole industry. When ADT knocks on the door, some customers will be more familiar and security conscious [thanks to cable]. In LA, SF, Long Island, cable is just one more influence."

Competition from Established Security Companies

- N/A

ADT in Commercial Business

- N/A

Secondary Sources

The following nine sources discuss a lawsuit against ADT, hacking home security, Tyco technology investments, and home automation.

ADT Lawsuit and Hacking Home Security

A lawsuit filed in Florida alleges that ADT's security systems are too easily hacked. The suit says that ADT's marketing materials create a false sense of security, and that the company is aware of the issue. Hackers are able to set off alarms, disable sensors, and monitor residents inside their homes. In one case, security cameras inside people's homes were hacked and live feeds were made available online.

Dec. 9 Good Morning America [video](#)

Vulnerabilities exist in many large alarm companies' security systems, including ADT's. Using a laptop with the right software, a simple RF device, and an antenna, a cyber researcher was able to trip a home security system alarm, interfere with the system's door sensors, and monitor people's movement inside a home.

- "We're finding an alarming amount of vulnerabilities in some of the biggest security companies, and it doesn't take long, in fact, a matter of seconds."
- "Logan Lamb, a cyber researcher, says he's found the same vulnerability across four different security companies. All it takes is the right tools and know-how."
- "With a laptop equipped with the right software, antenna, and small device that detects radio frequencies, Lamb is able to set off an ADT security system's alarm, completely disarm the system by sending a signal to interfere with the door sensor, and monitor a family's patterns by following different door openings."
- "It may not be a huge concern today, but it will be in the future," says Lamb."

Nov. 24 Security Info Watch [article](#)

A class action filed against ADT claims the company transmits unencrypted signals that can be hacked by third parties using relatively simple devices. The plaintiffs claim ADT is fully aware of security issue, yet tells its customers otherwise.

- "In a recent class action lawsuit filed against ADT in federal court in Illinois, [Baker vs. ADT](#), the plaintiff alleges that ADT's wireless home security equipment transmits unencrypted signals that can be hacked by third parties. As a result, the complaint claims, signals from ADT's systems can be intercepted and interfered with by those who want to gain access where such systems are installed."
- "Third parties can disable or suppress ADT's security systems or cause the system to activate when there actually is no security breach to determine if police are dispatched in response to an alarm, thus allowing them to determine the best time to strike. The plaintiff also alleges that hackers can use a subscriber's security cameras to spy on subscribers while in the premises."
- "The crux of plaintiff's legal claim appears to be that ADT tells its customers the systems are secure when they are not, and ADT knows that."
- "This is not the first time someone questioned the security of wireless security systems. For example, at least one presenter at Black Hat, an information security conference held in August, claimed that hacking into wireless home security systems could be accomplished with equipment costing less than \$100. ADT's wireless security equipment is not the only equipment hackers claim to be able to access. I have found articles, blogs or papers indicating that Vivint and 2Gig devices can be hacked as easily."
- "Forbes magazine article claims certain wireless security systems can be hacked because of 'legacy wireless communications from the 90s that failed to encrypt or authenticate signals.' The article said a hacker used a \$10 simple device—a software-defined radio or SDR—to hack into systems installed by ADT and Vivint and could see transmissions from the system, even when the system was not armed."

Jan 8 Securitysales.com [article](#)

A lawsuit against ADT claims its marketing materials and website give customers a false sense of security, as its systems can easily be hacked, allowing third parties to manipulate or turn off security systems.

- "The complaint alleges: In its marketing materials, including on its website, ADT represents, inter alia, that it 'has one of the most trusted and well-known brands in the security industry today.' All of ADT's marketing materials promote the safety, security, and peace of mind that ADT's systems will provide to its customers. ADT's misleading marketing statements and omissions are particularly egregious in light of the fact that they provide a false sense of security to those individuals and businesses that are most vulnerable: individuals and businesses who are seeking the comfort of an extra level of security that a home security system provides."

- “ADT makes the following representations on its website: Customers can ‘Get Security You Can Count On. Every Day of the Year’; ‘Your haven is armed with 24-hour-a-day protection, 365 days a year’; Customers can ‘Live worry-free with ADT Security for less than \$1 a Day’; and ‘Fast. Reliable. Security Protection.’ ADT stays constantly alert with six Customer Monitoring Centers operating day and night across the country. Our Customer Monitoring Centers are nationally connected, equipped with secure communication links and backed by the latest technology so that our security team is always ready to act the moment an incident occurs.”
- “Despite its representations in its marketing materials, ADT’s wireless systems are unencrypted and unauthenticated, and otherwise insecure. Therefore, ADT’s wireless systems are easily accessed and manipulated—or “hacked”—by unauthorized third parties.”
- “By hacking ADT’s wireless systems, unauthorized third parties can, inter alia, remotely disconnect or turn off the security systems so that customers are unknowingly left unprotected by their systems. Unauthorized third parties can also hack into ADT’s wireless systems and use customers’ security cameras to unknowingly spy on them.”

Dec 12 JKSecurity.com [article](#)

Many Phoenix and Scottsdale residents’ home security cameras were hacked and the feeds were made available online for everyone to see. Many of those who were hacked did not change the default password on their system.

- “However, there is a dark side to home security cameras that is working its way into the public’s awareness—and that is just how easy it is to hack some of these devices.”
- “Phoenix and Scottsdale residents had no idea their home security cameras were hacked. We found live streams of people’s bedrooms, living rooms, and playrooms, the inside of their homes streaming online for everyone to see.”
- “Security experts say homes that were hacked were using the default password.’ Many cameras and devices in general, because they want you to be able to access the device for the first time, will have a default password,’ said Matthews. Sometimes the default username and password is ‘admin,’ or ‘admin’ and ‘1234.’ Companies expect customers to change the default passwords, but lots of people don’t.”
- “The truth is that some of these cameras are not that hard to hack even with a customized password in place. It’s just as important to buy cameras with higher levels of built-in security. Some home security cameras have more robust anti-hacking protection than others. You should not have to spend a ton of money, but it probably makes sense to ask the right questions, and then spend a little more to get the peace of mind you deserve.”

Tyco Technology Investments

Tyco invested in start-up Qolsys, a manufacturer of security and home automation products. The addition of Qolsys will create synergies with Tyco subsidiary DSC, another home automation solution provider. Tyco inked a deal with Alarm.com, which will distribute Tyco’s [IMPASSA Series](#) and will render the system compatible with Alarm.com’s automated devices.

Dec 8 Cepro.com [article](#)

Tyco’s security division invested in start-up Qolsys to enhance its home automation product offerings. Tyco also owns DSC, another company specializing in automation products and interactive solutions. Having both companies on board will give Tyco a strategic edge in home security technological development.

- “Global security provider Tyco International (NYSE: [TYC](#)) made a strategic investment in [Qolsys](#), a start-up manufacturer of security and home automation products, via Tyco Security Products. Tyco, which [spun off ADT Security Services](#) in 2012 into its own publicly traded company (NYSE: [ADT](#)), already owns [DSC](#), ostensibly a competitor to Qolsys.”
- “We continually scan the market to look at what’s happening in new technology development,” said David Grinstead, VP worldwide sales for Tyco. “We come from a nontraditional background, particularly in the security space. We thought that collaboration would facilitate development of a new portfolio of products.”
- “[DSC launched its first notable interactive solution in 2011](#) with the Z-Wave-enabled Impassa panel, teaming with [iControl](#), a SHaaS (smart home as a service) provider, on the back end. But compared to its competitors, the solution has evolved little since then, other than adding support for the [Alarm.com](#) SHaaS platform, which competes with iControl. (Meanwhile, DSC switched to [Telguard’s iControl-powered service](#), rather than going with iControl direct.”

- [“Qolsys \(Quality of Life Systems\) debuted in 2013](#) and began shipping product this year. The Android-powered IQ touchscreen panel has similar bells and whistles as other robust self-contained security/automation panels on the market, with its built-in radios for cellular, Wi-Fi, security RF bus, Z-Wave and Bluetooth, plus a radio to communicate with Alarm.com’s Image Sensor motion and image capture device. (Typically the Alarm.com product requires an external radio.)”
- “Grinstead sees Qolsys as “certainly an opportunity” for its existing DSC security customers including dealers and distributors. But Qolsys also can help Tyco tap the more traditional home systems integrators, many of which have adopted hybrid security/automation products from the aforementioned competitors as their go-to solution for mainstream markets.”

Jan 6 DIY Security Blog [blog](#)

Tyco Security Products partnered with Alarm.com to offer its Impassa series solution to reach dealers and will seamlessly work with Alarm.com’s automated devices.

- “Tyco Security Products and Alarm.com announced their partnership and the IMPASSA Series is the first solution to reach dealers. This system comes with the alarm.com 3g8055 AT&T Cellular Communicator which cannot be purchased separately to be used with older IMPASSA Systems.”
- “The alarm.com IMPASSA version 1.3 + wireless security system also comes with the onboard daughterboard which will enable the use of the alarm.com image sensors, and the z-wave module which will allow for the use of home automation devices.”
- “The two companies plan to integrate other select hybrid systems for global markets later in the year. The close engineering collaboration and partnership between Tyco Security Products and Alarm.com will ensure the full range of current and future Alarm.com services are supported providing a leading, future-proof platform to dealers globally.”

[Home Automation](#)

This year’s Consumer Electronics Show featured many companies offering different home automation gadgets or systems from smart grills to smart sprinklers. By 2017 at least 13% of households will have one smart home device. ADT is partnering with Google’s Nest in order to make the company’s thermostats accessible on its Pulse system. In addition to home security systems, any home smart device that has an Internet connection can be hacked.

Jan. 4 *Wall Street Journal* [article](#)

Security gadget and automation producers are fighting for retail shelving space. The recent Consumer Electronics (CES) Show featured many of these businesses. Names include more prominent start-ups Nest and Wink and larger players like Samsung and Belkin. Smart-home proponents were trying to reach beyond the affluent crowd and market to renters and others with simple needs. Obstacles to the home automation market include incompatibility among differing brands and the sharing of personal information collected by the gadgets.

- “Nest Labs, Wink and other household gadget makers vie for space on store shelves. Home Depot features prominent displays by both Nest Labs, the maker of [high-tech thermostats](#) and smoke alarms that was purchased last year for \$3.2 billion by Google and Wink, a subsidiary of a gadget startup called Quirky General Electric is an investor in Quirky.”
- “Nest and Wink offer software and Web services to orchestrate interactions among their own [home gadgets](#) and those made by other companies, which are churning out Internet-connected light bulbs, security cameras, entertainment devices, ovens, water heaters and washing machines.”
- “Samsung Electronics, for example, is expected to use a kickoff keynote at CES on Monday to discuss collaboration with SmartThings, a startup purchased by the South Korean company that makes its own smart-home devices and serves as a command center for others.”
- “Other players staking out positions include Apple, which last June began courting companies to make future home devices using a platform called HomeKit; Belkin’s WeMo unit, which sells its own gadgets as well as helping others work together; house device brands sold by some major retailers and offerings by communication giants like AT&T Inc. and Comcast, which now install security systems along with other smart-home devices.”

- “Though some big names like Apple and Google aren’t exhibiting at CES, hundreds of smart-home hardware makers are. Examples include Blossom, a startup offering a new smart sprinkler controller to save on water bills. SkyBell, another startup, plans to show its video doorbell, which has a camera and motion sensor that tells smartphone users who is at their door. Dado Labs, a newly named company that helps add smart-home features to partner devices, says coming offerings include other grills from Char-Broil LLC and a coffee roaster from Behmor Inc.—both controlled with mobile apps.”
- “Market researchers at Parks Associates recently estimated that U.S. shipments of such devices would exceed 20 million units by the end of 2014—increasing to nearly 36 million units by 2017—with about 13% of U.S. households with a broadband connection owning at least one smart-home device.”
- “Smart-home proponents are trying to reach beyond affluent people with new homes to renters and others with simpler needs, like monitoring movements of their children or aging parents. Earlier approaches “required someone to say ‘I’m going to buy a connected home today,’” says Ohad Zeira, WeMo’s director of product management. “We don’t know anyone who thinks that way.”
- “Obstacles abound, including a gaggle of incompatible wireless technologies for allowing devices to exchange data. But they haven’t stopped a bunch of new hardware startups or updated offerings from old-line companies like GE, thermostat pioneer Honeywell International or appliance maker Whirlpool Corp.”
- “The sheer number of vendors and gadget types has spurred the rise of platforms, which often include online marketplaces for gadgets, Web services and wireless hub devices to control multiple objects. Another draw is apps that can manage many things. ‘There is nothing worse than 15 different apps for 15 different devices,’ says Nate Williams, chief marketing officer of Greenwave Systems, an Irvine, Calif., software and services company specializing in the field.”
- “Perhaps the thorniest topic is what data platform providers may gather about the usage of home devices, which can help hardware makers refine their products. Vendors say they take great care to protect consumer privacy, but their policies differ about how much information to share with partners.”

Dec. 29 USA Today [article](#)

In addition to security systems, home automation devices can be hacked, including refrigerators and thermostats.

- “What’s true of consumers’ PCs and credit-card accounts will be true of their refrigerators and thermostats: Once those devices can be accessed online, they will be targeted by hackers. When consumers trade control for online convenience, security usually suffers.”
- “The first of these home hacks may well resemble those made in the early days of computer viruses, when pimple-faced pranksters would break into systems and leave annoying messages just to prove they could.”
- “Even Google, which employs some of the biggest brains around and now owns Nest, a maker of so-called smart thermostats, has been hacked.”

Dec 30 Barrons [blogs](#)

At first, Google’s purchase of Nest appeared to be a threat to ADT and its home automation business. However, the two companies are discussing a partnership to connect Nest’s thermostats to ADT’s Pulse system, which may eventually lead to Nest marketing its Dropcam devices to ADT customers.

- “Credit Suisse’s industrials analyst Julian Mitchell notes that Google’s purchase of Nest might cause some to worry for ADT’s own efforts in the area. But Mitchell thinks Google is more inclined to partner than to push aside ADT.”
- “According to media reports (Security Sales), Google’s Nest business (which it had acquired for \$3bn+) is working with ADT to connect its home thermostat devices with the ADT Pulse home security monitoring system. We have written in a previous i-Spy about Nest’s recent acquisition of Dropcam, which makes video monitoring products and cameras.”
- “A partnership with ADT would extend Nest’s reach into monitoring, and also give it a huge installed base to potentially penetrate with Dropcam devices.”

Additional research by Diana Hembree and Cheryl Meyer

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