

ADT Inc. (ADT) – Long PT: \$11



Today's Price: \$8.21
 Dividend Yield: 1.71%
 Market Cap: \$6.71B
 Industry: Security Alarm Systems
 Headquarters: Boca Raton, FL

A leading company at the forefront of two booming industries with excessive downside priced into the stock

Business Overview

ADT Inc. provides commercial security systems and services. The Company offers home and business automation solutions which includes temperature, burglary, flood, fire and smoke, and medical alert monitoring. ADT also provides security cameras, remote access, and wireless home security systems. ADT serves customers in the United States.

Thesis Points

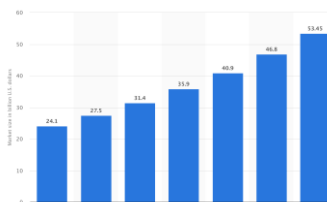
- 1. Valuable partnerships will fuel growth :** ADT has acquired several advantageous corporate partnerships with companies including DR Horton, Dish Network, and Google. These partnerships will allow the company to continue to experience organic growth. However, the market is severely discounting the potential of these partnerships for success, as the stock is at or below the levels from when these partnerships were announced.
- 2. Macro demand catalysts:** Several macro-level demand catalysts will drive demand for ADT's products and services. These include suburbanization, upside in real estate markets and home builds, and increasing levels of civil unrest. We expect these catalysts to continue beyond the pandemic. Additionally, ADT will benefit from a recovering economy, higher employment, and increased spending on homes.
- 3. Disconnect between company/street expectations:** Market expectations are disconnected from the company's own guidance and ultimately, the fundamentals of the company. As a value club, we look for stock with great fundamentals that are not being priced correctly by the market. ADT is a perfect example of a stock like this. We do not believe the previous thesis points are correctly priced into the stock, as evidenced by analyst guidance for the company.



Industry Overview

Home Security: The home security industry is valued at \$53.6 billion with a projected CAGR of 7% between 2021 and 2026. Growth in this market will be fueled by increased demand for home security systems and a recovering economy. The trend of growth in the parallel smart home market is expected to fuel growth as consumers invest in smart home systems during home renovations and purchase smart speakers.

Smart Home: The smart home industry is valued at \$79 billion and expected to grow at a CAGR of 25.3% between 2021 and 2026. Growth in this market will be fueled by improvements in wireless technology. The smart home industry also benefits from tailwinds from a broader trend towards home automation. Integration with smart speakers will also drive growth, with 1 in 4 American adults owning a smart speaker.



Left: Smart Home market growth, Right: ADT's market share

Additional Commentary – Valuation/Risks/News

Valuation: We used mostly analyst estimates to project revenues and expenses, sticking to conservative ends of estimates. We also used conservative estimates for exit multiples, growth rates, and WACC. Our valuation yielded a low-end target price of \$11, yielding an implied upside of 31%.

Risks: ADT faces risks from new, DIY entrants into the home security system. However, the partnership with Google and full smart home integration should allow ADT's offerings to outperform new players. Additionally, ADT is being sued for patent infringement by VVNT. However, these companies have a history of suing each other and we see this as a short-term event that the stock has traded down on.

