

Q4 2017 Earnings Presentation

March 15, 2018

Forward Looking Statements

ADT has made statements in this press release and other reports, filings, and other public written and verbal announcements that are forward-looking and therefore subject to risks and uncertainties. All statements, other than statements of historical fact, included in this document are, or could be, "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and are made in reliance on the safe harbor protections provided thereunder. These forward-looking statements relate to anticipated financial performance, management's plans and objectives for future operations, business prospects, outcome of regulatory proceedings, market conditions and other matters. Any forward-looking statement made in this press release speaks only as of the date on which it is made. ADT undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise. Forward-looking statements can be identified by various words such as "expects," "intends," "will," "anticipates," "believes," "confident," "continue," "propose," "seeks," "could," "may," "should," "estimates," "forecasts," "might," "goals," "objectives," "targets," "planned," "projects," and similar expressions. These forward-looking statements are based on management's current beliefs and assumptions and on information currently available to management. ADT cautions that these statements are subject to risks and uncertainties, many of which are outside of ADT's control, and could cause future events or results to be materially different from those stated or implied in this document, including among others, risk factors that are described in the Company's Annual Report on Form 10-K and other filings with the Securities and Exchange Commission, including the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained therein.

Today's Presenters



Timothy J. Whall
Chief Executive Officer



Jim DeVries
President



Jeff Likosar
Chief Financial Officer

Why We Are Excited to Tell the ADT Story

Center of the Security and Connected Smart Home Ecosystem

- 5x the size of next largest residential competitor and one of the largest national players
- Trusted partner of choice for connectivity and access into the home
- **Unparalleled market leader with #1 brand recognition; synonymous with security**

Highly Attractive & Recession Resistant Industry

- Strong core market growth and expansion drivers with home automation
- Typical 3-5 year contracts provide predictability; variable capex provides flexibility
- **90%+ of revenue is recurring from contractually committed monthly payments**

The "New ADT": Significant Operational Improvements with Further Upside

- Greatly enhanced customer service experience
- High margin on contractual revenue
- **200+ bps improvement in customer revenue attrition since ADT acquisition**

Strong Cash Flow with Meaningful Future Growth

- Fundamental improvements in capital intensity of business and cash flow profile
- Prioritizing cash flow over top-line growth; opportunities to grow in lower capex segments
- **Goal to improve Free Cash Flow generation by 2x-3x in the next few years**

Right Management Team with Substantial Opportunity Ahead

- Early focus on integration (ADT & P1) and establishing the foundation for the "New ADT"
- Incremental Opportunity for Commercial market expansion and new technologies/channels
- **Less than 24 months into the ADT tenure of the industry's most proven team**

Service is Our Business and Our Key Competitive Advantage

Our Expansive National Footprint

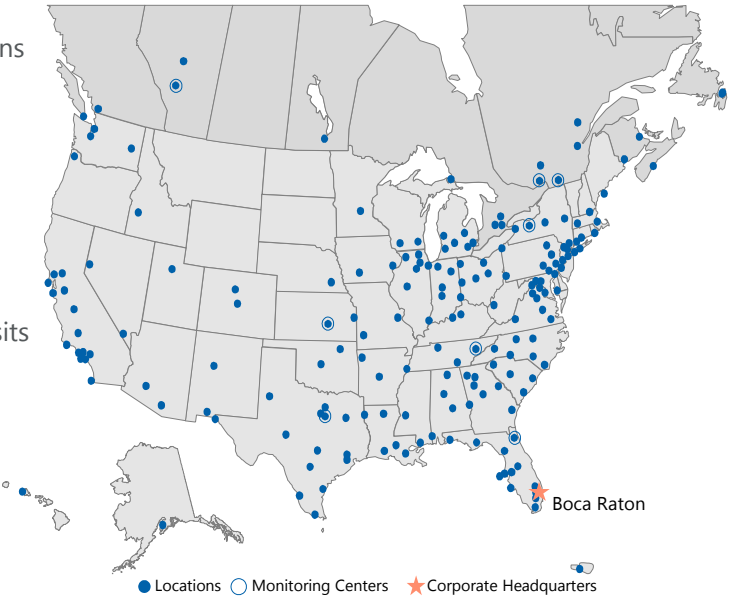
200+
Branch Locations

~7.2MM
Customers (2)

~2MM+
Annual Service Visits

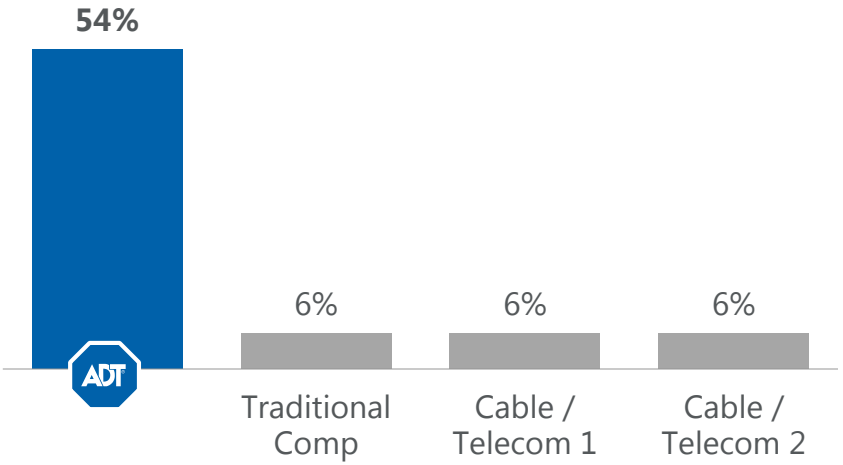
~18,000
Total Employees

~4,600
Technicians



Iconic Brand with Unparalleled Recognition

% of Consumers Surveyed Who Viewed ADT as the Best Brand vs. Other Competitors (1)



ADT *is the* Trusted Security Provider and Service is Our Biggest Competitive Advantage and Differentiator

Protect

- ✓ Intrusion
- ✓ Life safety / fire
- ✓ Video & access control
- ✓ PERs
- ✓ Cybersecurity

Connect

- ✓ Interactive platform
- ✓ ADT Go
- ✓ Technology partners

Delivered Via ADT Services

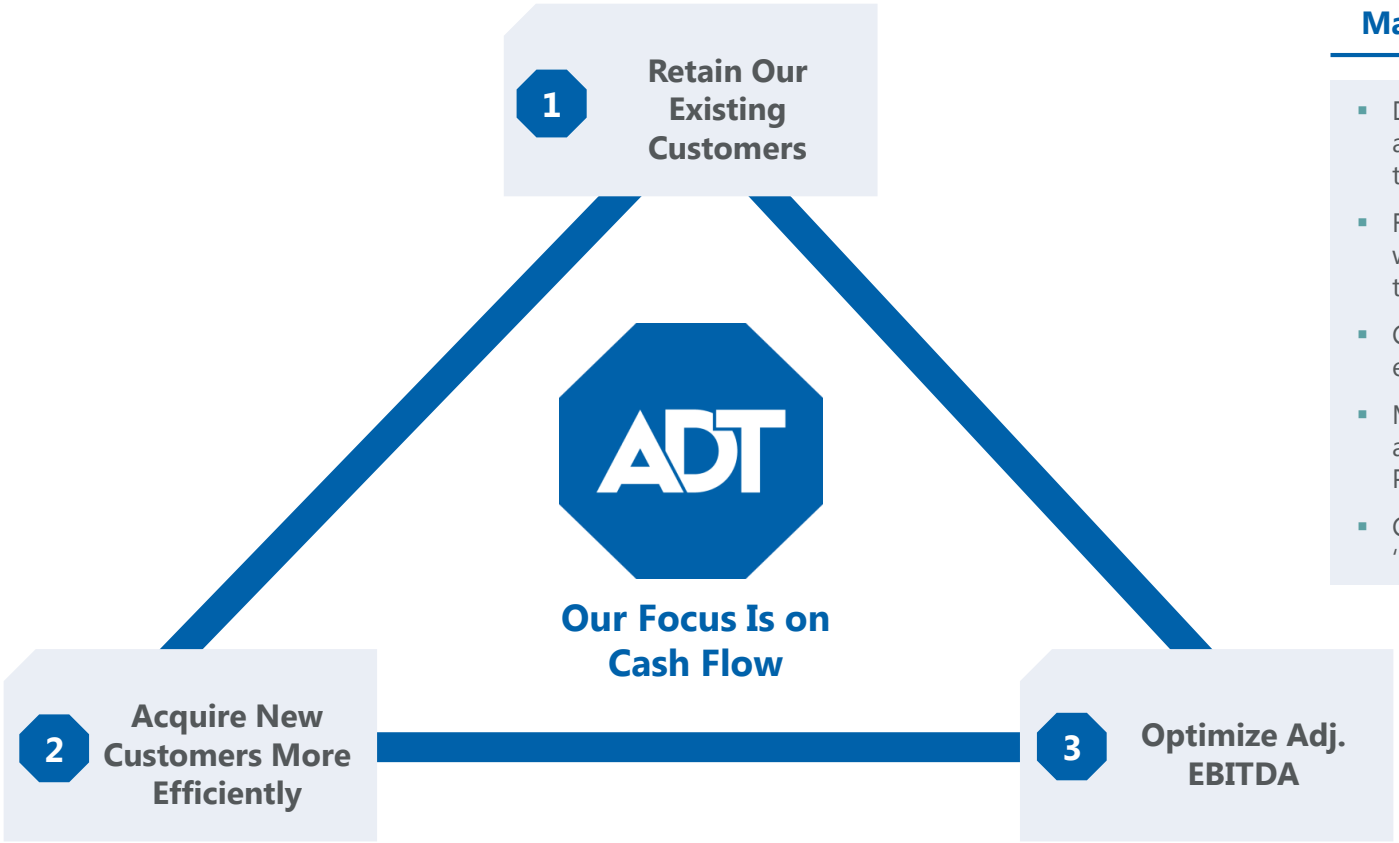
- ✓ Installation and same day service
- ✓ Fire inspection and maintenance
- ✓ Monitoring and analytics
- ✓ IoT device installation and maintenance
- ✓ Video / Mobile / Wearables

Notes

1. Harris Brand Tracking Research, January 2017
2. Presented as of 12/31/2017; excludes wholesale customers who outsource their monitoring to ADT. We service ~8MM customers, which include ~7.2MM owned and ~0.8M contracts monitored but not owned. Contracts monitored but not owned are primarily part of legacy P1 wholesale business

Our Operating Focus is Centered on Three Core Objectives

Key Levers and Objectives



Management Attributes

- Data and daily management are core to how we manage the company
- Fluent in and integrated with field employees 'day-to-day'
- Customer at the center of everything we do
- Manage to outliers not averages ("Variance Performance Management")
- Culture that rewards 'discretionary effort'

By Balancing Our Three Core Objectives, We Are Focused On Optimizing Long Term Cash Flow Generation

Customer Retention Has Improved Significantly

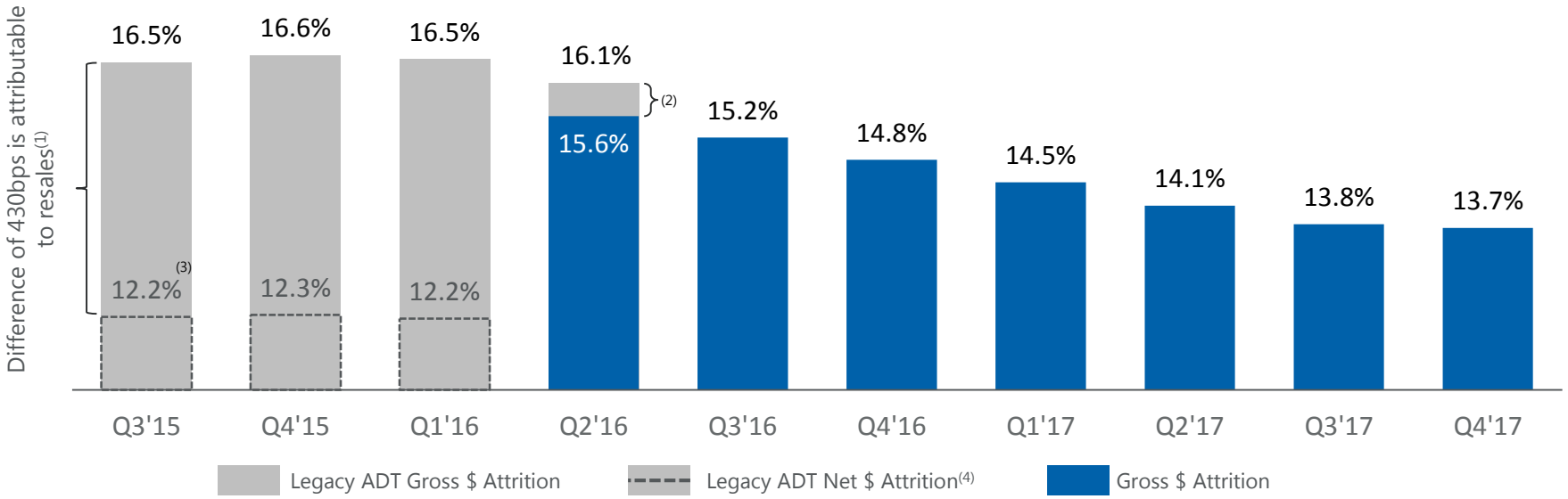
Retain our Existing Customers: Trailing 12-Months Gross Revenue Attrition

Our Key Metric is Gross Revenue Attrition

- Captures all customer loss and focuses management attention on improving the root causes of attrition
- Legacy ADT focused on Net Attrition, which starts with Gross Attrition and subtracts resales(1)

We Have Opportunity for Further Improvement

- Customer service initiatives are in the early stages
- Credit scoring has driven 1st year attrition improvement but will also result in a longer term high quality base
- Variance Performance Management is just taking hold



Every 100bps of attrition improvement drives ~$100M of additional cash flow (5)

Notes

1. Resales are inactive customer sites that are returned to active service
2. Reduction of 50bps is a result of combining legacy ADT and legacy P1 companies
3. Legacy ADT net customer revenue attrition rate as disclosed in form 10-K for the fiscal year ended 9/25/2015
4. Legacy ADT net customer unit attrition for fiscal year 2015 was 12.2%, fiscal Q1'16 12.2%, and fiscal Q2'16 12.1%, as disclosed in public filings
5. $100M illustration based on the cost of customer replacement. Monitoring and service revenue of $4,029M * 100bps * LTM Revenue Payback of 2.5x

Our Efficient Customer Acquisition Approach

Net Subscriber Acquisition Costs ('SAC') are down substantially and Revenue Payback improved from 2.7x to 2.5x since 2015[1]

Customer Profile [2]

	Residential	Commercial	
		Small Business	Large / Multi-Site
Customer Count[3]	~6,500K	>500K	>200K
Ending RMR	$285M	$29M	$17M
New RMR	$42M	$5M	$2M
Revenue Payback	~2.6x	~2.4x	~1.5x
Gross Attrition	~14%	~15%	~9%-12%
Typical Revenue/Site	$40-$55	$50-$65	$50-$120+

Progress to Date	▪ Improved quality and efficiency of SAC with credit scoring, higher upfront install revenue and more efficient marketing	▪ Increased RMR base >10% since 2015 through new additions and penetration of existing customers	▪ Started to leverage the legacy P1 Commercial and Multi Site playbook and account base
Opportunity	▪ Build from a higher quality 'right-sized' base of RMR adds ▪ Enhance capabilities with new offerings and technology	▪ Opportunity for add-on RMR based services to small businesses including Video and Cyber	▪ Build out our sales and install workforce ▪ 'Tuck-in' acquisitions with operators that join the 'new ADT'

Our Focus on RMR

- Our focus is on adding high quality new recurring monthly revenue (RMR)
- New RMR can come from new customers or existing sites
- Attractive economics with differing return and attrition profiles across customer types

Illustrative Incremental $1M Investment

	Commercial / Multi-Site	Residential / Small Business
Investment (SAC)	$1M	$1M
Revenue Payback	1.5x	2.5x
RMR Added [4]	**$56K**	**$33K**
Gross Attrition	10%	14%
Unlevered IRR	**30%+**	**20%+**
New RMR per Site	$100	$50
Customers Added	556	667

Notes

1. Comparing to pre-acquisition Legacy ADT for FY2015
2. Metrics are for the period ended Dec 31, 2017, excluding wholesale customers who outsource their monitoring to ADT
3. Total customer count of 7.2M as of Dec 31, 2017, which is comparable to reported Legacy ADT customer count of 6,565K and P1 customer count of 890K for a combined 7,455K as of Dec 31, 2015. Customer count excludes wholesale customers who outsource their monitoring to ADT. Customer count is defined as distinct count of sites with billed RMR
4. Recurring monthly revenue added = investment (SAC) ÷ revenue payback ÷ 12 months



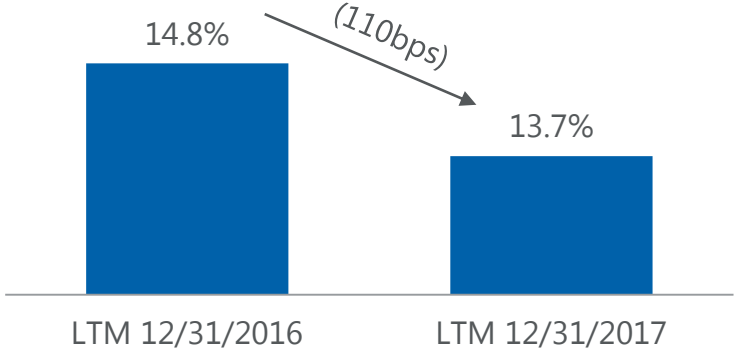
Financial Overview

Q4'17 Key Performance Indicators

1 Retain Our Existing Customers and Drive Revenue Growth

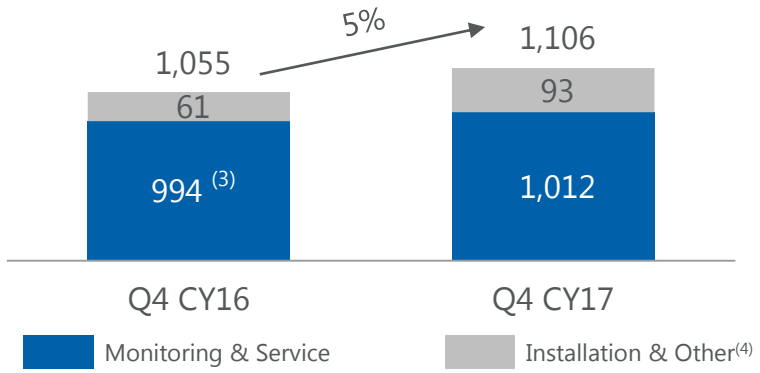
Gross Customer Revenue Attrition (1)(2)

%



Revenue

$MM



Attrition down 110 basis points

- High quality customer selection providing continued improvement in Q4
- Early stages of higher customer service levels including the introduction of 'live answer' and enhanced field service capabilities

Revenue increase of 5%

- 2% growth in Monitoring and Service Revenue due to improving attrition and higher average price
- Ending RMR of $335M, up 2%
- 52% growth in Installation and Other is attributable to growth in commercial/multi-site outright sales revenue, M&A, and revenue amortization

Notes

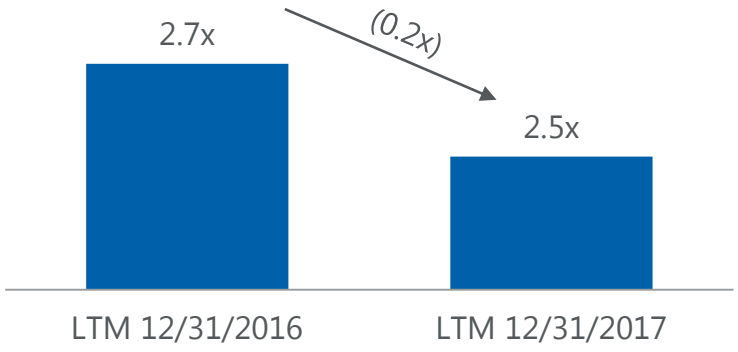
1. Recurring revenue lost as a result of customer attrition net of dealer charge-backs and reinstatements
2. Excludes wholesale customers who outsource their monitoring to ADT
3. Excludes impact of unearned deferred revenue purchase accounting adjustments of $4M
4. Split between installation revenue and deferred installation revenue recognition is available in Appendix

Q4'17 Key Performance Indicators

2 Acquire New Customers More Efficiently

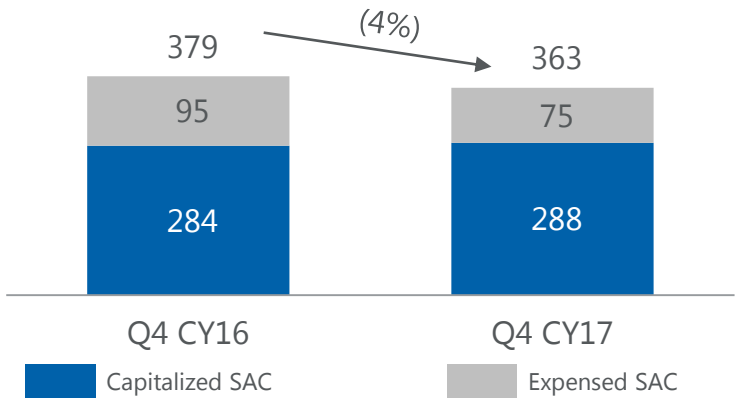
Customer Revenue Payback [1]

Years



Net Subscriber Acquisition Costs [2]

$MM



Revenue Payback improves 0.2x

- Reduced installation costs and higher installation revenue result from variance performance management
- Sales and marketing spend improvement as we become more efficient and move away from higher cost per sale channels

Spend down 4%

- RMR additions of $12M[1] up 2% vs. prior year; adds split between dealer and direct channels
- Total cash SAC as % of Adjusted EBITDA of 61%, down ~800bps vs. prior year

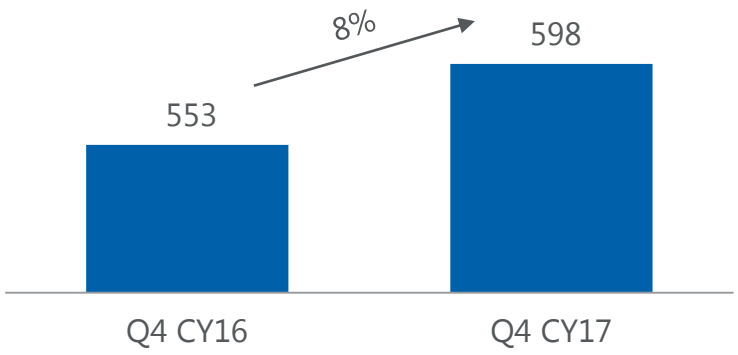
Notes

1. Excludes wholesale customers who outsource their monitoring to ADT
2. Costs of acquiring new revenue and installation expenditures, net of installation revenue

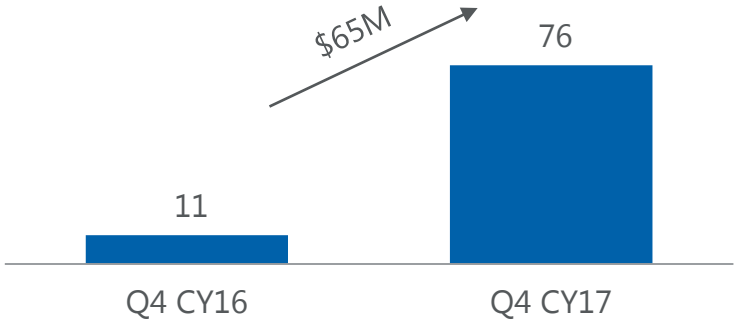
Q4'17 Key Performance Indicators

3 Optimize Adjusted EBITDA

Adjusted EBITDA[1]
$MM



Cash Net Income[1]
$MM



Adjusted EBITDA increase of 8%

- Higher recurring revenues flow through at high incremental margin rate
- Lower expensed net SAC ($20M)
- Other operational cost efficiencies partially offset by incremental field service and call center investments

Cash Net Income up $65M

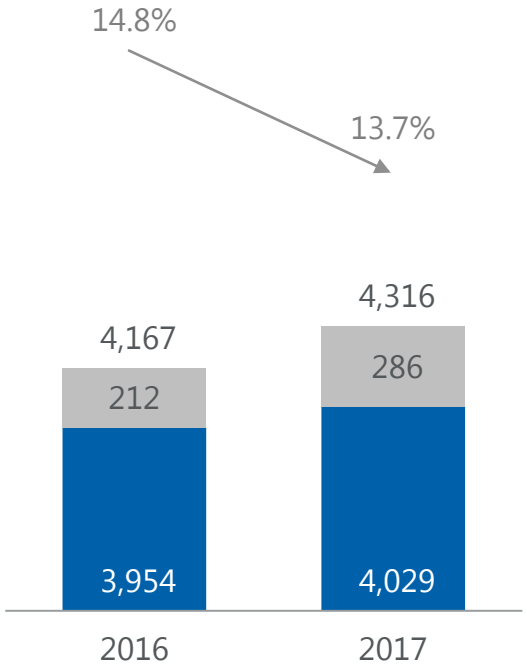
- Measure of Adjusted EBITDA less capitalized SAC, cash interest and cash taxes
- Driven primarily by $45M increase in Adj. EBITDA and lower cash interest and timing of preferred securities interest

Notes
1. Reconciliations from GAAP to non-GAAP financial measures can be found in the appendix

2017 Full Year Summary

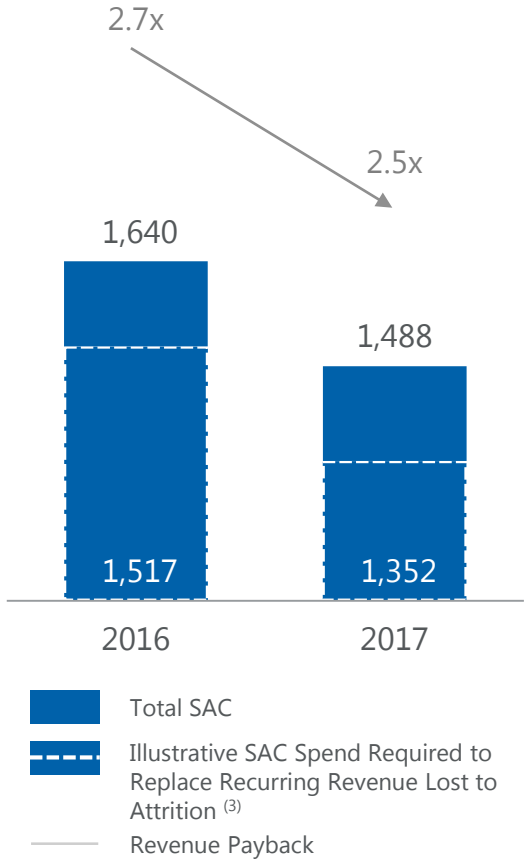
1 Revenue & Attrition (1)

$MM, %



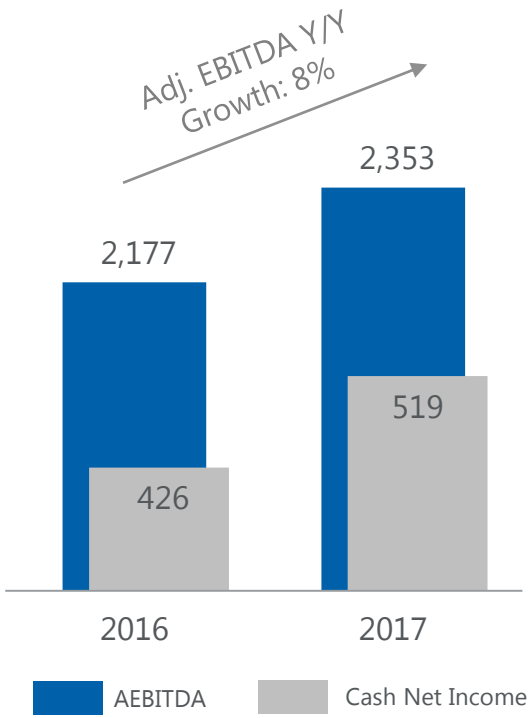
2 SAC & Revenue Payback (1)

$MM, Year



3 Adj. EBITDA & Cash Net Income(2)

$MM



Notes

1. Attrition and revenue payback exclude wholesale customers who outsource their monitoring to ADT
2. Reconciliations from GAAP to non-GAAP financial measures can be found in the appendix
3. SAC spend required = recurring revenue * T12M gross revenue attrition * customer revenue payback

Cash Flow Summary

	For the quarter ended			For the twelve months ended		
($ in millions)	Dec 31,2017	Dec 31,2016	Y/Y Change	Dec 31,2017	Dec 31,2016	Y/Y Change
Adjusted EBITDA	**598**	**553**	**45**	**2,353**	**2,177**	**176**
Less: Capitalized SAC Expense	(288)	(284)	(4)	(1,154)	(1,234)	80
Less: Cash Taxes	(5)	(2)	(3)	(19)	(7)	(12)
Less: Cash Interest	(229)	(236)	7	(620)	(458)	(162)
Less: Preferred Interest	0	(20)	20	(41)	(53)	12
Cash Net Income	**76**	**11**	**65**	**519**	**426**	**93**
Less: Capital Expenditures	(24)	(19)	(5)	(106)	(85)	(21)
Less: Working Capital & Other	(31)	(33)	3	(10)	(11)	1
Free Cash Flow (before special Items)	**22**	**(42)**	**64**	**403**	**331**	**72**

Note: Reconciliation from GAAP to non-GAAP financial measures can be found in appendix. Amounts may not add due to rounding

Pro Forma Capital Structure and Capital Allocation Framework

IPO Sources and Uses

$MM

Sources	
Gross IPO Proceeds	1,470
Total Sources	**1,470**
Uses	
Funds to Escrow for Redemption of Preferred Securities [1]	750
Redemption of Second Lien Notes with Related Call Premium	649
Transaction Fees and Expenses and Other [2]	71
Total Uses	**1,470**

Pro Forma Capital Structure [3]

$MM

	12/31/17	IPO Adjustments	Pro Forma 12/31/17
First Lien Term Loan	3,536		3,536
First Lien Notes	3,750		3,750
Capital Leases	41		41
Total First Lien Debt	**7,327**		**7,327**
Second Lien Notes	3,140	(594)	2,546
Preferred Securities [1]	750	(750)	-
Total Debt + Preferred Securities	**11,217**		**9,873**
Cash [4]	123		123
Net Debt + Preferred Securities	**11,094**		**9,750**
LTM Adjusted EBITDA (Post-SAC)[5]	**2,353**		**2,353**
Net Leverage Ratio[5]	**4.7x**	**(0.6x)**	**4.1x**

Capital Allocation Framework

A Organic Growth

- Focus on account creation that supports stable and profitable growth

B M&A Opportunities

- Maintain flexibility to pursue strategic acquisitions that are value accretive, primarily in the commercial market
- Closed on 4 transactions in 2017 including Protec, MSE, Gaston and Datashield

C Return of Capital

- Declared a quarterly cash dividend of $0.035 per share, with the first dividend payable on April 5, 2018
- Our Board will regularly evaluate the potential for additional capital return via increased dividends or opportunistic share repurchases

D De-levering / Debt Paydown

- IPO proceeds used to redeem $594M of 2L notes and escrow $750M for redemption of preferred securities
- Pro-forma net leverage ratio of ~4.1x as of 12/31/17

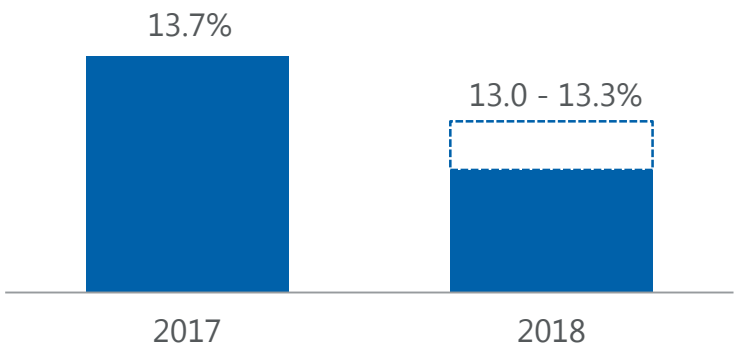
Notes

1. Presented at principal value. Excludes related redemption premium and payment-in-kind dividends
2. Includes offering fees and expenses, underwriting fees, and all other uses; reflects preliminary estimate subject to change upon finalization
3. Presented at face value as if the IPO occurred at 12/31/2017. Koch Preferred Securities and presented as if they were redeemed at IPO
4. Transaction adjustments exclude the payment of payment-in-kind dividends and make-whole required upon the redemption of the Preferred Securities
5. Reconciliations from GAAP to non-GAAP financial measures can be found in the appendix

FY 2018 Guidance

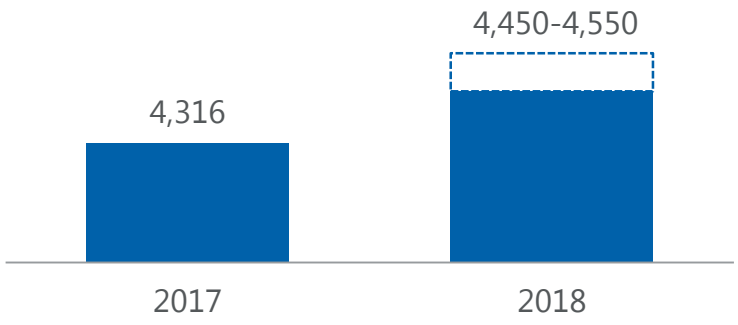
Gross Customer Revenue Attrition [1]

%



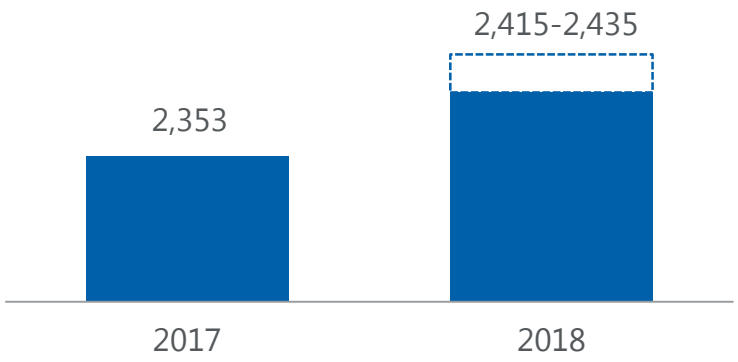
Total Revenue

$MM



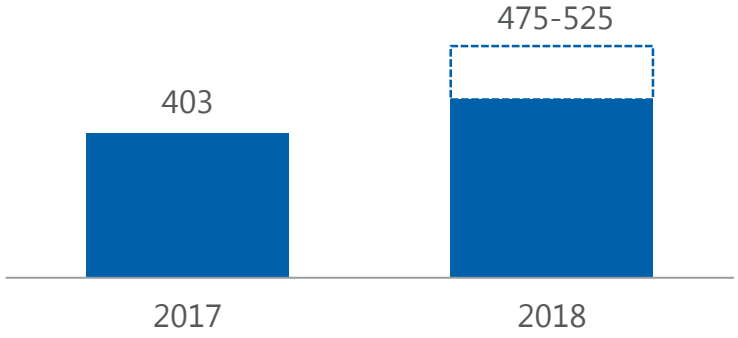
Adjusted EBITDA [2]

$MM



Free Cash Flow [2][3]

$MM



Notes

1. Excludes wholesale customers who outsource their monitoring to ADT
2. Reconciliations from GAAP to non-GAAP financial measures can be found in the appendix
3. Before special items and Koch redemption

Strengthening Profile For Future Growth

Illustrative Revenue Growth Build

A Core Growth & Efficiency

Improving core operations with data and outlier management

- Continue to drive down attrition
- Grow RMR adds from a solid base following credit and spend efficiency initiatives in '16/17
- Continue to move towards more profitable customer mix

Net RMR Adds: ~25–35% of total

Price & Upgrades: ~20-30% of total

B Commercial Expansion

Building out Commercial and Multi-Site capabilities

- Leveraging our brand, footprint and proven organic playbook
- Accretive tuck-in acquisitions an accelerator to gain capabilities

mse corporate security · gsi · PROTEC Security, Fire and Video Systems

- Higher growth in installation revenue

Comm/Mult-Site Growth:

~35% of total with upside

C New Markets/Market Growth

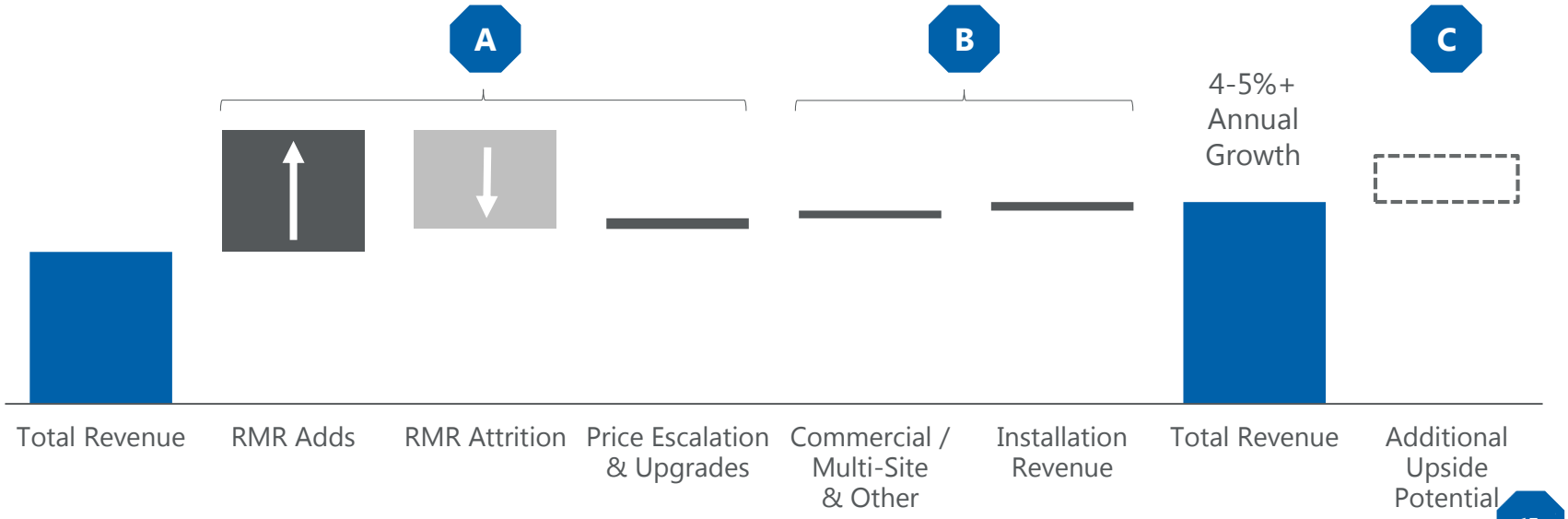
Positioning for opportunities in new and existing markets

- Cyber Commercial: Datashield strengthens our foundation

DATASHIELD

- DIY – well positioned with Samsung as DIY market expands

Upside Revenue Potential



Q&A





Appendix

Statements of Operations

(in millions)	For the Quarters Ended December 31, 2017 Actual	For the Quarters Ended December 31, 2016 Actual	For the Years Ended December 31, 2017 Actual	For the Years Ended December 31, 2016[1] Pro Forma	For the Years Ended December 31, 2016 Actual
Monitoring and related services	$ 1,012	$ 990	$ 4,029	$ 3,954	$ 2,748
Installation and other [2]	93	61	286	212	202
Total Revenue	1,106	1,051	4,316	4,167	2,950
Cost of revenue (exclusive of depreciation and amortization shown separately below)	238	228	896	870	693
Selling, general and administrative expenses	286	298	1,209	1,239	859
Depreciation and intangible asset amortization	476	428	1,863	1,574	1,233
Merger, restructuring, integration, and other costs	11	23	65	86	394
Total operating expenses [3]	1,011	976	4,033	3,769	3,179
Operating income (loss)	95	75	282	398	(229)
Interest expense, net	(179)	(184)	(733)	(750)	(521)
Other income (expense)	(3)	(12)	29	(52)	(52)
Loss before income taxes	(87)	(121)	(422)	(404)	(803)
Income tax benefit (expense)	725	36	764	119	266
Net income (loss)	$ 638	$ (85)	$ 343	$ (285)	$ (537)
Net income (loss) per share:					
Basic	$ 1.00	$ (0.13)	$ 0.53	$ (0.44)	$ (0.84)
Diluted	$ 0.99	$ (0.13)	$ 0.53	$ (0.44)	$ (0.84)
Weighted-average number of shares:					
Basic	641	641	641	641	641
Diluted	641	641	641	641	641

Note: amounts may not add due to rounding

Notes

1. Financial data for the year ended December 31, 2016 presented as supplemental pro forma herein reflects the acquisition of The ADT Security Corporation ("The ADT Corporation") as if it had occurred on January 1, 2015
2. Includes amortization of deferred installation revenue of $15.0M and $6.1M for Q4'17 and Q4'16, respectively; $46.5M and $10.7M for full year 2017 and 2016, respectively
3. Includes recognition of deferred commissions of $16.0M and $9.0M for Q4'17 and Q4'16, respectively; $51.5M and $16.8M for full year 2017 and 2016, respectively

Free Cash Flow and Historical Combined Free Cash Flow

(in millions)	For the Quarters Ended December 31, 2017 Actual	For the Quarters Ended December 31, 2016 Actual	For the Years Ended December 31, 2017 Actual	For the Years Ended December 31, 2016 Actual	Historical Combined For the Year Ended[1] December 31, 2016 Pro Forma
Net cash provided by operating activities	$ 330	$ 236	$ 1,592	$ 618	$ 1,143
Dealer generated customer accounts and bulk account purchases	(167)	(148)	(653)	(407)	(583)
Subscriber system assets and deferred subscriber installation costs	(138)	(148)	(583)	(469)	(690)
Capital expenditures	(28)	(27)	(131)	(78)	(101)
Free Cash Flow	(3)	(87)	225	(337)	(231)
Financing and consent fees[2]	—	2	64	29	29
Restructuring payments	4	16	25	54	57
Integration payments	7	5	21	13	13
Integration CAPEX	4	9	25	15	17
Management fees	5	5	20	13	13
Radio conversion costs	3	9	13	43	78
Merger costs	1	(2)	3	347	354
Other cash payments	1	1	7	1	1
Free Cash Flow before special items	$ 22	$ (42)	$ 403	$ 178	$ 331

Note: amounts may not add due to rounding

Notes

1. Historical Combined Free Cash Flow represents the mathematical additions of free cash flow of the Company and The ADT Corporation, where applicable, for the period presented.
2. Full year 2017 includes Koch consent fee of $45M

Adjusted EBITDA Reconciliation to Net Income (Loss)

(in millions)	For the Quarters Ended December 31, 2017 Actual	For the Quarters Ended December 31, 2016 Actual	For the Years Ended December 31, 2017 Actual	For the Years Ended December 31, 2016[1] Pro Forma	For the Years Ended December 31, 2016 Actual
Net income (loss)	$ 638	$ (85)	$ 343	$ (285)	$ (537)
Interest expense, net	179	184	733	750	521
Income tax (benefit) expense	(725)	(36)	(764)	(119)	(266)
Depreciation and intangible asset amortization	476	428	1,863	1,574	1,233
Merger, restructuring, integration and other costs	11	23	65	86	394
Financing and consent fees	—	2	64	5	5
Foreign currency (gains) / losses	3	—	(24)	16	16
Loss on extinguishment of debt	—	12	4	28	28
Purchase accounting deferred revenue fair value adjustment	—	3	—	—	63
Other non-cash items	3	4	13	16	16
Radio conversion costs	3	8	12	68	34
Amortization of deferred subscriber acquisition costs and revenue, net	1	3	5	6	6
Share-based compensation expense	3	2	11	10	5
Management fees and other charges	7	5	28	20	14
Adjusted EBITDA	$ 598	$ 553	$ 2,353	$ 2,177	$ 1,533
Adjusted EBITDA Margin (as percentage of M&S Revenue)	*59%*	*56%*	*58%*	*55%*	*56%*

Note: amounts may not add due to rounding

Notes

1. Financial data for the year ended December 31, 2016 presented as supplemental pro forma herein reflects the acquisition of The ADT Corporation as if it had occurred on January 1, 2015

Cash Net Income

(in millions)	For the Quarters Ended December 31, 2017 Actual	For the Quarters Ended December 31, 2016 Actual	For the Years Ended December 31, 2017 Actual	For the Years Ended December 31, 2016[1] Pro Forma	For the Years Ended December 31, 2016 Actual
Adjusted EBITDA	$ 598	$ 553	$ 2,353	$ 2,177	$ 1,533
Capitalized SAC	(288)	(284)	(1,154)	(1,234)	(852)
Cash taxes	(5)	(2)	(19)	(7)	(5)
Cash interest	(229)	(257)	(661)	(510)	(431)
Cash Net Income	$ 76	$ 11	$ 519	$ 426	$ 244

Note: amounts may not add due to rounding

Notes

1. Financial data for the year ended December 31, 2016 presented as supplemental pro forma herein reflects the acquisition of The ADT Corporation as if it had occurred on January 1, 2015

Net (Loss) Income and Diluted EPS Before Special Items[2]

(in millions)	For the Quarters Ended December 31, 2017 Actual	For the Quarters Ended December 31, 2016 Actual	For the Years Ended December 31, 2017 Actual	For the Years Ended December 31, 2016[1] Pro Forma	For the Years Ended December 31, 2016 Actual
Net income (loss)	$ 638	$ (85)	$ 343	$ (285)	$ (537)
Merger, restructuring, integration, and other costs	7	14	40	53	255
Financing and consent fees	—	1	56	3	3
Foreign currency (gains) / losses	2	—	(15)	10	10
Loss on extinguishment of debt	—	8	3	17	17
Radio conversion costs	2	5	8	42	21
Share-based compensation expense	3	2	10	8	5
Management fees	3	3	12	12	8
Purchase accounting deferred revenue fair value adjustment	—	2	—	—	39
Other	(1)	3	11	10	10
Tax Reform	(690)	—	(690)	—	—
Net (loss) income before special items	$ (37)	$ (47)	$ (222)	$ (129)	$ (168)

Note: amounts may not add due to rounding

	For the Quarters Ended December 31, 2017 Actual	For the Quarters Ended December 31, 2016 Actual	For the Years Ended December 31, 2017 Actual	For the Years Ended December 31, 2016[1] Pro Forma	For the Years Ended December 31, 2016 Actual
Diluted EPS (GAAP)	$ 0.99	$ (0.13)	$ 0.53	$ (0.44)	$ (0.84)
Impact of special items[2]	(1.05)	0.06	(0.88)	0.24	0.58
Diluted EPS before special items	$ (0.06)	$ (0.07)	$ (0.35)	$ (0.20)	$ (0.26)

Note: amounts may not add due to rounding

Notes

1. Financial data for the year ended December 31, 2016 presented as supplemental pro forma herein reflects the acquisition of The ADT Corporation as if it had occurred on January 1, 2015
2. Items have been presented net of tax where applicable

Non-GAAP Measures

To provide investors with additional information in connection with our results as determined by generally accepted accounting principles in the United States ("GAAP"), we also disclose the following non-GAAP financial measures: Adjusted EBITDA, Supplemental Pro Forma Adjusted EBITDA ("Pro Forma Adjusted EBITDA"), Adjusted EBITDA margin, Free Cash Flow, Historical Combined Free Cash Flow, Cash Net Income, diluted earnings per share ("EPS") before special items, and leverage ratio. These measures are not financial measures calculated in accordance with GAAP and should not be considered as a substitute for net income, operating income, or any other operating performance measure calculated in accordance with GAAP, and may not be comparable to a similarly titled measure reported by other companies.

We believe that the presentation of Adjusted EBITDA is appropriate to provide additional information to investors about certain non-cash items and about unusual items that we do not expect to continue at the same level in the future, as well as other items. Further, we believe Adjusted EBITDA provides a meaningful measure of operating profitability because we use it for evaluating our business performance, making budgeting decisions, and comparing our performance against that of other peer companies using similar measures. We believe the presentation of Pro Forma Adjusted EBITDA is appropriate to illustrate the effect that the ADT Acquisition had on our Adjusted EBITDA, assuming that such transaction took place on January 1, 2015.

We define Adjusted EBITDA and Pro Forma Adjusted EBITDA as net income or loss adjusted for (i) interest, (ii) taxes, (iii) depreciation and amortization, including depreciation of subscriber system assets and other fixed assets, amortization of dealer and other intangible assets, (iv) amortization of deferred costs and deferred revenue associated with subscriber acquisitions, (v) share-based compensation expense, (vi) purchase accounting adjustments related to fair value of deferred revenue under GAAP, (vii) merger, restructuring, integration, and other costs, (viii) financing and consent fees, (ix) foreign currency gains/losses, (x) loss on extinguishment of debt, (xi) radio conversion costs, (xii) management fees and other charges, and (xiii) other non-cash items.

There are material limitations to using Adjusted EBITDA and Pro Forma Adjusted EBITDA. Adjusted EBITDA and Pro Forma Adjusted EBITDA do not take into account certain significant items, including depreciation and amortization, interest expense, income tax expense, and other adjustments which directly affect our net income. These limitations are best addressed by considering the economic effects of the excluded items independently, and by considering Adjusted EBITDA and Pro Forma Adjusted EBITDA in conjunction with net income as calculated in accordance with GAAP. The Adjusted EBITDA discussion above is also applicable to its margin measure, which is calculated as Adjusted EBITDA as a percentage of monitoring and related services revenue.

We define Free Cash Flow as cash from operating activities less cash outlays related to capital expenditures. We define capital expenditures to include purchases of property, plant, and equipment; capitalized costs associated with transactions in which we retain ownership of the security system; and accounts purchased through our network of authorized dealers or third parties outside of our authorized dealer network. Historical Combined Free Cash Flow is defined as cash from operating activities less cash outlays related to capital expenditures and reports, on a combined basis, the Historical Free Cash Flow results for the Company and The ADT Corporation, where applicable, for the periods presented. In arriving at Free Cash Flow and Historical Combined Free Cash Flow, we subtract cash outlays related to capital expenditures from cash from operating activities because they represent long-term investments that are required for normal business activities. As a result, subject to the limitations described below, Free Cash Flow and Historical Combined Free Cash Flow are useful measures of our cash available to repay debt, make other investments, and pay dividends. Historical Combined Free Cash Flow further adjusts for certain cash items that are consistent with adjustments included in the calculation of Adjusted EBITDA.

Free Cash Flow adjusts for cash items that are ultimately within management's discretion to direct, and therefore, may imply that there is less or more cash that is available than the most comparable GAAP measure. Free Cash Flow is not intended to represent residual cash flow for discretionary expenditures since debt repayment requirements and other non-discretionary expenditures are not deducted. These limitations are best addressed by using Free Cash Flow in combination with the GAAP cash flow numbers.

Cash Net Income is a non-GAAP measure that we present to provide additional information to investors about our operating performance. We define Cash Net Income as Adjusted EBITDA less (1) capitalized subscriber acquisition costs, (2) cash taxes, and (3) cash interest paid, including interest on our preferred securities. Given our capital intensive business model, high debt levels, and the fact we are a low cash income tax paying Company due to our significant net operating loss, the Company uses this measure to reflect the cash portion of such adjusted items mentioned above to further evaluate our operational performance. There are material limitations to using Cash Net Income. Cash Net Income does not take into account certain significant items, including depreciation and amortization, interest expense, income tax expense, and other adjustments which directly affect our net income. These limitations are best addressed by considering the economic effects of the excluded items independently, and by considering Cash Net Income in conjunction with net income or loss as calculated in accordance with GAAP.

Diluted EPS before special items is a non-GAAP measure that may be used from time to time and should not be considered a replacement for GAAP results. Diluted EPS before special items is defined as earnings per diluted share adjusted for (i) share-based compensation expense, (ii) purchase accounting adjustments related to fair value of deferred revenue under GAAP, (iii) merger, restructuring, integration, and other costs, (iv) financing and consent fees, (v) foreign currency gains/losses, (vi) loss on extinguishment of debt, (vii) radio conversion costs, (viii) management fees and other charges, (ix) other non-cash items, and (x) the impact these adjusted items have on the effective tax rate. The difference between net income or loss and diluted EPS before special items and net income or loss and diluted EPS (the most comparable GAAP measures) consists of the impact of the special items noted above on the applicable GAAP measure. The Company believes that diluted EPS before special items is one of several benchmarks used by analysts and investors who follow the industry for comparison of its performance with other companies in the industry, although our measure of diluted EPS before special items may not be directly comparable to similar measures reported by other companies. The limitation of this measure is that it excludes the impact (which may be material) of items that increase or decrease our reported operating income, operating margin, net income or loss and EPS. This limitation is best addressed by using the non-GAAP measure in combination with the most comparable GAAP measure in order to better understand the amounts, character and impact of any increase or decrease on reported results.

The leverage ratio may be presented as the ratio of Adjusted EBITDA to total debt. The leverage ratio is a useful measure of the Company's credit position and progress towards leverage targets. Refer to the discussion on Adjusted EBITDA for a description of the differences between the most comparable GAAP measure. The calculation is limited in that the Company may not always be able to use cash to repay debt on a dollar-for-dollar basis.

The Company is not providing a quantitative reconciliation of our non-GAAP financial outlook to the corresponding GAAP information because the GAAP measures that we exclude from our non-GAAP financial outlook, other than those described above, are difficult to predict and are primarily dependent on future uncertainties. The GAAP measures excluded from our non-GAAP financial outlook for which we do not prepare a reconcilable GAAP forecast include the factors described above, where applicable.