


# Lender Presentation

November 13th, 2018

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Unless otherwise specified herein, the financial information, financial ratios and related projections and estimates contained herein give effect to the incurrence of the Facility and the payment of the purchase price for the Red Hawk acquisition, but do not give effect to the acquisition of Red Hawk or the use of proceeds of the Facility for general corporate purposes.

# Forward Looking Statements & Non-GAAP Measures

**Forward Looking Statements**

ADT has made statements in this presentation 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, use of proceeds of the Facility and other matters. Any forward-looking statement made in this presentation 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.

**Non-GAAP Measures**

Adjusted EBITDA, Adjusted EBITDA margin, Covenant Adjusted EBITDA (Pre-SAC), Free Cash Flow, Free Cash Flow before special items, Adjusted Net Income, and the leverage ratios are non-GAAP financial measures. Reconciliations from GAAP to non-GAAP financial measures can be found in the appendix. Amounts on subsequent pages may not add due to rounding.

# 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 disclose the following non-GAAP financial measures: Adjusted EBITDA, Adjusted EBITDA margin, Covenant Adjusted EBITDA (Pre-SAC), Free Cash Flow, Free Cash Flow before special items, Adjusted Net Income, and various leverage ratios. These measures are not financial measures calculated in accordance with GAAP, and should not be considered as a substitute for net income, operating income, cash flows, or any other measure calculated in accordance with GAAP, and may not be comparable to similarly titled measures reported by other companies.

*Adjusted EBITDA and Covenant Adjusted EBITDA (Pre-SAC)*

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 use Covenant Adjusted EBITDA (Pre-SAC) as a supplemental measure of our performance and ability to service debt and incur additional debt. Covenant Adjusted EBITDA (Pre-SAC) is also important in measuring certain other restrictions imposed on Borrower and its subsidiaries such as their ability to make investments, distribute dividends, and pledge some or all of their assets.

We define 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 and 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 under GAAP, (vii) merger, restructuring, integration, and other, (viii) financing and consent fees, (ix) foreign currency gains/losses, (x) losses on extinguishment of debt, (xi) radio conversion costs, (xii) management fees and other charges, and (xiii) other non-cash items. Covenant Adjusted EBITDA (Pre-SAC) also is adjusted for costs in our statement of operations associated with the acquisition of customers, net of revenue associated with the sale of equipment (Expensed Net SAC).

There are material limitations to using Adjusted EBITDA and Covenant Adjusted EBITDA (Pre-SAC). Adjusted EBITDA and Covenant Adjusted EBITDA (Pre-SAC) do not take into account certain significant items, including depreciation and amortization, interest, taxes, and other adjustments which directly affect our net income or loss. These limitations are best addressed by considering the economic effects of the excluded items independently, and by considering Adjusted EBITDA and Covenant Adjusted EBITDA (Pre-SAC) in conjunction with net income or loss 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.

*Free Cash Flow*

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; subscriber system asset additions; and accounts purchased through our network of authorized dealers or third parties outside of our authorized dealer network. In arriving at 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 is a useful measure of our cash available to repay debt, make other investments, and pay dividends.

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.

*Free Cash Flow before special items*

We define Free Cash Flow before special items as Free Cash Flow adjusted for (i) acquisitions, (ii) integrations, (iii) restructuring, (iv) Koch Redemption, and (v) other payments or receipts that may mask the operating results or business trends of the Company. As a result, subject to the limitations described below, Free Cash Flow before special items is a useful measure of our cash available to repay debt, make other investments, and pay dividends.

Free Cash Flow before special items 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 before special items 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 before special items in combination with the GAAP cash flow numbers.

*Adjusted Net Income*

Adjusted Net Income is a non-GAAP measure that we present to provide additional information to investors about our operating performance. We define Adjusted Net Income as Adjusted EBITDA less (i) capitalized subscriber acquisition costs, (ii) cash taxes, and (iii) cash interest, including interest on our preferred securities and excluding outflows in connection with the Koch Redemption. 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 Adjusted Net Income. Adjusted Net Income does not fully take into account certain significant items, including depreciation and amortization, interest, taxes, and other adjustments which directly affect our net income or loss. These limitations are best addressed by considering the economic effects of the excluded items independently, and by considering Adjusted Net Income in conjunction with net income or loss as calculated in accordance with GAAP.

*Leverage Ratios*

Leverage ratios include first lien debt, net first lien debt, total debt, and net debt all as compared to Covenant Adjusted EBITDA (Pre-SAC) calculated on a trailing twelve month basis (LTM Covenant Adjusted EBITDA (Pre-SAC)). Net first lien debt and net debt are calculated as first lien debt and total debt, respectively, less cash and cash equivalents. The Company also presents LTM Covenant Adjusted EBITDA (Pre-SAC) to cash interest excluding Koch Redemption. Cash interest excluding Koch Redemption excludes amounts associated with the redemption of the Koch Preferred Securities on July 2, 2018. Leverage ratios are useful measures of the Company's credit position and progress towards leverage targets. Refer to the discussion on Adjusted EBITDA and Covenant Adjusted EBITDA (Pre-SAC) 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.

*Financial Outlook*

The Company is not providing a quantitative reconciliation of our financial outlook for Adjusted EBITDA and Free Cash Flow before special items to net income (loss) and net cash provided by operating activities, which are their corresponding GAAP measures because these GAAP measures that we exclude from our non-GAAP financial outlook are difficult to reliably predict or estimate without unreasonable effort due to their dependence on future uncertainties, such as special items discussed above under the heading — *Non-GAAP Measures "Adjusted EBITDA" and "Free Cash Flow before special items."* Additionally, information that is currently not available to the Company could have a potentially unpredictable and potentially significant impact on its future GAAP financial results.

# Call Participants

**Jim DeVries**
*President, ADT*

**Jeff Likosar**
*Chief Financial Officer, ADT*

**Dan Bresingham**
*Chief Administrative Officer, ADT*

**Brad Aston**
*Managing Director, Barclays*

# Agenda

I. Transaction Overview

II. Red Hawk Overview

III. ADT Update

IV. Appendix




# Transaction Overview

# Transaction Overview

- On October 24th, certain subsidiaries of ADT Inc. ("ADT" or the "Company") signed a definitive acquisition agreement to acquire Red Hawk Fire & Security ("Red Hawk") for a purchase price of $317.5 million
  - Red Hawk, which is expected to generate approximately $300 million of revenues in 2018, designs, engineers, installs, integrates, monitors, and services a broad portfolio of life safety and security solutions using the latest technologies and advanced systems integration for enterprise level access control, video surveillance systems and physical security equipment
    - The acquisition adds immediate scale to ADT's commercial offering and expands the existing product portfolio to include mission-critical fire and security solutions
- ADT will finance the acquisition through available cash and a portion of a $425 million Incremental 1st Lien Term Loan (the "TL") [(1)], which is expected to be fungible with the Borrower's existing 1st Lien Term Loan
  - The TL will be offered at a dollar price of 99.50 – 99.75
  - All other terms and conditions of the Borrower's existing 1st Lien Term Loan will remain unchanged
- The Company intends to use the remaining net proceeds of the TL that are not required to fund the Red Hawk acquisition, after giving effect to available funds on the closing date of the acquisition, for general corporate purposes, which may include the refinancing, redemption or repurchase of outstanding indebtedness
- Pro forma for the incurrence of the TL and the payment of the purchase price for the Red Hawk acquisition, 1st Lien Net Leverage and Total Net Leverage will be 2.7x and 3.6x, respectively, based on LTM 9/30/18 Covenant Adjusted EBITDA (Pre-SAC) of $2,740 million [(2)]
- Commitments for the TL will be due on November 19th, 2018



1. To be incurred by Prime Security Services Borrower, LLC (the "Borrower"), the borrower under the current credit agreement.
2. Does not include contribution from Red Hawk.

# Sources and Uses of Funds & Pro Forma Capitalization (1)

## Sources and Uses of Funds

*($ in millions)*

| Sources of Funds | $ | % |
|---|---|---|
| Incremental 1st Lien Term Loan | $425 | 62.3% |
| Available Cash (2) | 257 | 37.7% |
| **Total Sources of Funds** | **$682** | **100.0%** |

| Uses of Funds | $ | % |
|---|---|---|
| Red Hawk purchase price | $318 | 46.6% |
| Available Cash (2) | 355 | 52.1% |
| Transaction Fees and Expenses | 9 | 1.3% |
| **Total Uses of Funds** | **$682** | **100.0%** |

## Pro Forma Capitalization

*($ in millions)*

| | 9/30/2018 | Adj. | PF Cap 9/30/2018 |
|---|---|---|---|
| Available Cash (2) | $257 | $98 | $355 |
| 1st Lien Term Loan (2022) | 3,509 | 425 | 3,934 |
| 1st Lien Notes (2020-2042) | 3,750 | - | 3,750 |
| Capital Leases and Other | 35 | - | 35 |
| **Total 1st Lien Debt** | **$7,294** | **$425** | **$7,719** |
| 2nd Lien Notes (2023) | 2,546 | - | 2,546 |
| **Total Debt** | **$9,840** | **$425** | **$10,265** |
| Market Capitalization (3) | 6,212 | - | 6,212 |
| **Total Capitalization** | **$16,052** | **$425** | **$16,477** |
| **LTM 9/30/2018 Operating Metrics** | | | |
| Covenant Adjusted EBITDA (Pre-SAC) | $2,740 | - | $2,740 (4) |
| Cash Interest Excluding Koch Redemption (5) | 611 | 23 | 634 |
| **LTM 9/30/2018 Credit Statistics (6)** | | | |
| 1st Lien Debt / Covenant Adj. EBITDA (Pre-SAC) | 2.7x | | 2.8x |
| Net 1st Lien Debt / Covenant Adj. EBITDA (Pre-SAC) | 2.6x | | 2.7x |
| Total Debt / Covenant Adj. EBITDA (Pre-SAC) | 3.6x | | 3.7x |
| Net Debt / Covenant Adj. EBITDA (Pre-SAC) | 3.5x | | 3.6x |
| Covenant Adj. EBITDA (Pre-SAC) / Cash Interest excl. Koch Redemption (5) | 4.5x | | 4.3x |

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

1. The Sources & Uses and Pro Forma Capitalization may vary from the items shown above based on, among other things, available cash of the Company and its subsidiaries as of the closing date of the acquisition and use of proceeds of the TL, which may include the refinancing, redemption or repurchase of outstanding indebtedness.
2. The Company intends to use available cash and a portion of the TL to fund the Red Hawk acquisition. The Company intends to use the remaining net proceeds of the TL that are not required to fund the Red Hawk acquisition, after giving effect to available funds on the closing date of the acquisition, for general corporate purposes, which may include the refinancing, redemption or repurchase of outstanding indebtedness.
3. Market capitalization as of 11/8/18.
4. Does not include contribution from Red Hawk.
5. LTM cash interest excluding Koch Redemption excludes $96 million paid in connection with the Koch Redemption on July 2, 2018.
6. The statistics shown are relevant to the Facility and may differ from comparable measures that the Company reports elsewhere.

# Summary of Terms
# Incremental 1st Lien Senior Secured Term Loan Facility

| | |
|---|---|
| **Borrower** | Prime Security Services Borrower, LLC (the "Borrower") |
| **Administrative Agent** | Barclays |
| **Facility Offered** | $425 million Incremental 1st Lien Senior Secured Term Loan (the "TL") |
| **Incremental Facilities** | Same as existing 1st Lien Term Loan |
| **Maturity** | May 2, 2022 (same as existing 1st Lien Term Loan) |
| **Applicable Margin** | LIBOR + 275 bps (same as existing 1st Lien Term Loan) |
| **LIBOR Floor** | 1.00% (same as existing 1st Lien Term Loan) |
| **Issue Price** | 99.50 – 99.75 |
| **Optional Prepayments** | Same as existing 1st Lien Term Loan |
| **Mandatory Prepayments** | Same as existing 1st Lien Term Loan |
| **Negative Covenants** | Same as existing 1st Lien Term Loan |
| **Financial Covenant** | None (same as existing 1st Lien Term Loan) |

# Execution Timeline

| November 2018 | | | | | | |
|---|---|---|---|---|---|---|
| S | M | T | W | T | F | S |
| | | | | 1 | 2 | 3 |
| 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 11 | 12 | 13 | 14 | 15 | 16 | 17 |
| 18 | 19 | 20 | 21 | 22 | 23 | 24 |
| 25 | 26 | 27 | 28 | 29 | 30 | |
| | | | | | | |

| December 2018 | | | | | | |
|---|---|---|---|---|---|---|
| S | M | T | W | T | F | S |
| | | | | | | 1 |
| 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| 16 | 17 | 18 | 19 | 20 | 21 | 22 |
| 23 | 24 | 25 | 26 | 27 | 28 | 29 |
| 30 | 31 | | | | | |

Market Holiday

Key Transaction Date

| Date | Event |
|---|---|
| November 9th, 2018 | Announce Transaction |
| November 13th, 2018 | Lender Call |
| November 19th, 2018 | Commitments Due at 12:00 PM ET |
| Shortly Thereafter | Close and Fund |




# Red Hawk Overview

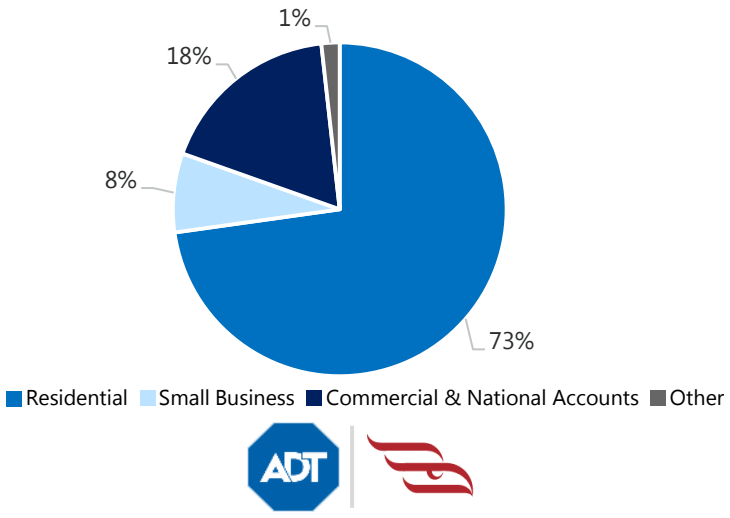
# Red Hawk: Key Highlights

## Key Highlights

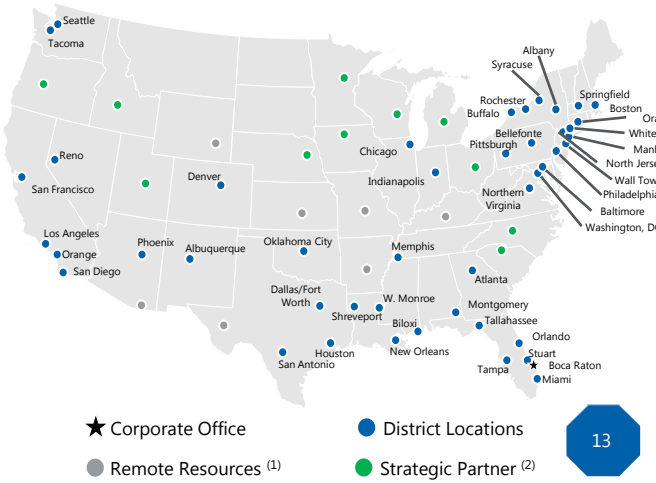
RED HAWK Fire & Security

- Expected to close by end of 2018
- Enhances commercial management expertise, technician base and sales force
- Increases product array with introduction of additional fire related offerings
- Establishes critical mass in commercial with scalable, national platform
- Revenue synergy opportunity by cross selling new services and leveraging ADT name over time
- Cost synergy opportunity by leveraging ADT's infrastructure and purchasing power
- Expected to be modestly accretive to Free Cash Flow in first 12 months, before accounting for synergies

## ADT + Red Hawk Total Revenue




## Red Hawk Footprint




1. Red Hawk employees operating from a private office.
2. Third parties with which Red Hawk has reciprocal service arrangements.

# Strong Integration and Service Capabilities Across Fire and Security

***Red Hawk has diversified offerings across fire and security, with entrenched vendor relationships enabling best-in-class solutions***

| | Fire | Security |
|---|---|---|
| **Systems Integration** | ▪ Full "turn-key" solution capabilities from design to certification<br>▪ Code requirements and technology upgrades require integrators with a highly skilled and certified technician base<br>▪ Delivery capabilities are key for primary decision makers including electrical contractors and end-users | ▪ Full "turn-key" solution capabilities from design to certification<br>▪ Rapid technology evolution and standardization necessitate access to multiple product solutions<br>▪ Product agnostic solutions attract end-users who are the primary decision makers and fear being "trapped" by OEMs |
| **Contractual Services** | ▪ Regular inspections, testing and servicing mandated by local and national fire codes drive highly visible recurring revenue<br>▪ Requires local and national fire code certified technicians<br>▪ Dedicated Sales Team pursuing recurring stream | ▪ Preventative maintenance, SaaS and monitoring services to diversified end-markets, customers and geographies<br>▪ Red Hawk University provides training to engineers and technicians to adopt to consistent technology advancements<br>▪ COEs allow Red Hawk to provide "cutting edge" solutions |
| **Billable Services** | ▪ Driven by deficiencies identified during test and inspection, disarrangement of systems and normal "wear and tear"<br>  ▪ Time sensitive repairs required by codes in order to maintain system integrity and compliance<br>▪ Strong attach rate to contractual services base | ▪ Driven by small system additions, repairs, technology upgrades and bolt-on solutions<br>▪ Strong attach rate to contractual services base<br>▪ Product / vendor trained technicians and engineers required |

# Diversified, Large and Stable End Markets

***Successful penetration of a diverse and attractive set of end markets provides stability across economic cycles while offering large opportunities for growth and premium pricing***

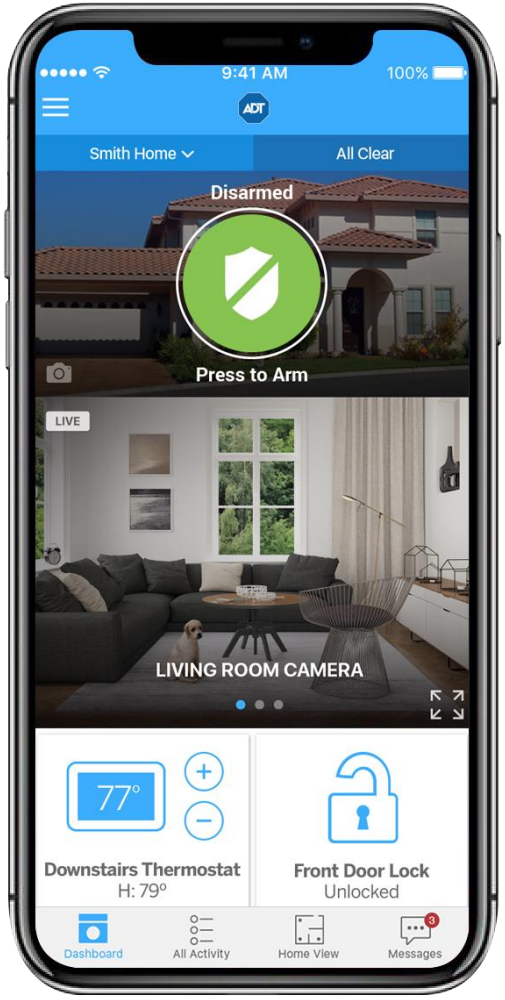
| End Market | Key Attributes | Position |
|---|---|---|
| **Office Buildings** | ▪ Strong recurring services base<br>▪ Focused on tenant improvement | Market Leader |
| **Healthcare** | ▪ High-growth with frequent updates<br>▪ Highly non-cyclical, performance focused | Market Leader |
| **Financial** | ▪ Primarily electronic security with ATM/ITM opportunities<br>▪ Attractive cross-sell opportunities | Market Leader |
| **Higher Education** | ▪ Non-cyclical<br>▪ Performance focused<br>▪ Low price sensitivity | Market Leader |
| **Hospitality** | ▪ Frequent updates and renovations<br>▪ High growth | Market Leader |
| **Places of Assembly/Sports** | ▪ Focus on security and reliability<br>▪ Low sensitivity to price | Growth Opportunity |
| **Industrial** | ▪ Code-driven inspections/repairs<br>▪ Complex systems | Growth Opportunity |
| **Government/Critical Infrastructure** | ▪ Non-cyclical<br>▪ Homeland security funding for complex systems | Growth Opportunity/Focus Area |


SPIRO Home
1 Issues Detected
Side Door Light
Off
Tall Lamp
Off
Garage Door Cont...
Closed
Pulse Tips
FAQ
Pulse FAQ's

# ADT Update

# At the Center of the Connected Home

## Pulse Mobile Application




## Security + Home Automation, Accessible Anywhere from One App




Home Security

Home Automation

Security Cameras

Fire, Home & Safety

Monitoring Services

Lights

Thermostat

Garage Door

Doorbell

Electric

Locks

Sensors

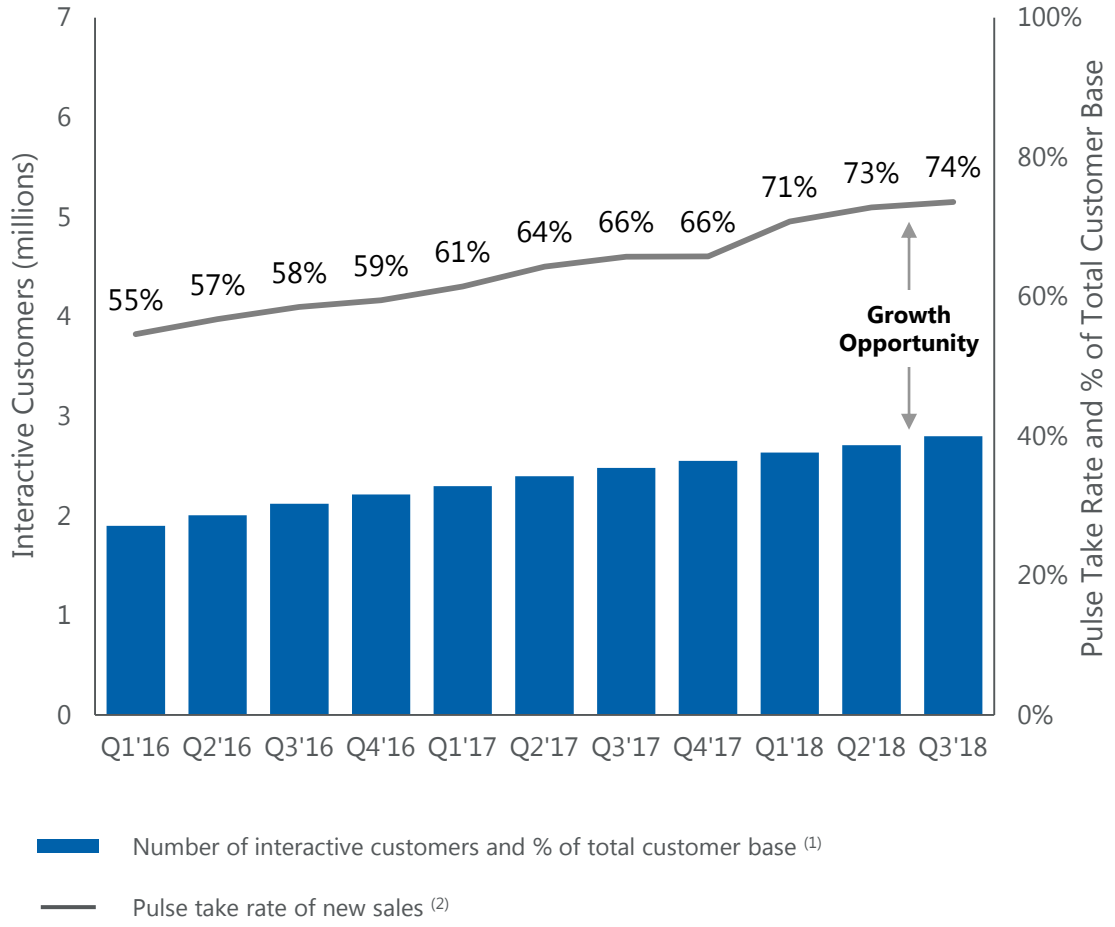
Water Leaks

Alerts

Video Clips

# Increased Interactive Services Penetration Represents Substantial Opportunity

## New Pulse Sales Penetration Continues to Rise




## Interactive Service is Becoming the Norm for New ADT Customers (3)

**~90M**
Average Monthly App Logins

**Resulting in the following number of smart home interactions annually:**

- **~2 Billion** Arming & Disarming
- **~200 Million** Door Locks
- **~8.5 Billion** Captured Video Clips
- **~700 Million** Thermostat
- **~200 Million** Lights

**~180,000,000,000**
System Events Expected in 2018

1. Interactive services include Pulse and similar ADT platforms, and are inclusive of services ranging from remote arm and disarm to full home automation; customer base (7.2M as of 9/30/2018) excludes wholesale customers who outsource their monitoring to ADT.
2. Take rate represents sales by ADT or its authorized dealer network, and excludes large/multi-site, health, and wholesale customers.
3. Figures are annual estimates unless otherwise noted and are expressed solely to illustrate system activity and engagement. System Events refer to all smart home, security and life safety interactions made by or on behalf of the user. The full year 2018 illustration is based on 2018 year-to-date recorded events.

# Leader in Voice-Assisted Security and Home Automation

## Expanding Existing Relationship with Amazon

### 2017: Voice Integration with Amazon Alexa

- When at home, offers 100+ commands, such as:



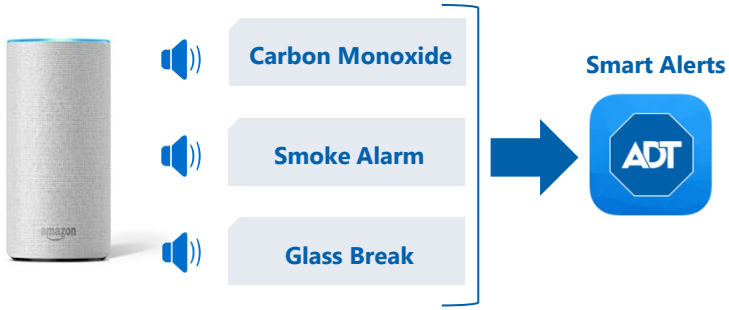

### 2018: Voice Assisted Security & Marketing Relationship

- When away from home, the customer's Amazon Echo device will serve as an audio sensor to enhance security
- Substantial co-marketing campaign investment planned by both Amazon and ADT
- Will open new sales and marketing opportunities through Amazon channels for our products and services, expanding leadership in the smart home

## ADT & Alexa Guard: How It Will Work

ADT | amazon alexa

**1 Detect the sounds that matter**




**2 Elevate your security system**

**Automatic Forwarding** – Alexa can automatically forward notifications of audio events in the home and the related sound clip to ADT, who can act on behalf of the customer even when the customer is unreachable.

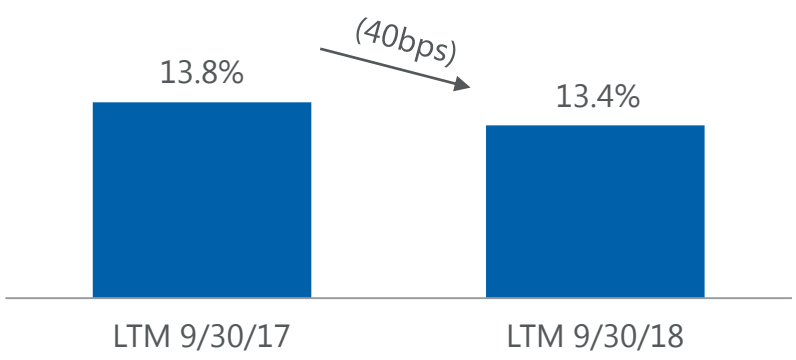
**Self-Forwarding** – The customer can forward the information and the related audio clip to ADT after they have received and reviewed each detected sound.

# Q3 2018: Strong Quarter Across All Areas of the Business

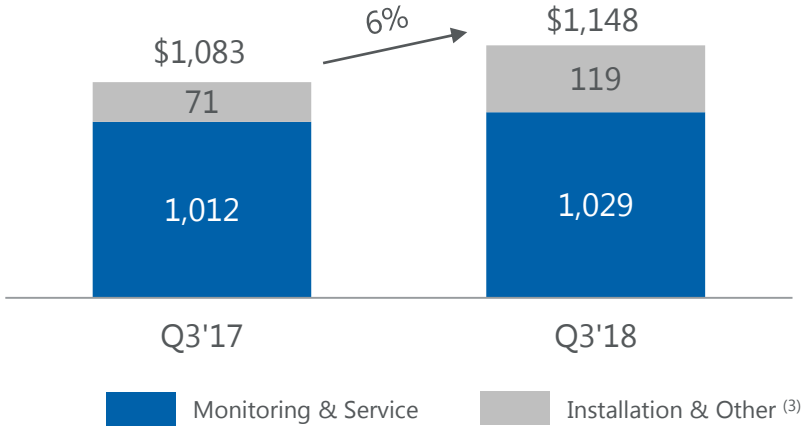
| | |
|---|---|
| **Balanced Revenue Growth with FCF Optimization** | ▪ Total Revenue increase of 6% year-over-year, driven by higher revenue in commercial and multi-site accounts and higher residential Pulse penetration |
| **Adjusted EBITDA and Cash Flow Growth** | ▪ Adjusted EBITDA increase of 3% year-over-year<br>▪ Free Cash Flow before special items of $169 million in the quarter and $479 million YTD |
| **Grow Commercial Business** | ▪ Continued strong new commercial and multi-site account sales growth<br>▪ Acceleration of commercial expansion with agreement to acquire Red Hawk; expected to close by end of 2018 |
| **Innovate Around Trusted "ADT" Brand** | ▪ Collaboration with Amazon expands existing relationship to provide new sales and marketing opportunities and home security features |
| **Continue to Improve Customer Retention** | ▪ Improved LTM gross customer revenue attrition by 40 basis points year-over-year to 13.4% |
| **Acquire New Customers More Efficiently** | ▪ Improved LTM Revenue Payback from 2.5x to 2.4x (in years)<br>▪ Every 0.1x equates to approximately $60M of annualized cash savings |

# Total Revenue Up 6% Year-over-Year

**Gross Customer Revenue Attrition** [1]
%




**Total Revenue** [2]
$MM




### Attrition improved 40 basis points

- High quality customer selection and better customer service levels led to year-over-year (40 bp) and sequential (20 bp) improvement
- Improvement throughout our U.S. customers, partially offset by our Canadian operations

### Total revenue increase of 6%

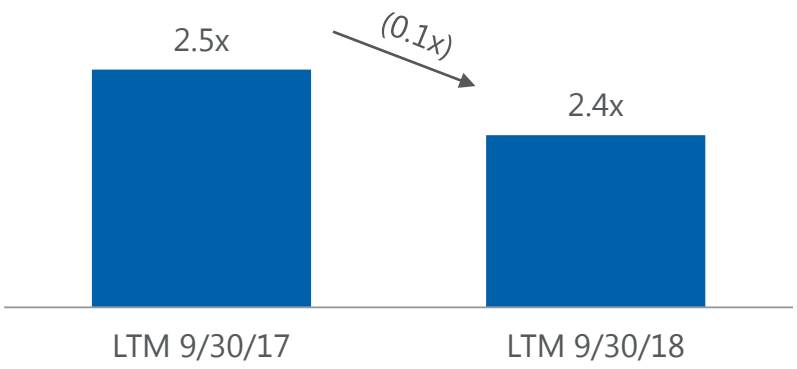
- Growth in Monitoring and Service revenue driven by improving attrition and higher average prices, in part due to increased interactive services penetration
- Higher Installation and Other revenue reflects continued commercial progress with organic growth of $14M and inorganic growth of $26M



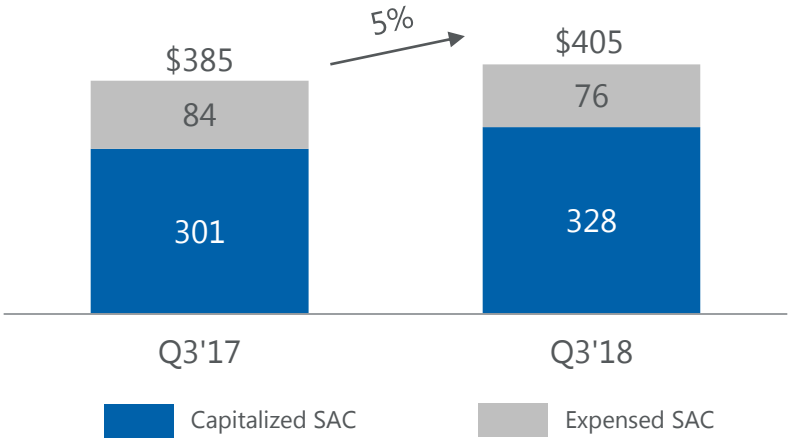
1. Recurring revenue lost as a result of customer attrition net of dealer charge-backs and reinstatements; Excludes wholesale customers who outsource their monitoring to ADT; Calculated on a trailing 12 months basis.
2. Includes impact of newly adopted revenue recognition standard (ASC 606); excluding the impact, Q3'18 monitoring & service revenue is $1,031M and installation & other revenue is $117M.
3. Includes amortization of deferred installation revenue of $21M and $13M for Q3'18 and Q3'17, respectively.

# Acquiring New Customers More Efficiently

**Customer Revenue Payback** [1][2]
Years




**Net Subscriber Acquisition Costs** [3]
$MM




## Revenue Payback improves 0.1x (years)

- Improvement driven by higher installation revenue, efficient sales and installation spend, and other productivity actions
- Each 0.1x improvement equates to approximately $60M of annual savings in the net cost to acquire new recurring revenue

## Grew RMR adds 7% YoY

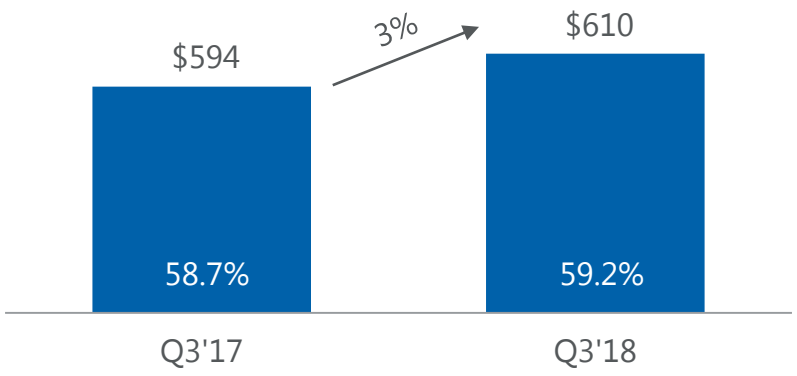
- RMR additions of $14M [1], up 7% vs. prior year; 4th consecutive quarter of year over year growth
- Continuing to generate net SAC efficiency with higher SAC spend in the quarter (up 5%)



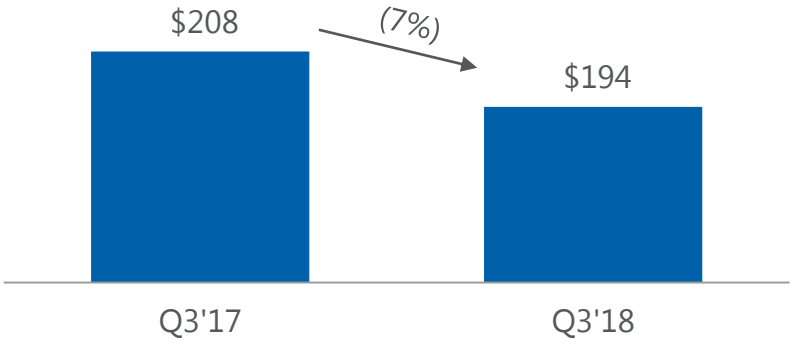
1. Excludes wholesale customers who outsource their monitoring to ADT.
2. Revenue Payback period measures the approximate time, in years, required to recover our initial investment through contractual monthly recurring fees.
3. Costs of acquiring new revenue and installation expenditures, net of installation revenue.

# Strong Adjusted EBITDA and Adjusted Net Income

**Adjusted EBITDA & Margin % (1)**
$MM




**Adjusted Net Income (2)**
$MM




### Adjusted EBITDA increase of 3%

- Growth is primarily driven by flow through of high margin incremental recurring revenue, and the margin on higher year-over-year outright sales to commercial and multi-site customers

### Adjusted Net Income down 7%

- Growth in Adjusted EBITDA, offset by an increase in subscriber acquisition costs spend, primarily due to an increase in volume from our dealer channel
- YTD $556M, up $114M or 26% vs. prior year

1. Adjusted EBITDA margin is calculated as a percentage of monitoring and service revenue.
2. On July 2, 2018, the Company redeemed the Koch Preferred Securities in full, which included the payment of accumulated dividend obligation of $96M ($51 million related to Q1 and Q2 of 2018 and $45 million related to Q3 and Q4 of 2017), which is excluded from Free Cash Flow before special items and Adjusted Net Income. Additionally, Free Cash Flow before special items and Adjusted Net Income for 2017 include a total of $41 million of dividend obligation payments on the Koch Preferred Securities in Q1 and Q2 2017.

# Improvement Across Key Financial and Operating Metrics

| | For the quarters ended | | | |
|---|---|---|---|---|
| ($ in millions) | Sep 30, 2018 | Sep 30, 2017 | Y/Y Change | Y/Y Change % |
| Monitoring and Service Revenue | $1,029 | $1,012 | $17 | 2% |
| Total Revenue | 1,148 | 1,083 | 65 | 6% |
| Net Loss | (236) | (62) | (174) | (281%) |
| Adjusted EBITDA | 610 | 594 | 15 | 3% |
| Adjusted Net Income [1] | 194 | 208 | (14) | (7%) |
| Free Cash Flow (before special items) [1] | $169 | $190 | (21) | (11%) |
| LTM Gross Revenue Attrition | 13.4% | 13.8% | | (40bps) |
| LTM Revenue Payback (in years) | 2.4x | 2.5x | (0.1x) | |
| End of Period RMR | $340 | $334 | 6 | 2% |



1. On July 2, 2018, the Company redeemed the Koch Preferred Securities in full, which included the payment of accumulated dividend obligation of $96M ($51 million related to Q1 and Q2 of 2018 and $45 million related to Q3 and Q4 of 2017), which is excluded from Free Cash Flow before special items and Adjusted Net Income. Additionally, Free Cash Flow before special items and Adjusted Net Income for 2017 include a total of $41 million of dividend obligation payments on the Koch Preferred Securities in Q1 and Q2 2017.

# Improvement Across Key Financial and Operating Metrics

| | For the nine months ended | | | |
|---|---|---|---|---|
| ($ in millions) | Sep 30, 2018 | Sep 30, 2017 | Y/Y Change | Y/Y Change % |
| Monitoring and Service Revenue | $3,070 | $3,017 | $53 | 2% |
| Total Revenue | 3,396 | 3,210 | 186 | 6% |
| Net Loss | (460) | (296) | (164) | (56%) |
| Adjusted EBITDA | 1,840 | 1,754 | 86 | 5% |
| Adjusted Net Income [1] | 556 | 442 | 114 | 26% |
| Free Cash Flow (before special items) [1] | $479 | $381 | $98 | 26% |
| LTM Gross Revenue Attrition | 13.4% | 13.8% | | (40bps) |
| LTM Revenue Payback (in years) | 2.4x | 2.5x | (0.1x) | |
| End of Period RMR | $340 | $334 | 6 | 2% |

1. On July 2, 2018, the Company redeemed the Koch Preferred Securities in full, which included the payment of accumulated dividend obligation of $96M ($51 million related to Q1 and Q2 of 2018 and $45 million related to Q3 and Q4 of 2017), which is excluded from Free Cash Flow before special items and Adjusted Net Income. Additionally, Free Cash Flow before special items and Adjusted Net Income for 2017 include a total of $41 million of dividend obligation payments on the Koch Preferred Securities in Q1 and Q2 2017.

# Continued Strong Cash Flow Generation

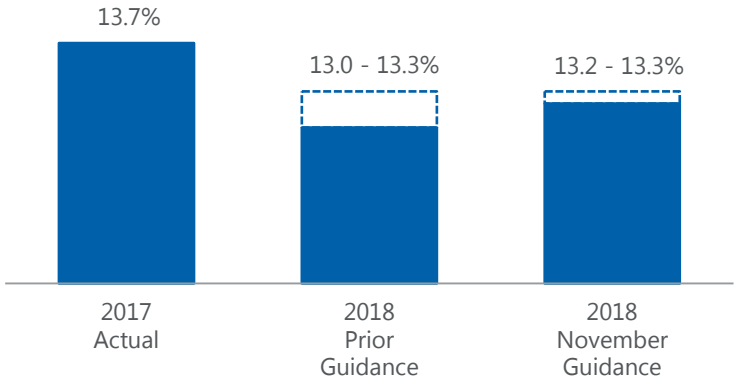
| | For the quarters ended | | | For the nine months ended | | |
|---|---|---|---|---|---|---|
| (in millions) | Sep 30, 2018 | Sep 30, 2017 | Y/Y Change | Sep 30, 2018 | Sep 30, 2017 | Y/Y Change |
| **Adjusted EBITDA** | **$610** | **$594** | **$15** | **$1,840** | **$1,754** | **$86** |
| Less: Capitalized SAC | (328) | (301) | (27) | (897) | (865) | (32) |
| Less: Cash Taxes | (1) | (4) | 3 | (4) | (14) | 10 |
| Less: Cash Interest | (87) | (81) | (6) | (383) | (392) | 9 |
| Less: Preferred Interest [1] | - | - | - | - | (41) | 41 |
| **Adjusted Net Income** | **$194** | **$208** | **($14)** | **$556** | **$442** | **$114** |
| Less: Capital Expenditures [2] | (28) | (26) | (3) | (88) | (82) | (6) |
| Less: Working Capital & Other [2] | 4 | 8 | (5) | 11 | 21 | (10) |
| **Free Cash Flow** (before special items) [1] | **$169** | **$190** | **($21)** | **$479** | **$381** | **$98** |

1. On July 2, 2018, the Company redeemed the Koch Preferred Securities in full, which included the payment of accumulated dividend obligation of $96M ($51 million related to Q1 and Q2 of 2018 and $45 million related to Q3 and Q4 of 2017), which is excluded from Free Cash Flow before special items and Adjusted Net Income. Additionally, Free Cash Flow before special items and Adjusted Net Income for 2017 include a total of $41 million of dividend obligation payments on the Koch Preferred Securities in Q1 and Q2 2017.
2. Capital expenditures exclude special items primarily related to integration activities; Working capital & other excludes special items related to restructuring, integration, management fees, radio conversions, and financing & consent fees.

# Raising FY 2018 Financial Guidance

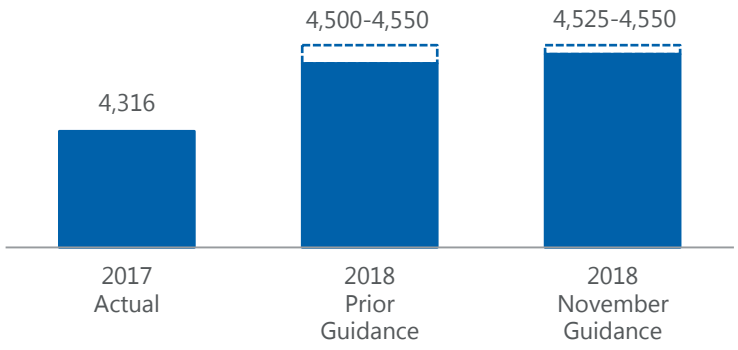
## Gross Customer Revenue Attrition (1)

%



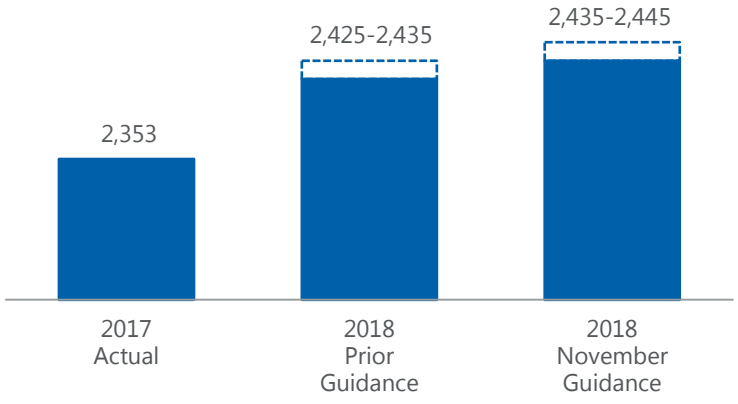

## Total Revenue

$MM



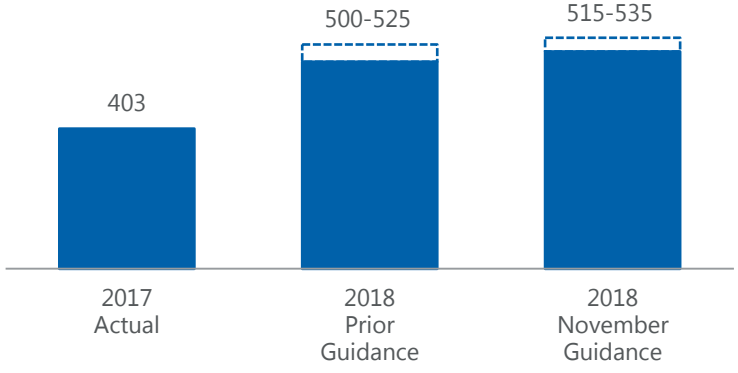

## Adjusted EBITDA

$MM




## Free Cash Flow (2)

$MM




1. Excludes wholesale customers who outsource their monitoring to ADT; calculated on a trailing 12 months basis.
2. Before special items; On July 2, 2018, the Company redeemed the Koch Preferred Securities in full, which included the payment of accumulated dividend obligation of $96M ($51 million related to Q1 and Q2 of 2018 and $45 million related to Q3 and Q4 of 2017), which is excluded from Free Cash Flow before special items and Adjusted Net Income. Additionally, Free Cash Flow before special items and Adjusted Net Income for 2017 include a total of $41 million of dividend obligation payments on the Koch Preferred Securities in Q1 and Q2 2017.

# Q&A





# Appendix

# Additional Historical Quarterly Trend Data

| $ in millions | Q4'16 | Q1'17 | Q2'17 | Q3'17 | Q4'17 | Q1'18 | Q2'18 | Q3'18 |
|---|---|---|---|---|---|---|---|---|
| *Key Performance Indicators* | | | | | | | | |
| Monitoring and Service Revenue | $990 | $998 | $1,007 | $1,012 | $1,012 | $1,017 | $1,023 | $1,029 |
| Total Revenue | 1,051 | 1,059 | 1,068 | 1,083 | 1,106 | 1,116 | 1,131 | 1,148 |
| Net (Loss) / Income | (85) | (141) | (93) | (62) | 638 | (157) | (67) | (236) |
| Adjusted EBITDA | 553 | 577 | 583 | 594 | 598 | 620 | 610 | 610 |
| Adjusted Net Income[1] | 11 | 197 | 37 | 208 | 76 | 249 | 113 | 194 |
| Adjusted EBITDA Margin (as % of M&S revenue) | 55.9% | 57.8% | 57.9% | 58.7% | 59.1% | 60.9% | 59.7% | 59.2% |
| LTM Gross Revenue Attrition[2] | 14.8% | 14.5% | 14.1% | 13.8% | 13.7% | 13.6% | 13.6% | 13.4% |
| Revenue Payback (in years)[2] | 2.7x | 2.6x | 2.6x | 2.5x | 2.5x | 2.5x | 2.4x | 2.4x |
| *Net Subscriber Acquisition Costs* | | | | | | | | |
| Expensed | $95 | $86 | $91 | $84 | $75 | $75 | $76 | $76 |
| Capitalized | 284 | 278 | 286 | 301 | 288 | 279 | 290 | 328 |
| Total | $379 | $363 | $377 | $385 | $363 | $354 | $367 | $405 |
| *Free Cash Flow* | | | | | | | | |
| Adjusted EBITDA | $553 | $577 | $583 | $594 | $598 | $620 | $610 | $610 |
| Less: Cash interest[1] | (257) | (100) | (251) | (81) | (229) | (94) | (201) | (87) |
| Less: Cash taxes | (2) | (2) | (8) | (4) | (5) | 2 | (5) | (1) |
| Less: Changes in net working capital and other[3] | (33) | 5 | 8 | 8 | (31) | (32) | 39 | 4 |
| Less: Capitalized SAC | (284) | (278) | (286) | (301) | (288) | (279) | (290) | (328) |
| Less: Capital expenditures[3] | (19) | (28) | (28) | (26) | (24) | (29) | (30) | (28) |
| Free Cash Flow (before special items)[1] | ($42) | $175 | $17 | $190 | $22 | $187 | $123 | $169 |
| *RMR* | | | | | | | | |
| Ending RMR (excluding Wholesale) | $324 | $326 | $328 | $330 | $331 | $332 | $334 | $336 |
| Wholesale RMR | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Ending RMR (including Wholesale) | 328 | 330 | 332 | 334 | 335 | 337 | 338 | 340 |
| Additions[2] | 12.2 | 11.8 | 12.4 | 12.9 | 12.4 | 12.4 | 12.8 | 13.8 |

1. On July 2, 2018, the Company redeemed the Koch Preferred Securities in full, which included the payment of accumulated dividend obligation of $96M ($51 million related to Q1 and Q2 of 2018 and $45 million related to Q3 and Q4 of 2017), which is excluded from Free Cash Flow before special items and Adjusted Net Income. Additionally, Free Cash Flow before special items and Adjusted Net Income for 2017 include a total of $41 million of dividend obligation payments on the Koch Preferred Securities in Q1 and Q2 2017.
2. Excludes wholesale customers who outsource their monitoring to ADT, unless otherwise noted.
3. Capital expenditures exclude special items primarily related to integration activities; Working capital & other excludes special items related to restructuring, integration, management fees, radio conversions, and financing & consent fees.

# Selected Statement of Operations Components

| ($ in millions) | GAAP Line Items For the quarter ended September 30, 2018 | | | | | GAAP Line Items For the quarter ended September 30, 2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total Revenue | Cost of Revenue | SG&A | D&A | Total | Total Revenue | Cost of Revenue | SG&A | D&A | Total |
| Monitoring & Service Revenue | 1,029 | - | - | - | **$1,029** | 1,012 | - | - | - | **$1,012** |
| Monitoring & Service Costs and G&A | - | 184 | 160 | - | **$343** | - | 176 | 158 | - | **$334** |
| Net Expensed SAC | 98 | 80 | 94 | - | **$76** | 58 | 48 | 93 | - | **$84** |
| Depreciation and Amortization | 21 | - | 16 | 475 | **$470** | 13 | - | 14 | 468 | **$469** |
| Special Items | 0 | - | 25 | - | **$25** | - | - | 19 | - | **$19** |
| **Total** | **$1,148** | **$263** | **$295** | **$475** | | **$1,083** | **$224** | **$284** | **$468** | |

| | For the quarter ended June 30, 2018 | | | | | For the quarter ended June 30, 2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total Revenue | Cost of Revenue | SG&A | D&A | Total | Total Revenue | Cost of Revenue | SG&A | D&A | Total |
| Monitoring & Service Revenue | 1,023 | - | - | - | **$1,023** | 1,007 | - | - | - | **$1,007** |
| Monitoring & Service Costs and G&A | - | 174 | 163 | - | **$337** | - | 170 | 164 | - | **$334** |
| Net Expensed SAC | 90 | 73 | 93 | - | **$76** | 51 | 45 | 96 | - | **$91** |
| Depreciation and Amortization | 19 | - | 14 | 488 | **$484** | 10 | - | 12 | 458 | **$460** |
| Special Items | (1) | - | 51 | - | **$52** | - | - | 14 | - | **$14** |
| **Total** | **$1,131** | **$246** | **$323** | **$488** | | **$1,068** | **$215** | **$286** | **$458** | |

| | GAAP Line Items | | | |
|---|---|---|---|---|
| | Total Revenue | Cost of Revenue | SG&A | D&A |
| Monitoring & Service Revenue | Monitoring & Service Revenue | - | - | - |
| Monitoring & Service Costs and G&A | - | Field Service and Customer Care Expenses | General and Administrative | - |
| Net Expensed SAC | Installation Revenue | Installation Costs | Selling and Advertising | - |
| Depreciation and Amortization | Amortization of deferred subscriber acquisition revenue | - | Amortization of deferred subscriber acquisition costs (commissions) | Depreciation and Amortization |
| Special Items | Purchase Accounting Adjustments | - | Special Items | - |



**Note:** Excludes special items not applicable to the GAAP measures presented.

# Statements of Operations

| *(in millions, except per share data)* | For the Quarters Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | **September 30, 2018** | **September 30, 2017** | **September 30, 2018** | **September 30, 2017** |
| Monitoring and related services | $ 1,029 | $ 1,012 | $ 3,070 | $ 3,017 |
| Installation and other | 119 | 71 | 326 | 193 |
| **Total revenue** | 1,148 | 1,083 | 3,396 | 3,210 |
| Cost of revenue (exclusive of depreciation and amortization shown separately below) | 263 | 224 | 758 | 658 |
| Selling, general and administrative expenses | 295 | 284 | 923 | 923 |
| Depreciation and intangible asset amortization | 475 | 468 | 1,447 | 1,387 |
| Merger, restructuring, integration, and other | (7) | 15 | 2 | 54 |
| **Operating income** | 122 | 92 | 267 | 187 |
| Interest expense, net | (152) | (184) | (501) | (554) |
| Loss on extinguishment of debt | (213) | — | (275) | (4) |
| Other income | 1 | 23 | 29 | 36 |
| **Loss before income taxes** | (243) | (69) | (480) | (334) |
| Income tax benefit | 8 | 7 | 20 | 39 |
| **Net loss** | $ (236) | $ (62) | $ (460) | $ (296) |
| | | | | |
| **Net loss per share:** | | | | |
| Basic and diluted | $ (0.31) | $ (0.10) | $ (0.62) | $ (0.46) |
| | | | | |
| **Weighted-average number of shares:** | | | | |
| Basic and diluted | 755 | 641 | 745 | 641 |

# GAAP to Non-GAAP Reconciliations

## *Adjusted EBITDA, Adjusted EBITDA Margin, and Covenant Adjusted EBITDA (Pre-SAC):*

| *(in millions)* | For the Quarters Ended | | | | | | | | For the Nine Months Ended | | For the Twelve Months Ended | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **December 31, 2016** | **March 31, 2017** | **June 30, 2017** | **September 30, 2017** | **December 31, 2017** | **March 31, 2018** | **June 30, 2018** | **September 30, 2018** | **September 30, 2018** | **September 30, 2017** | **December 31, 2017** | **September 30, 2018** |
| **Net (loss) income** | (85) | (141) | (93) | (62) | 638 | (157) | (67) | (236) | (460) | (296) | 343 | 179 |
| Interest expense, net | 184 | 181 | 188 | 184 | 179 | 174 | 174 | 152 | 501 | 554 | 733 | 681 |
| Income tax benefit | (36) | (32) | (0) | (7) | (725) | (8) | (5) | (8) | (20) | (39) | (764) | (745) |
| Depreciation and intangible asset amortization | 428 | 461 | 458 | 468 | 476 | 484 | 488 | 475 | 1,447 | 1,387 | 1,863 | 1,923 |
| Merger, restructuring, integration and other | 23 | 21 | 19 | 15 | 11 | 8 | 0 | (7) | 2 | 54 | 65 | 12 |
| Financing and consent fees | 2 | 62 | 2 | - | - | - | - | - | - | 64 | 64 | - |
| Foreign currency losses / (gains) | (0) | (3) | (9) | (14) | 3 | 1 | 1 | (1) | 1 | (27) | (24) | 4 |
| Loss on extinguishment of debt | 12 | 1 | 3 | - | - | 62 | - | 213 | 275 | 4 | 4 | 275 |
| Other non-cash items | 4 | 13 | 1 | (4) | 3 | 0 | 0 | 0 | 1 | 10 | 13 | 4 |
| Radio conversion costs | 8 | 4 | 3 | 3 | 3 | 1 | 2 | 2 | 5 | 10 | 12 | 7 |
| Purchase accounting deferred revenue fair value adjustment | 3 | - | - | - | - | - | - | - | - | - | - | - |
| Amortization of deferred subscriber acquisition costs | 9 | 10 | 12 | 14 | 16 | 13 | 14 | 16 | 43 | 35 | 51 | 59 |
| Amortization of deferred subscriber acquisition revenue | (6) | (9) | (10) | (13) | (15) | (17) | (19) | (21) | (56) | (31) | (46) | (71) |
| Share-based compensation expense | 2 | 2 | 2 | 4 | 3 | 49 | 46 | 18 | 113 | 8 | 11 | 116 |
| Management fees and other charges | 5 | 7 | 6 | 7 | 7 | 9 | (26) | 5 | (11) | 21 | 28 | (4) |
| **Adjusted EBITDA** | 553 | 577 | 583 | 594 | 598 | 620 | 610 | 610 | 1,840 | 1,754 | 2,353 | 2,438 |
| Expensed Net SAC | 95 | 86 | 91 | 84 | 75 | 75 | 76 | 76 | 227 | 261 | 335 | 302 |
| **Covenant Adjusted EBITDA (Pre-SAC)** | | | | | | | | | | | | 2,740 |
| *Net (loss) income to total revenue ratio* | *-8.1%* | *-13.3%* | *-8.7%* | *-5.7%* | *57.7%* | *-14.1%* | *-5.9%* | *-20.5%* | *-13.5%* | *-9.2%* | *7.9%* | *4.0%* |
| *Adjusted EBITDA Margin (as percentage of M&S Revenue)* | *55.9%* | *57.8%* | *57.9%* | *58.7%* | *59.1%* | *60.9%* | *59.7%* | *59.2%* | *59.9%* | *58.1%* | *58.4%* | *59.7%* |
| Total Revenue | $ 1,051 | $ 1,059 | $ 1,068 | $ 1,083 | $ 1,106 | $ 1,116 | $ 1,131 | $ 1,148 | $ 3,396 | $ 3,210 | $ 4,316 | $ 4,502 |
| Monitoring and related services revenue | $ 990 | $ 998 | $ 1,007 | $ 1,012 | $ 1,012 | $ 1,017 | $ 1,023 | $ 1,029 | $ 3,070 | $ 3,017 | $ 4,029 | $ 4,082 |

## *Adjusted Net Income:*

| *(in millions)* | For the Quarters Ended | | | | | | | | For the Nine Months Ended | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **December 31, 2016** | **March 31, 2017** | **June 30, 2017** | **September 30, 2017** | **December 31, 2017** | **March 31, 2018** | **June 30, 2018** | **September 30, 2018** | **September 30, 2018** | **September 30, 2017** |
| **Adjusted EBITDA** | $ 553 | $ 577 | $ 583 | $ 594 | $ 598 | $ 620 | $ 610 | $ 610 | $ 1,840 | $ 1,754 |
| Capitalized SAC | (284) | (278) | (286) | (301) | (288) | (279) | (290) | (328) | (897) | (865) |
| Cash taxes | (2) | (2) | (8) | (4) | (5) | 2 | (5) | (1) | (4) | (14) |
| Cash interest | (237) | (80) | (231) | (81) | (229) | (94) | (201) | (87) | (383) | (392) |
| Preferred Interest(1) | (20) | (21) | (20) | - | - | - | - | - | - | (41) |
| **Adjusted net income** | $ 11 | $ 197 | $ 37 | $ 208 | $ 76 | $ 249 | $ 113 | $ 194 | $ 556 | $ 442 |



1. Excludes outflows in connection with the redemption of the Koch Preferred Securities including the accumulated dividend obligation of $96 million ($51 million related to Q1 and Q2 of 2018 and $45 million related to Q3 and Q4 of 2017). Additionally, $41 million of dividend obligation payments on the Koch Preferred Securities are included in Q1 and Q2 of 2017.

# GAAP to Non-GAAP Reconciliations

***Free Cash Flow and Free Cash Flow Before Special Items:***

| | For the Quarters Ended | | | | | | | | For the Nine Months Ended | | For the Year Ended |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *(in millions)* | December 31, 2016 | March 31, 2017 | June 30, 2017 | September 30, 2017 | December 31, 2017 | March 31, 2018 | June 30, 2018 | September 30, 2018 | September 30, 2018 | September 30, 2017 | December 31, 2017 |
| Net cash provided by operating activities | $ 236 | $ 412 | $ 331 | $ 519 | $ 330 | $ 505 | $ 458 | $ 443 | $ 1,406 | $ 1,262 | $ 1,592 |
| Net cash used in investing activities | (322) | (308) | (341) | (400) | (364) | (367) | (329) | (388) | (1,084) | (1,049) | (1,413) |
| Net cash provided by (used in) financing activities | (0) | 97 | (204) | (22) | (13) | 748 | (43) | (893) | (187) | (130) | (143) |
| Free Cash Flow | (87) | 82 | (14) | 160 | (3) | 174 | 116 | 68 | 357 | 228 | 225 |
| **Net cash provided by operating activities** | 236 | 412 | 331 | 519 | 330 | 505 | 458 | 443 | 1,406 | 1,262 | 1,592 |
| Dealer generated customer accounts and bulk account purchases | (148) | (144) | (163) | (180) | (167) | (160) | (168) | (199) | (527) | (486) | (653) |
| Subscriber system assets | (148) | (152) | (147) | (146) | (138) | (138) | (143) | (148) | (428) | (445) | (583) |
| Capital expenditures | (27) | (34) | (36) | (33) | (28) | (33) | (32) | (29) | (94) | (103) | (131) |
| **Free Cash Flow** | (87) | 82 | (14) | 160 | (3) | 174 | 116 | 68 | 357 | 228 | 225 |
| Financing and consent fees | 2 | 62 | 2 | - | - | - | - | - | - | 64 | 64 |
| Restructuring and integration payments | 20 | 12 | 13 | 10 | 11 | 6 | 5 | 4 | 15 | 35 | 46 |
| Integration related capital expenditures | 9 | 6 | 7 | 8 | 4 | 4 | 2 | 1 | 6 | 21 | 25 |
| Management fees and other | 4 | 7 | 6 | 10 | 7 | 2 | (1) | (1) | 0 | 23 | 30 |
| Koch Redemption | - | - | - | - | - | - | - | 96 | 96 | - | - |
| Radio conversion costs | 9 | 5 | 2 | 3 | 3 | 2 | 2 | 2 | 5 | 11 | 13 |
| **Free Cash Flow before special items(1)** | $ (42) | $ 175 | $ 17 | $ 190 | $ 22 | $ 187 | $ 123 | $ 169 | $ 479 | $ 381 | $ 403 |



1. Excludes outflows in connection with the redemption of the Koch Preferred Securities including the accumulated dividend obligation of $96 million ($51 million related to Q1 and Q2 of 2018 and $45 million related to Q3 and Q4 of 2017). Additionally, $41 million of dividend obligation payments on the Koch Preferred Securities are included in Q1 and Q2 of 2017.

# GAAP to Non-GAAP Reconciliations

***Debt to Net Income Ratio and Net Income to Cash Interest Ratio:***

| | September 30, 2018 | Pro forma Capitalization September 30, 2018 [1] |
|---|---|---|
| Total debt (book value) | 9,568 | 9,993 |
| LTM net income | 179 | 179 |
| **Debt to net income ratio** | **53.5x** | **55.8x** |
| | | |
| LTM cash interest | 707 | 730 |
| **Net income to cash interest** | **0.3x** | **0.2x** |

***Leverage Ratios:***

| | September 30, 2018 | Pro Forma Capitalization September 30, 2018 [2] |
|---|---|---|
| Revolver | - | - |
| First Lien Term Loan | 3,509 | 3,934 |
| First Lien Notes | 3,750 | 3,750 |
| Capital Leases | 35 | 35 |
| **Total First Lien Debt** | **7,294** | **7,719** |
| Second Lien Notes | 2,546 | 2,546 |
| **Total Debt (face value)** | **9,840** | **10,265** |
| | | |
| Cash and cash equivalents | 257 | 355 |
| **Net Debt** | **9,583** | **9,910** |
| **LTM Covenant Adjusted EBITDA (Pre-SAC)** | **2,740** | **2,740** |
| | | |
| LTM cash interest excluding Koch Redemption [3] | 611 | 634 |
| | | |
| **First Lien Debt / LTM Covenant Adjusted EBITDA (Pre-SAC)** | **2.7x** | **2.8x** |
| **Net First Lien Debt / LTM Covenant Adjusted EBITDA (Pre-SAC)** | **2.6x** | **2.7x** |
| **Total Debt / LTM Covenant Adjusted EBITDA (Pre-SAC)** | **3.6x** | **3.7x** |
| **Net Debt / LTM Covenant Adjusted EBITDA (Pre-SAC)** | **3.5x** | **3.6x** |
| **LTM Covenant Adjusted EBITDA (Pre-SAC)/ LTM cash interest excluding Koch Redemption[3]** | **4.5x** | **4.3x** |

1. Total debt is pro forma for the incurrence of the TL. LTM cash interest is pro forma for the incurrence of the TL.
2. First lien debt, total debt, and LTM cash interest excluding Koch Redemption are pro forma for the incurrence of the TL; Net first lien debt, net debt, and cash and cash equivalents are pro forma for the incurrence of the TL and the payment of the purchase price for the Red Hawk acquisition. LTM covenant adjusted EBITDA (Pre-SAC) does not include contribution from Red Hawk.
3. LTM cash interest excluding Koch Redemption excludes $96 million paid in connection with the Koch Redemption on July 2, 2018.