Q4 2018 Earnings Presentation

March 11, 2019

Forward Looking Statements and Non-GAAP Measures

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, including under the heading 2019 Guidance. 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 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

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 Adjusted EBITDA, Adjusted EBITDA margin, Free Cash Flow, Free Cash Flow before special items, Unlevered Free Cash Flow before special items, Historical Combined Free Cash Flow, Unlevered Historical Combined Free Cash Flow before special items, Supplemental Pro Forma Financial Information, Adjusted Net Income, Net Income (Loss) before special items, Diluted Earnings Per Share ("EPS") before special items, and Net Leverage Ratio as non-GAAP measures. Reconciliations from GAAP to non-GAAP financial measures can be found in appendix. Amounts on subsequent pages may not add due to rounding.

Strong Quarter to End 2018 with Results Above Guidance

Balanced Revenue Growth

- Total Revenue increase of 7% year-over-year (5% excluding Red Hawk)
- Increased residential interactive penetration coupled with commercial growth

Adjusted EBITDA and Cash Flow Growth(1)

- Exceeded full year guidance for Adj. EBITDA and Free Cash Flow before special items
- Adjusted EBITDA increase of 3% year-over-year
- Free Cash Flow before special items of $59M in the quarter and $538M in 2018

Grow Commercial Business

- Continued double-digit commercial and multi-site account revenue growth
- Closed Red Hawk acquisition, accelerating our commercial growth while adding new talent, products, and operating scale

Innovate Around Trusted "ADT" Brand

- Launched next generation security and home automation product, ADT Command and Control
- Subsequent to Q4, acquired DIY platform LifeShield, enabling a new growth channel

Continue to Improve Customer Retention

- Improved LTM gross customer revenue attrition by 40 basis points year-over-year to 13.3%

Acquire New Customers More Efficiently

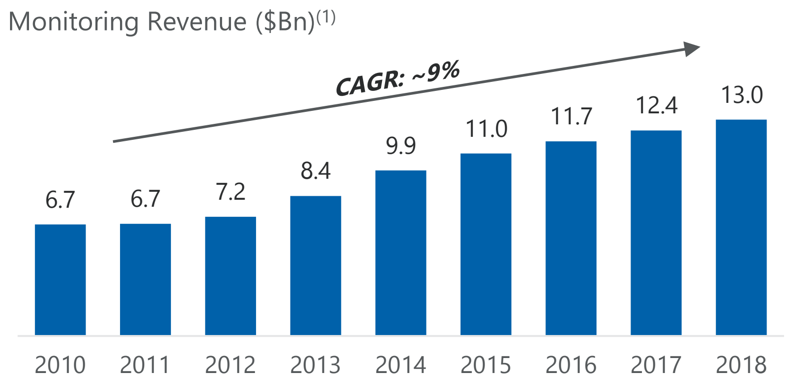
- Improved LTM Revenue Payback from 2.5x to 2.4x (in years)
- Grew gross RMR additions 2% YoY in Q4; Ended the quarter with ~7.2M units(2)

Note: The operating metrics Gross Revenue Attrition, Unit Count, RMR, RMR additions, and Revenue Payback are approximated as there may be variations to reported results in each period due to certain adjustments we might make in connection with the integration over several periods of acquired companies that calculated these metrics differently, or otherwise, including periodic reassessments and refinements in the ordinary course of business. These refinements, for example, may include changes due to systems conversion or historical methodology differences in legacy systems.

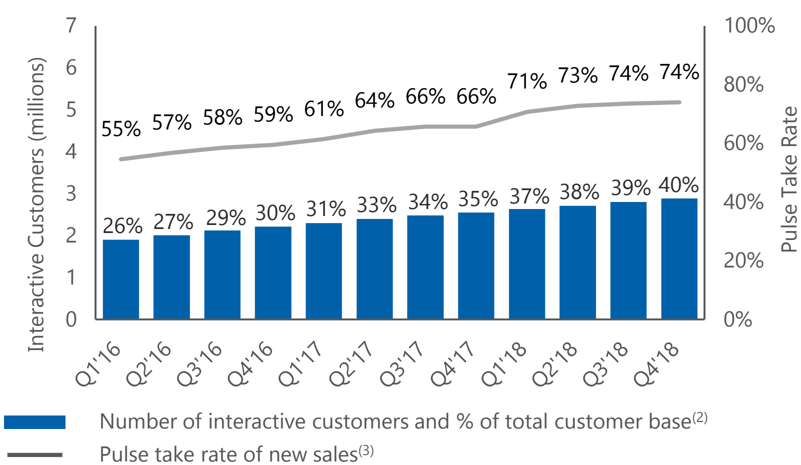
1. Red Hawk closed in December of 2018; contribution to EBITDA and Free Cash Flow not meaningful in 2018
2. Excludes wholesale customers who outsource their monitoring to ADT

Market Leader in Growing Core Residential Business

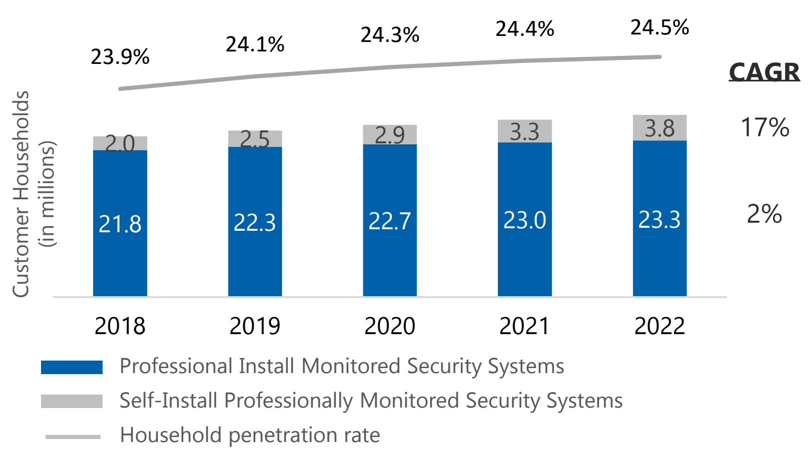
Growing, Recession-Resilient Market



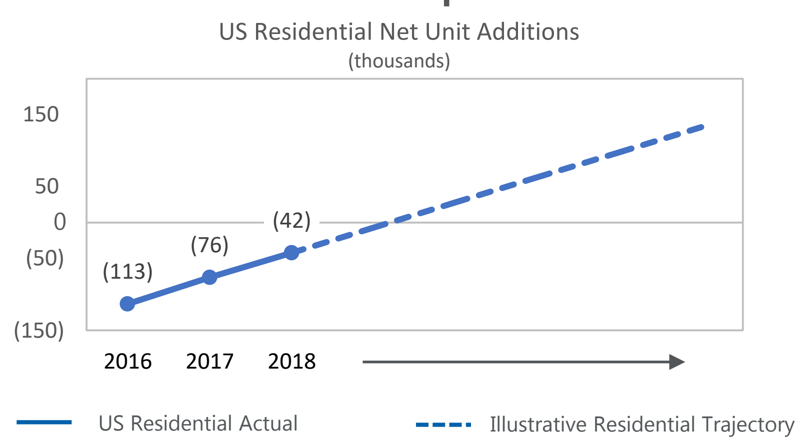
Home Automation Driving Increased Pulse Adoption



Overall Security Penetration is Expected to Grow[1]



Customer Focus, Efficient Additions, and Higher Interactive Penetration Improve Net Unit Additions



Notes

1. Parks Associates Home Security, Q2 2018 Report
2. Interactive services include Pulse and similar ADT platforms, and are inclusive of services ranging from remote arm and disarm to full home automation
3. Take rate represents sales by ADT or its authorized dealer network, and excludes large/multi-site, health, and wholesale customers

The Next Generation of Security and Home Automation

At the Center of the Connected Home

ADT Command Panel

Touchscreen Keypad
A dynamic, wireless touch-screen panel full of smart home capabilities.
English, Spanish, French

Smart Home Capabilities
Your smart door locks, thermostats, lights, and garage are all in your control.

All-Inclusive Solutions
Built for modularity, which allows for easy upgrades, remote trouble shooting, and user replaceable radios, all of which prevent the need for truck rolls and enable faster customer service solutions.

SiX™ Wireless Technology
Provides two-way encryption for a more secure and stable connection with devices allowing for longer battery life & faster installation. Also utilizes dual path communications for alarm events (broadband & cell) to ensure signals are backed up and delivered.

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

ADT Control

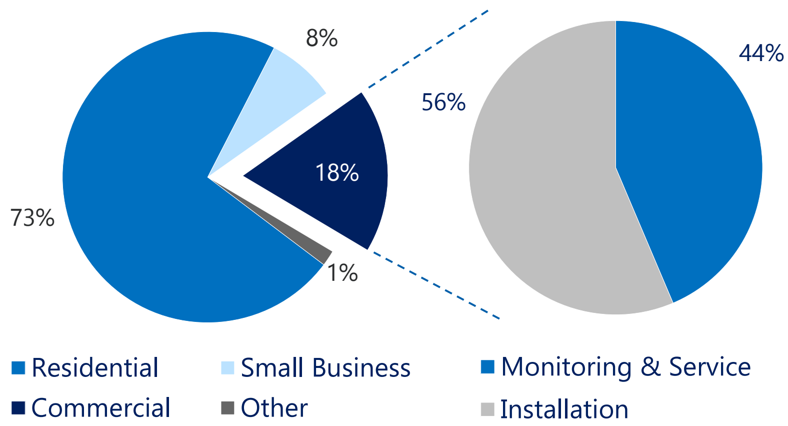
Red Hawk Re-establishes ADT as a Commercial Leader…

Key Highlights

RED HAWK Fire & Security

- **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**
- **Transaction closed in December 2018**
- **Investing in growth and customer focus during 2019 while executing plans for a 2020 full integration with ADT**
- **Exits 2018 with a run rate of ~$300M Revenue and ~$30M EBITDA[4]; expected to be modestly accretive to Free Cash Flow in 2019**
- **Revenue and cost synergy opportunities expected to be fully realized during 2020**

ADT + Red Hawk Total Revenue[1]



Red Hawk Footprint

Notes:
1. Presented pro-forma with Red Hawk for full year 2018
2. Red Hawk employees operating from a private office
3. Third parties with which Red Hawk has reciprocal service arrangements
4. 2018 run-rate refers to approximate full year revenue and EBITDA, prior to ADT acquisition

...With Strong Growth Expected in Commercial Market

Commercial Security Market is Characterized By:

Penetration
- Insurance requirements and current regulations increase penetration rates

Economics
- Larger customers with long-term contracts and low rates of attrition
- Lower customer acquisition costs due to higher up-front payments, driving strong IRR
- Monthly recurring revenue higher than conventional residential customers

Growth Opportunity
- Multi-site opportunity through competitive differentiation
- Expansion into ancillary offerings, i.e. fire, network protection services

Competitive Landscape
- High barriers to entry – participants must offer a broad suite of services

Differentiation
- Customers require greater system complexity and customization
- Customer service and client responsiveness are primary market share drivers

Commercial Opportunity

Highly attractive market
- Large and growing ~$15 to 20 Billion[1]
- High structural penetration rates
- Significant barriers to entry
- Quality of service drives market share
- Better revenue payback and retention vs. residential

Comprehensive Commercial Offering

Core Commercial | Multi-family | National Accounts | Integrated Solutions


- Monitoring
- Video Solutions
- Fire & Life Safety
- Intrusion Alarms
- Enterprise Solutions
- Managed Services
- Analytics & Reporting
- Inspection & Maintenance
- Access Control


Note
1. U.S. commercial market size based on data from Freedonia, IHS, and company estimates, and includes system installation, integration and monitoring services

LifeShield Provides a Platform for Growth in New DIY Market

LifeShield® HOME SECURITY

- Acquired Feb 4, 2019 for ~$25M
- Founded in 2004, LifeShield was the first to bring DIY home security to the residential market
- Establishes flexible and scalable platform for DIY security, video-only offerings, and stand-alone solutions
- Adds in-house DIY engineering and product resources specialized in security, automation, wireless and video technologies
- Increases ADT's ability to address the approximately 80% of U.S. households who do not have professionally installed security
- LifeShield CEO John Owens will continue in his current role leading the company's team

DIY Opportunity for ADT

- Adding a new leg to the ADT growth story: the DIY market
- Different offering for different type of buyer vs. our core
- Lower capital-intensity, low revenue payback eCommerce-based offering
- LifeShield represents a "chassis" with a product and infrastructure through which ADT can leverage its trusted brand to establish its DIY business
- Expected investment in 2019 in DIY to establish growth trajectory in 2020 and beyond
- Initial stages of execution underway; will update the market on DIY strategy and progress during 2019

Security and Home Automation

Selected Integrations

GE Lighting, Yale, Google Assistant, SCHLAGE, Kwikset, amazon alexa, Honeywell

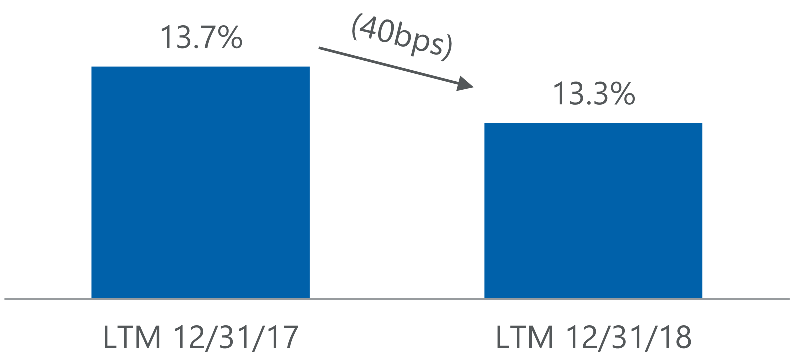
Improvement Across Key Financial and Operating Metrics

	For the quarters ended			
($ in millions)	Dec 31, 2018	Dec 31, 2017	Y/Y Change	Y/Y Change %
Monitoring and Service Revenue	$1,040	$1,012	$28	3%
Total Revenue	1,185	1,106	80	7%
Net (Loss) / Income	(149)	638	(788)	(123%)
Adjusted EBITDA	614	598	15	3%
Adjusted Net Income[1]	101	76	25	33%
Free Cash Flow (before special items)[1]	$59	$22	37	168%
LTM Gross Revenue Attrition	13.3%	13.7%		(40bps)
LTM Revenue Payback (in years)	2.4x	2.5x	(0.1x)	
End of Period RMR	$347	$335	12	4%

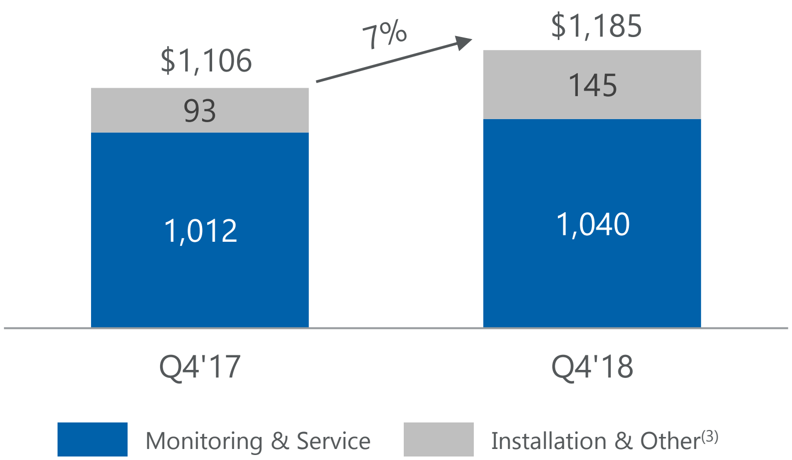
Note:
1. On July 2, 2018, the Company redeemed the Koch Preferred Securities in full, which included the payment of accumulated dividend obligation of $96M ($51 million related to Q1 and Q2 of 2018 and $45 million related to Q3 and Q4 of 2017), which is excluded from Free Cash Flow before special items 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.

Total Revenue Up 7% 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 (10 bp) improvement
- Improvement in the U.S. partially offset by Canadian operations

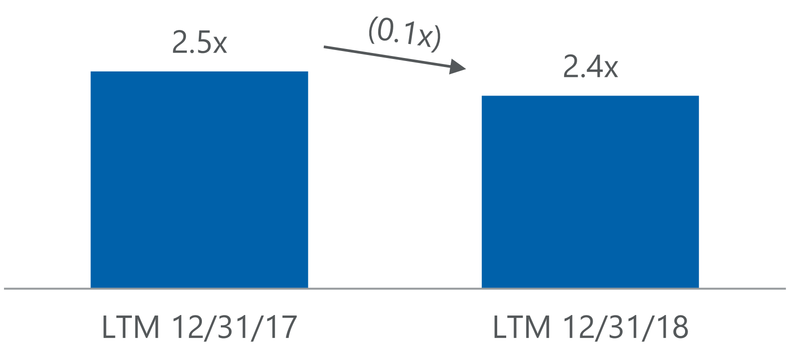
Total revenue increase of 7%

- Growth in Monitoring and Service revenue driven primarily by higher average prices and improving attrition; ~ one third of growth added by Red Hawk
- Higher installation revenue reflects continued commercial progress with organic growth of $8M and inorganic growth of $36M

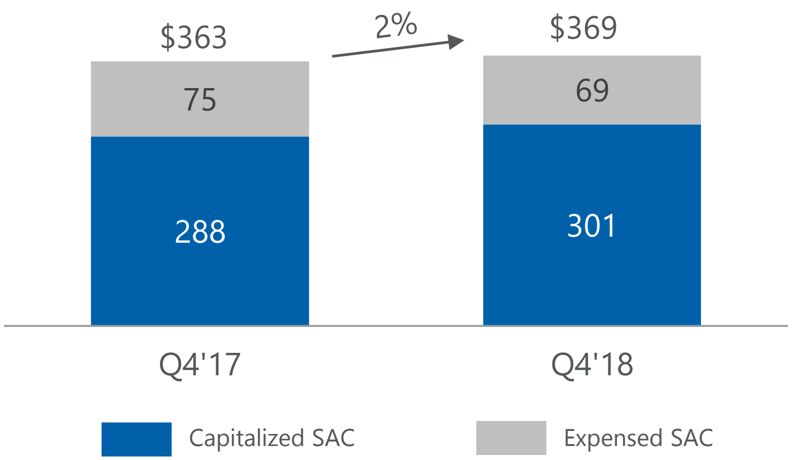
Notes:
1. Recurring revenue lost as a result of customer attrition net of dealer charge-backs and reinstatements; Excludes wholesale customers who outsource their monitoring to ADT; Calculated on a trailing 12 months basis
2. Includes impact of newly adopted revenue recognition standard (ASC 606); excluding the impact, Q4'18 monitoring & service revenue is $1,042M and installation & other revenue is $144M
3. Includes amortization of deferred installation revenue of $23M and $15M for Q4'18 and Q4'17, respectively

Acquiring New Customers More Efficiently

Customer Revenue Payback[1][2]
Years



Net Subscriber Acquisition Costs (SAC)[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

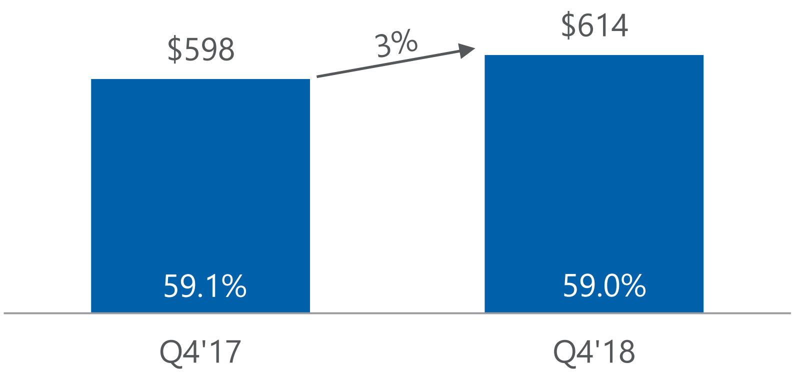
Grew RMR adds 2% YoY

- RMR additions of $13M[1], up 2% vs. prior year; 5th consecutive quarter of year over year growth
- Efficient, balanced growth between Dealer and Direct channels

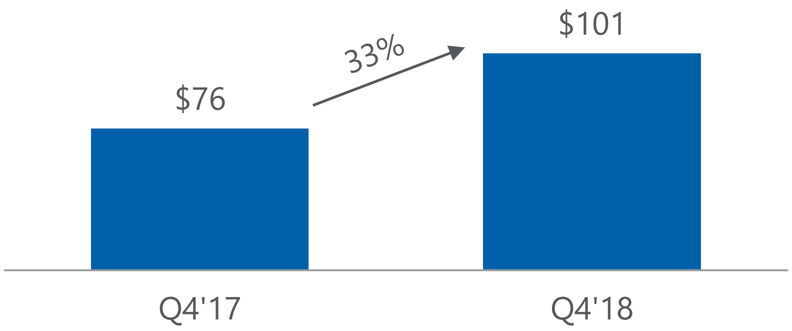
Notes:
1. Excludes wholesale customers who outsource their monitoring to ADT
2. Revenue Payback period measures the approximate time, in years, required to recover our initial investment through contractual monthly recurring fees
3. Costs of acquiring new revenue and installation expenditures, net of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

Continued Adjusted EBITDA and Adjusted Net Income Growth

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 up 33%

- Growth in Adjusted EBITDA and lower cash interest are partially offset by an increase in subscriber acquisition costs spend
- YTD $657M, up $138M or 27% vs. prior year

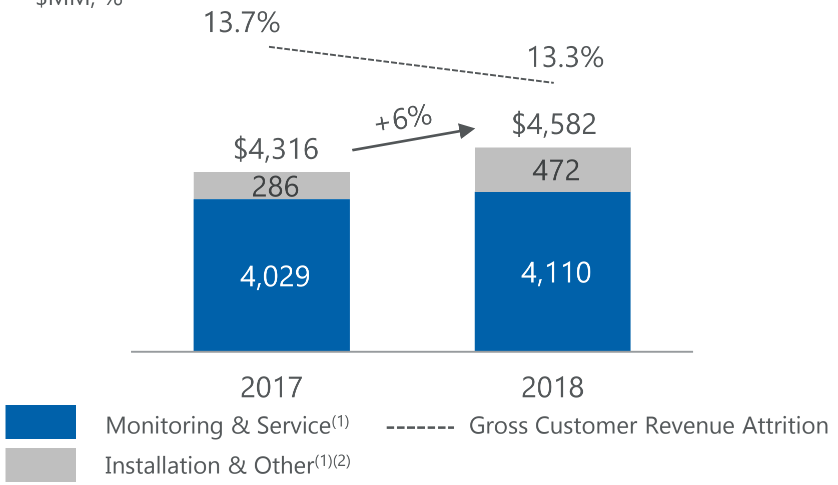
Note:

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.

2018 Full Year Summary

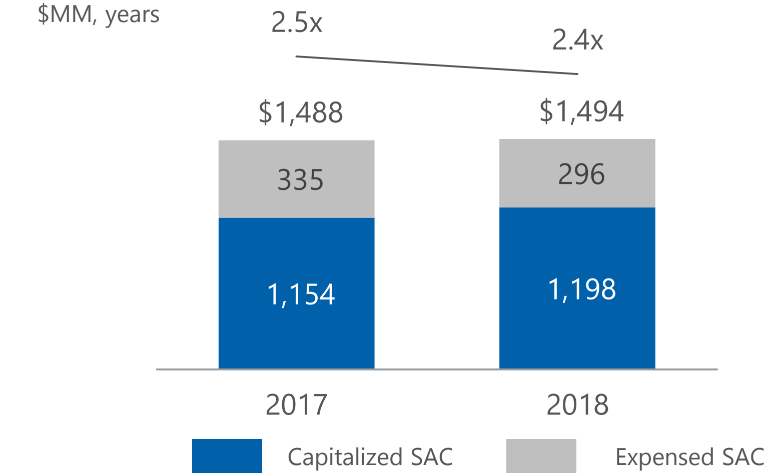
Revenue & Attrition

$MM, %



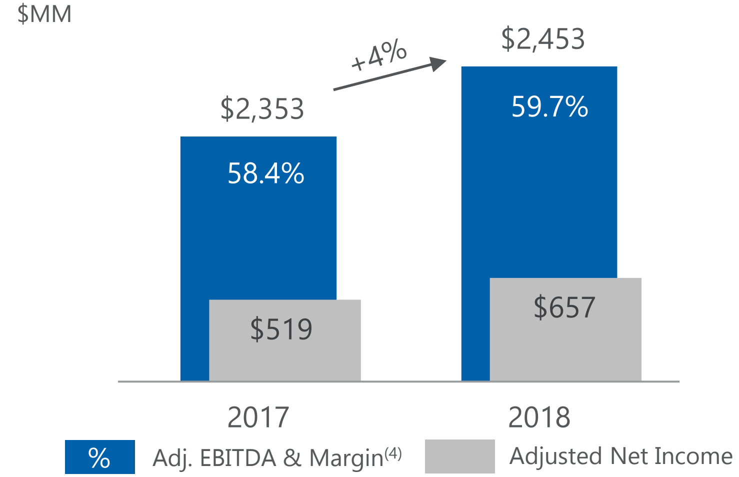
Net Subscriber Acquisition Costs & Revenue Payback

$MM, years



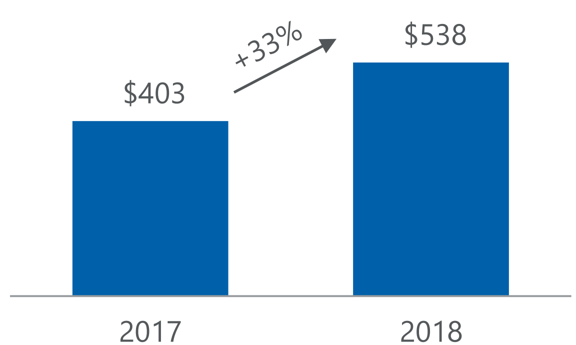
Adjusted EBITDA & Adjusted Net Income[3]

$MM



Free Cash Flow (before special items)[3]

$MM



Note:

1. Includes impact of newly adopted revenue recognition standard (ASC 606); excluding the impact, 2018 monitoring & service revenue is $4,116M and installation & other revenue is $465M
2. Includes amortization of deferred installation revenue of $79M and $46M for 2018 and 2017, respectively
3. 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.
4. Adjusted EBITDA margin is calculated as a percentage of monitoring and service revenue

Continued Strong Cash Flow Generation

	For the quarters ended			For the twelve months ended		
(in millions)	Dec 31, 2018	Dec 31, 2017	Y/Y Change	Dec 31, 2018	Dec 31, 2017	Y/Y Change
Adjusted EBITDA	**$614**	**$598**	**$15**	**$2,453**	**$2,353**	**$101**
Less: Capitalized SAC	(301)	(288)	(12)	(1,198)	(1,154)	(44)
Less: Cash Taxes	(2)	(5)	3	(6)	(19)	13
Less: Cash Interest	(209)	(229)	19	(592)	(620)	28
Less: Preferred Interest[1]	0	0	0	0	(41)	41
Adjusted Net Income	**$101**	**$76**	**$25**	**$657**	**$519**	**$138**
Less: Capital Expenditures[2]	(32)	(24)	(8)	(120)	(106)	(14)
Less: Working Capital & Other[2]	(10)	(31)	20	1	(10)	10
Free Cash Flow (before special items)[1]	**$59**	**$22**	**$37**	**$538**	**$403**	**$135**

Notes:

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

Capital Structure Well-Positioned to Support Growth

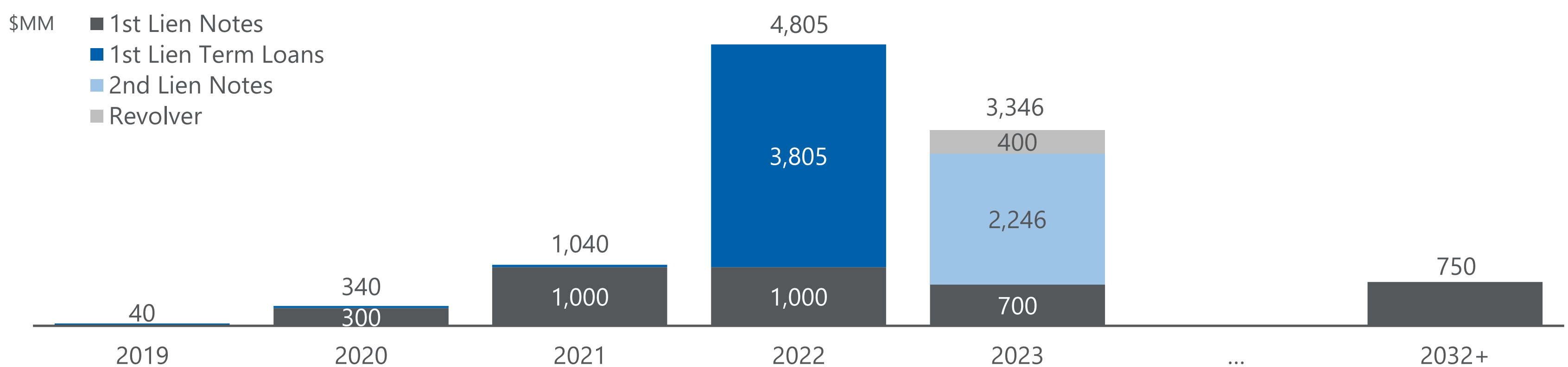
Capital Structure[(1)]

$MM	12/31/17 Actual	12/31/18 Actual	12/31/18 Pro Forma[(2)]
Revolver	-	-	-
First Lien Term Loan	3,536	3,924	3,924
First Lien Notes	3,750	3,750	3,750
Capital Leases	41	50	50
Total First Lien Debt	**$ 7,327**	**$ 7,724**	**$ 7,724**
Second Lien Notes	3,140	2,546	2,246
Preferred Securities	795	-	-
Total Debt + Preferred Securities	**$ 11,262**	**$ 10,270**	**$ 9,970**
Cash and Cash Equivalents	123	363	44
Net Debt + Preferred Securities	**$ 11,139**	**$ 9,907**	**$ 9,926**
LTM Adjusted EBITDA	**2,353**	**2,453**	**2,453**
Net Leverage Ratio	**4.7x**	**4.0x**	**4.0x**
Fixed vs. variable ratio[(3)]	70%/30%	86%/14%	93%/7%

Fourth Quarter and Pro Forma Highlights

- Completed Red Hawk acquisition and financing transaction in December
- Redeemed $300M 2nd lien notes on 2/1/19
- Increased revolving credit capacity by $50M in Q1'19
- Swapped $725M of variable rate debt to fixed in Q1'19, reducing interest rate volatility
- Announced Q1 dividend of $0.035 per share payable in April

Pro Forma Debt Maturity Profile[(4)]



Notes:
1. Debt instruments are stated at face value. Preferred securities are stated at face value plus accumulated dividends
2. Presented pro forma to include $300M 2nd lien notes redemption on 2/1/19 and $725M interest rate swaps executed in January and February 2019
3. Inclusive of the impact of interest rate swaps
4. Presented pro forma to exclude $300M 2nd lien notes redeemed 2/1/19 and includes $400M of revolver maturities; Excludes $50M capital leases

2019 Guidance

Total Revenue	**Revenue growth of $4,900 - $5,100M** ▪ Growth of 6%-11% ▪ M&S Revenue growth of low to mid single digits ▪ Commercial expansion drives double digit growth in installation revenue
Adjusted EBITDA	**Adjusted EBITDA of $2,460 - $2,500M** ▪ Underlying core operations EBITDA growth plus full year of Red Hawk totals ~$100M ▪ Offsets from 2018 legal settlements and 2019 Canada headwind ▪ Planned investments of ~$40M primarily in DIY & commercial to drive post '19 growth
Free Cash Flow(1) (before special items)	**Free Cash Flow of $570M - $610M** ▪ 6–13% Growth vs. 2018 ▪ Reflects Net Subscriber Acquisition Costs (SAC) ~flat vs. 2018 ▪ Assumes refinancing of 2nd Lien debt
Gross Customer Revenue Attrition(2)	**Attrition improves to 13.2% - 12.8%** ▪ Continued focus on enhancing service levels and customer experience ▪ Expand use of technology enablers including voice and data analytics

Notes:

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. Guidance excludes wholesale customers who outsource their monitoring to ADT and impacts from DIY given our 2019 acquisition of LifeShield; calculated on a trailing 12 months basis

Dividend Reinvestment Plan and Share Buyback

Dividend Reinvestment Plan ("DRIP") and Share Buyback Underpinned by Conviction in ADT Story

- We announced today a series of actions that demonstrate the confidence that both the Company and our largest shareholder have in the future of our business – while continuing our stated plan to de-lever over time.
- First, we are initiating a DRIP, which allows stockholders to designate all or a portion of the cash dividends on their shares of common stock for reinvestment in additional shares of our common stock.
  - We anticipate that our controlling shareholder, Apollo, will elect to participate in the DRIP for all the cash dividends it receives on its shares of our common stock.
    - Based on Apollo's ownership of approximately 85% as of December 31, 2018, this would imply ~$90 million of cash dividends over the course of 2019 (assuming an annualized Q1 figure) that Apollo is taking in shares of common stock and that will instead be available as cash to ADT to go towards other purposes.
  - We will provide additional information regarding the DRIP pursuant to a separate announcement.
- Second, we announced today the authorization of a share repurchase program of up to $150 million in common stock
  - We anticipate that the share repurchases will be fully offset by the cash we receive under the DRIP, resulting in no incremental use of cash to fund the stock buyback.
  - We expect to continue to place a high priority on debt paydown as a use of excess free cash flow.
- These actions reflect our strong conviction in the attractive opportunities ahead for ADT.

Snapshot of Business by Customer Type and Unit Count

Market Profile

	Residential	Small Business	Large / Multi-Site [1]	Total
Unit Count[2]	~6,400K	~500K	~300K	~7,200K
Ending RMR	$288M	$29M	$25M	$343M
M&S Revenue	$3,494M	$347M	$268M	$4,110M
Installation Revenue[3]	$97M	$26M	$349M	$472M
New RMR Additions – 2018	$43M[4]	$5M	$3M	$52M
Revenue Payback	~2.6x	~2.3x	<1.0x	~2.4x
Gross Attrition	~13%	~15%	~10%	~13%
Typical Revenue / Site	$40-$55	$50-$65	$50-$120+	$45-$55

Unit Count

Units in millions	2017	2018	Y/Y %
Interactive	2.3	2.6	13%
Traditional	3.5	3.2	(10%)
US Residential	**5.8**	**5.8**	**(1%)**
US Commercial	**0.7**	**0.7**	**5%**
Canada Residential	0.6	0.5	(9%)
Canada Commercial	0.1	0.1	(3%)
Canada	**0.6**	**0.6**	**(9%)**
Other	0.1	0.1	5%
Total End of Period Units	**7.2**	**7.2**	**(1%)**
Memo: Total Residential	6.5	6.4	(1%)
Memo: Total Commercial	0.7	0.8	5%

Note: Market profile and unit count exclude wholesale customers who outsource their monitoring to ADT

1. Red Hawk is included in market profile for unit count and ending RMR; December 2018 results are included in M&S and installation revenue
2. Net change in total units vs. 2017 includes a loss in US residential of (42K) units, a loss in Canada (54K) units, offset by gain in commercial and other of ~40K
3. Includes amortization of deferred installation revenue of $56M for residential. $18M for small business, and $5M for large/multi-site
4. Dealer additions represent approximately 54% of residential new RMR additions

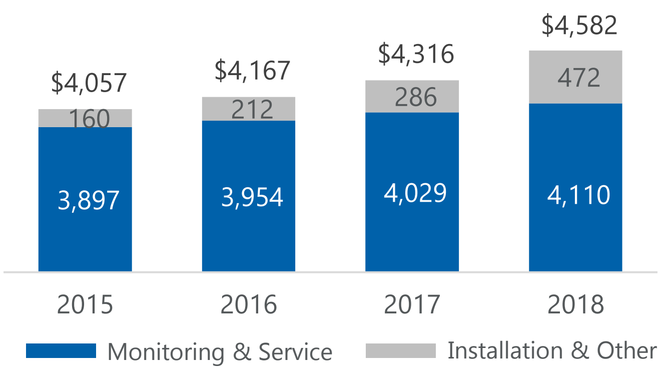
Q&A

Appendix

Significantly Strengthened Financial Performance Since 2015

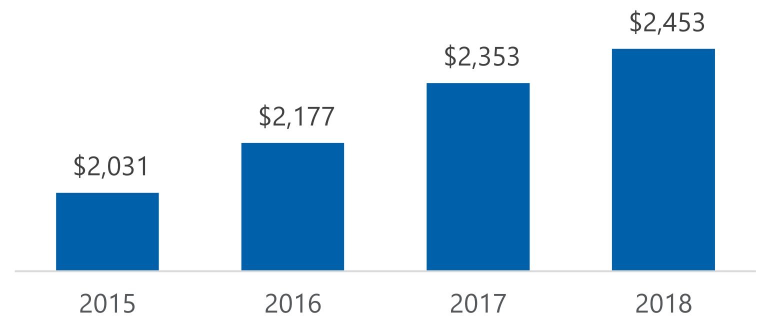
Total Revenue[1]

$MM

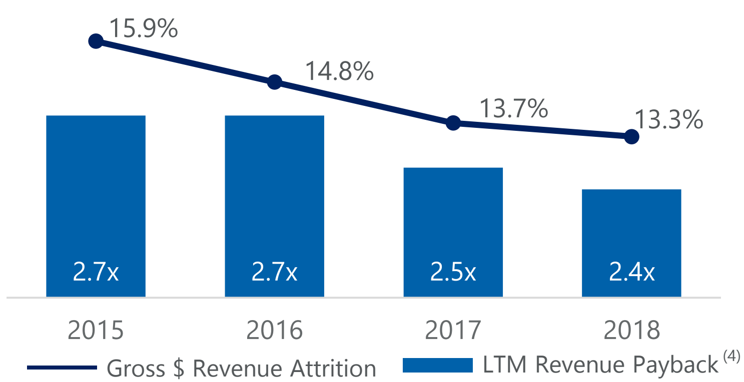


Adjusted EBITDA[1]

$MM

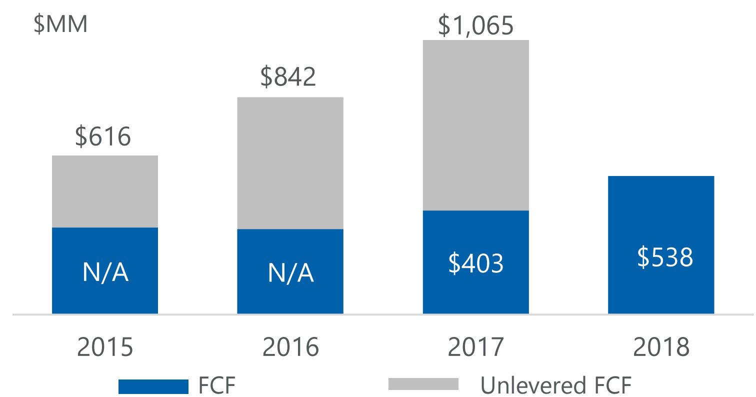


LTM Revenue Payback and Attrition[2][3]



Free Cash Flow[5]

$MM



Notes

1. 2015 and 2016 are presented on a supplemental pro forma basis up to the acquisition date; reconciliations can be found in the appendix
2. Recurring revenue lost as a result of customer attrition net of dealer charge-backs and reinstatements
3. Excludes wholesale customers who outsource their monitoring to ADT
4. 2015 is Legacy ADT as of LTM 9/25/15
5. Before special items. 2015 and 2016 presented on a historical combined basis; reconciliations can be found in the appendix

Improvement Across Key Financial and Operating Metrics

	For the twelve months ended			
($ in millions)	Dec 31, 2018	Dec 31, 2017	Y/Y Change	Y/Y Change %
Monitoring and Service Revenue	$4,110	$4,029	$81	2%
Total Revenue	4,582	4,316	266	6%
Net (Loss) / Income	(609)	343	(952)	(278%)
Adjusted EBITDA	2,453	2,353	101	4%
Adjusted Net Income[1]	657	519	138	27%
Free Cash Flow (before special items)[1]	$538	$403	$135	33%
LTM Gross Revenue Attrition	13.3%	13.7%		(40bps)
LTM Revenue Payback (in years)	2.4x	2.5x	(0.1x)	
End of Period RMR	$347	$335	12	4%

Note:

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.

Additional Historical Quarterly Data

$ in millions	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
Key Performance Indicators									
Monitoring and Service Revenue	$990	$998	$1,007	$1,012	$1,012	$1,017	$1,023	$1,029	$1,040
Total Revenue	1,051	1,059	1,068	1,083	1,106	1,116	1,131	1,148	1,185
Net (Loss) / Income	(85)	(141)	(93)	(62)	638	(157)	(67)	(236)	(149)
Adjusted EBITDA	553	577	583	594	598	620	610	610	614
Adjusted Net Income[1]	11	197	37	208	76	249	113	194	101
Adjusted EBITDA Margin (as % of M&S revenue)	55.9%	57.8%	57.9%	58.7%	59.1%	60.9%	59.7%	59.2%	59.0%
LTM Gross Revenue Attrition[2]	14.8%	14.5%	14.1%	13.8%	13.7%	13.6%	13.6%	13.4%	13.3%
Revenue Payback (in years)[2]	2.7x	2.6x	2.6x	2.5x	2.5x	2.5x	2.4x	2.4x	2.4x
Net Subscriber Acquisition Costs									
Expensed	$95	$86	$91	$84	$75	$75	$76	$76	$69
Capitalized	284	278	286	301	288	279	290	328	$301
Total	$379	$363	$377	$385	$363	$354	$367	$405	$369
Free Cash Flow									
Adjusted EBITDA	$553	$577	$583	$594	$598	$620	$610	$610	$614
Less: Cash interest[1]	(257)	(100)	(251)	(81)	(229)	(94)	(201)	(87)	(209)
Less: Cash taxes	(2)	(2)	(8)	(4)	(5)	2	(5)	(1)	(2)
Less: Changes in net working capital and other[3]	(33)	5	8	8	(31)	(32)	39	4	(10)
Less: Capitalized SAC	(284)	(278)	(286)	(301)	(288)	(279)	(290)	(328)	(301)
Less: Capital expenditures[3]	(19)	(28)	(28)	(26)	(24)	(29)	(30)	(28)	(32)
Free Cash Flow (before special items)[1]	($42)	$175	$17	$190	$22	$187	$123	$169	$59
RMR									
Ending RMR (excluding Wholesale)	$324	$326	$328	$330	$331	$332	$334	$336	$343
Wholesale RMR	4	4	4	4	4	4	4	4	4
Ending RMR (including Wholesale)	328	330	332	334	335	337	338	340	$347
RMR Additions[2]	12.2	11.8	12.4	12.9	12.4	12.4	12.8	13.8	12.6

Notes:

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 December 31, 2018					GAAP Line Items – For the quarter ended December 31, 2017				
	Total Revenue	Cost of Revenue	SG&A	D&A	Total	Total Revenue	Cost of Revenue	SG&A	D&A	Total
Monitoring & Service Revenue	1,040	-	-	-	**$1,040**	1,012	-	-	-	**$1,012**
Monitoring & Service Costs and G&A	-	184	176	-	**$360**	-	176	163	-	**$339**
Net Expensed SAC	123	98	94	-	**$69**	78	62	91	-	**$75**
Depreciation and Amortization	23	-	17	484	**$478**	15	-	16	476	**$477**
Special Items	(1)	1	126	-	**$127**	-	-	16	-	**$16**
Total	**$1,185**	**$283**	**$412**	**$484**		**$1,106**	**$238**	**$286**	**$476**	

	For the quarter ended September 30, 2018					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**	

	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

	For the Quarters Ended		For the Years Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Monitoring and related services	$ 1,040	$ 1,012	$ 4,110	$ 4,029
Installation and other	145	93	472	286
Total revenue	1,185	1,106	4,582	4,316
Cost of revenue (exclusive of depreciation and amortization shown separately below)	283	238	1,041	896
Selling, general and administrative expenses	324	286	1,247	1,209
Depreciation and intangible asset amortization	484	476	1,931	1,863
Merger, restructuring, integration, and other	(5)	11	(3)	65
Goodwill impairment	88	—	88	—
Operating income	11	95	278	282
Interest expense, net	(162)	(179)	(663)	(733)
Loss on extinguishment of debt	—	—	(275)	(4)
Other (expense) income	(2)	(3)	28	33
Loss before income taxes	(153)	(87)	(633)	(422)
Income tax benefit	4	725	23	764
Net (loss) income	$ (149)	$ 638	$ (609)	$ 343
Net (loss) income per share:				
Basic	$ (0.20)	$ 1.00	$ (0.81)	$ 0.53
Diluted	$ (0.20)	$ 0.99	$ (0.81)	$ 0.53
Weighted-average number of shares:				
Basic	757	641	748	641
Diluted	757	641	748	641

GAAP to Non-GAAP Reconciliations

Net Loss Before Special Items:

(in millions)	For the Quarters Ended December 31, 2018	For the Quarters Ended December 31, 2017	For the Years Ended December 31, 2018	For the Years Ended December 31, 2017
Net (loss) income	$ (149)	$ 638	$ (609)	$ 343
Merger, restructuring, integration, and other	(5)	11	(3)	65
Financing and consent fees	9	—	9	64
Foreign currency losses/(gains)	2	3	3	(24)
Loss on extinguishment of debt	—	—	275	4
Radio conversion costs	—	3	5	12
Share-based compensation expense	22	3	135	11
Other[1]	15	4	(4)	36
Goodwill impairment	88	—	88	—
Tax adjustments[2]	(10)	(698)	(15)	(733)
Net loss before special items	$ (28)	$ (37)	$ (116)	$ (222)

Diluted EPS Before Special Items:

(in millions, except per share data)	For the Quarters Ended December 31, 2018	For the Quarters Ended December 31, 2017	For the Years Ended December 31, 2018	For the Years Ended December 31, 2017
Diluted EPS (GAAP)	$ (0.20)	$ 0.99	$ (0.81)	$ 0.53
Impact of special items	0.17	0.04	0.68	0.26
Impact of tax adjustments	(0.01)	(1.09)	(0.02)	(1.14)
Diluted EPS before special items	$ (0.04)	$ (0.06)	$ (0.16)	$ (0.35)
Diluted weighted-average number of shares outstanding	757	641	748	641

Notes:

1. In 2018, primarily includes income from one-time licensing fees, as well as a gain from the sale of equity in a third party that we received as part of a settlement during the second quarter of 2018 partially offset by compensation arrangements related to acquisitions. In 2017, primarily relates to management fees and charges associated with our strategic investments
2. Represents tax impact on special items. For the year ended 2018, includes a one-time non-deductible tax impact on share-based compensation expense related to the Class B Units in Ultimate Parent. For the quarter and year ended 2017, includes the impact of Tax Reform.

GAAP to Non-GAAP Reconciliations

Adjusted EBITDA and Adjusted EBITDA Margin:

(in millions)	For the Quarters Ended									For the Years 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	December 31, 2018	December 31, 2017	December 31, 2018
Net (loss) income	$ (85)	$ (141)	$ (93)	$ (62)	$ 638	$ (157)	$ (67)	$ (236)	$ (149)	$ 343	$ (609)
Interest expense, net	184	181	188	184	179	174	174	152	162	733	663
Income tax benefit	(36)	(32)	(0)	(7)	(725)	(8)	(5)	(8)	(4)	(764)	(23)
Depreciation and intangible asset amortization	428	461	458	468	476	484	488	475	484	1,863	1,931
Merger, restructuring, integration and other	23	21	19	15	11	8	0	(7)	(5)	65	(3)
Goodwill impairment	—	—	—	—	—	—	—	—	88	—	88
Financing and consent fees	2	62	2	—	—	0	—	—	9	64	9
Foreign currency (gains)/losses	(0)	(3)	(9)	(14)	3	1	1	(1)	2	(24)	3
Loss on extinguishment of debt	12	1	3	—	—	62	—	213	0	4	275
Other non-cash items	4	13	1	(4)	3	0	0	0	1	13	2
Radio conversion costs	8	4	3	3	3	1	2	2	0	12	5
Purchase accounting deferred revenue fair value adjustment	3	—	—	—	—	—	—	—	0	—	0
Amortization of deferred subscriber acquisition costs	9	10	12	14	16	13	14	16	17	51	60
Amortization of deferred subscriber acquisition revenue	(6)	(9)	(10)	(13)	(15)	(17)	(19)	(21)	(23)	(46)	(79)
Share-based compensation expense	2	2	2	4	3	49	46	18	22	11	135
Management fees and other charges	5	7	6	7	7	9	(26)	5	9	28	(2)
Adjusted EBITDA	$ 553	$ 577	$ 583	$ 594	$ 598	$ 620	$ 610	$ 610	$ 614	$ 2,353	$ 2,453
Net (loss) income to total revenue ratio	*-8.1%*	*-13.3%*	*-8.7%*	*-5.7%*	*57.7%*	*-14.1%*	*-5.9%*	*-20.5%*	*-12.6%*	*7.9%*	*-13.3%*
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%*	*59.0%*	*58.4%*	*59.7%*
Total Revenue	$ 1,051	$ 1,059	$ 1,068	$ 1,083	$ 1,106	$ 1,116	$ 1,131	$ 1,148	$ 1,185	$ 4,316	$ 4,582
Monitoring and related services revenue	$ 990	$ 998	$ 1,007	$ 1,012	$ 1,012	$ 1,017	$ 1,023	$ 1,029	$ 1,040	$ 4,029	$ 4,110

Adjusted Net Income:

(in millions)	For the Quarters Ended									For the Years 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	December 31, 2018	December 31, 2017	December 31, 2018
Adjusted EBITDA	$ 553	$ 577	$ 583	$ 594	$ 598	$ 620	610	$ 610	$ 614	$ 2,353	$ 2,453
Capitalized SAC	(284)	(278)	(286)	(301)	(288)	(279)	(290)	(328)	(301)	(1,154)	(1,198)
Cash taxes	(2)	(2)	(8)	(4)	(5)	2	(5)	(1)	(2)	(19)	(6)
Cash interest	(237)	(80)	(231)	(81)	(229)	(94)	(201)	(87)	(209)	(620)	(592)
Preferred Interest(1)	(20)	(21)	(20)	—	—	—	—	—	—	(41)	—
Adjusted net income	$ 11	$ 197	$ 37	$ 208	$ 76	$ 249	$ 113	$ 194	$ 101	$ 519	$ 657

Note:

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, Free Cash Flow before special items, Unlevered Free Cash Flow before special items:

(in millions)	For the Quarters 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	December 31, 2018	For the Years Ended December 31, 2017	December 31, 2018
Net cash provided by operating activities	$ 236	$ 412	$ 331	$ 519	$ 330	$ 505	$ 458	$ 443	$ 382	$ 1,592	$ 1,788
Net cash used in investing activities	(322)	(308)	(341)	(400)	(364)	(367)	(329)	(388)	(654)	(1,413)	(1,738)
Net cash provided by (used in) financing activities	(0)	97	(204)	(22)	(13)	748	(43)	(893)	380	(143)	193
Free Cash Flow	(87)	82	(14)	160	(3)	174	116	68	34	225	391
Net cash provided by operating activities	236	412	331	519	330	505	458	443	382	1,592	1,788
Dealer generated customer accounts and bulk account purchases	(148)	(144)	(163)	(180)	(167)	(160)	(168)	(199)	(167)	(653)	(694)
Subscriber system assets	(148)	(152)	(147)	(146)	(138)	(138)	(143)	(148)	(148)	(583)	(576)
Capital expenditures	(27)	(34)	(36)	(33)	(28)	(33)	(32)	(29)	(33)	(131)	(127)
Free Cash Flow	(87)	82	(14)	160	(3)	174	116	68	34	225	391
Financing and consent fees	2	62	2	—	—	—	—	—	8	64	8
Restructuring and integration payments	20	12	13	10	11	6	5	4	4	46	18
Integration related capital expenditures	9	6	7	8	4	4	2	1	1	25	7
Management fees and other	4	7	6	10	7	2	(1)	(1)	11	30	12
Koch Redemption	—	—	—	—	—	—	—	96	—	—	96
Radio conversion costs	9	5	2	3	3	2	2	2	1	13	6
Free Cash Flow before special items [(1)]	$ (42)	$ 175	$ 17	$ 190	$ 22	$ 187	$ 123	$ 169	$ 59	403	$ 538
Plus: Cash interest										661	
Unlevered Free Cash Flow before special items [(1)]										$ 1,065	

Note:

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:

(in millions)	December 31, 2018	December 31, 2017
Total debt + Preferred securities (book value)	$ 10,002	$ 10,852
LTM net (loss) income	(609)	343
Debt to net (loss) income ratio	**(16.4x)**	**31.7x**

Net Leverage Ratio:

(in millions)	December 31, 2018	December 31, 2017
Revolver	$ -	$ -
First lien term loan	3,924	3,536
First lien notes	3,750	3,750
Capital leases	50	41
Total first lien debt	**7,724**	**7,327**
Second lien notes	2,546	3,140
Preferred securities	—	795
Total debt + Preferred securities(1)	**10,270**	**11,262**
Cash and cash equivalents	(363)	(123)
Net debt + Preferred securities	**9,907**	**11,139**
LTM adjusted EBITDA	**$ 2,453**	**$ 2,353**
Net leverage ratio	**4.0x**	**4.7x**

Notes:
1. Debt instruments are stated at face value. Preferred securities are stated at face value plus accumulated dividends

GAAP to Non-GAAP Reconciliations

Supplemental Pro Forma Financial Information:

(in millions)	ADT Inc. Historical Year Ended 12/31/2016	The ADT Corporation Historical: Three Months Ended 3/31/2016	The ADT Corporation Historical: Period from 4/1/2016 to 5/1/2016	Pro Forma Adjustments	Supplemental Pro Forma Year Ended 12/31/2016
Net (loss) income	$ (537)	$ 62	$ 4	$ 185	$ (285)
Interest expense, net	521	53	18	157	750
Income tax benefit	(266)	28	4	115	(119)
Depreciation and intangible asset amortization	1,233	293	102	(54)	1,574
Merger, restructuring, integration and other costs	394	10	36	(354)	86
Financing and consent fees	5	-	-	-	5
Foreign currency losses / (gains)	16	-	-	-	16
Loss on extinguishment of debt	28	-	-	-	28
Other non-cash items	16	-	-	-	16
Radio conversion costs	34	26	7	-	68
Purchase accounting deferred revenue fair value adjustment	63	-	-	(63)	-
Amortization of deferred subscriber acquisition costs	17	38	14	(52)	17
Amortization of deferred subscriber acquisition revenue	(11)	(43)	(15)	58	(11)
Share-based compensation expense	5	6	(1)	-	10
Management fees and other charges	14	0	(0)	7	20
Supplemental Pro Forma Adjusted EBITDA	$ 1,533	$ 475	$ 169	$ -	$ 2,177
Total Revenue	$ 2,950	$ 900	$ 313	$ 4	$ 4,167
Monitoring and related services revenue	$ 2,748	$ 848	$ 295	$ 63	$ 3,954
Installation and other	$ 202	$ 51	$ 18	$ (58)	$ 212

GAAP to Non-GAAP Reconciliations

Supplemental Pro Forma Financial Information:

(in millions)	Predecessor	Successor	ASG			The ADT Corporation		
	Period from 1/1/2015 through 6/30/2015	From Inception through 12/31/2015	Six Months Historical Ended 6/30/2015	Other Pro Forma Adjustments	Subtotal	Twelve Months Ended 12/31/2015	ADT Acquisition Adjustments	Supplemental Pro Forma Year Ended 12/31/2015
Net (loss) income	$ (19)	$ (54)	$ (23)	$ 23	$ (73)	$ 287	$ (496)	$ (281)
Interest expense, net	29	45	11	6	91	207	471	769
Income tax benefit	1	(30)	1	14	(15)	134	(309)	(189)
Depreciation and intangible asset amortization	42	84	26	8	160	1,139	293	1,591
Merger, restructuring, integration and other costs	9	35	1	(24)	21	12	-	33
Financing and consent fees	-	-	-	-	-	-	-	-
Foreign currency losses / (gains)	-	-	-	-	-	-	-	-
Loss on extinguishment of debt	-	-	-	-	-	-	-	-
Other non-cash items	-	-	-	-	-	-	-	-
Radio conversion costs	1	4	-	-	5	55	-	60
Purchase accounting deferred revenue fair value adjustment	-	19	-	(19)	-	-	-	-
Amortization of deferred subscriber acquisition costs	11	1	3	(14)	1	145	(145)	1
Amortization of deferred subscriber acquisition revenue	(4)	(0)	(4)	7	(0)	(166)	166	(0)
Share-based compensation expense	1	2	(2)	3	5	24	-	28
Management fees and other charges	0	(0)	0	(1)	(0)	(1)	20	19
Supplemental Pro Forma Adjusted EBITDA	$ 72	$ 105	$ 14	$ 4	$ 195	$ 1,836	$ -	$ 2,031
Total Revenue	$ 238	$ 312	$ 72	$ 16	$ 637	$ 3,587	$ (166)	$ 4,057
Monitoring and related services revenue	$ 189	$ 238	$ 60	$ 19	$ 506	$ 3,392	$ -	$ 3,897
Installation and other	$ 49	$ 73	$ 12	$ (3)	$ 131	$ 195	$ (166)	$ 160

GAAP to Non-GAAP Reconciliations

Free Cash Flow, Historical Combined Free Cash Flow, and Unlevered Historical Combined Free Cash Flow before special items:

(in millions)	Successor ADT Inc. Historical Year Ended 12/31/2016	The ADT Corporation Historical for the period 1/1/2016 through 5/1/2016	Successor From Inception through 12/31/2015	Predecessor Period from 1/1/2015 through 6/30/2015	The ADT Corporation Twelve Months Ended 12/31/2015
Net cash provided by operating activities	$ 618	$ 525	$ 2	$ 35	$ 1,611
Net cash used in investing activities	(9,412)	(411)	(2,020)	(40)	(1,354)
Net cash provided by (used in) financing activities	8,829	(152)	2,076	(6)	(250)
Free Cash Flow	(337)	106	(32)	4	257
Net cash provided by operating activities	618	525	2	35	1,611
Dealer generated customer accounts and bulk account purchases	(407)	(176)	-	-	(563)
Subscriber system assets	(469)	(222)	(30)	(25)	(697)
Capital expenditures	(78)	(23)	(4)	(6)	(95)
Free Cash Flow	$ (337)	$ 106	$ (32)	$ 4	$ 257

	ASG Six Months Ended 6/30/2015
Net cash provided by operating activities	$ 12
Net cash used in investing activities	(19)
Net cash provided by financing activities	8
Free Cash Flow	(7)
Net cash provided by operating activities	12
Payments for acquisitions of purchased accounts	(10)
Deferred customer acquisition costs	(15)
Deferred customer acquisition revenue	7
Purchases of property and equipment	(1)
Free Cash Flow	$ (7)

	For the Twelve Months Ended December 31, 2016	December 31, 2015
Successor Free Cash Flow	$ (337)	$ (32)
Predecessor Free Cash Flow	N/A	4
The ADT Corporation Free Cash Flow	106	257
ASG Free Cash Flow	N/A	(7)
Historical Combined Free Cash Flow	(231)	221
Plus: Cash Interest	511	280
Plus: Special items		
Merger Costs	354	41
Radio Conversion Costs	78	59
Management Fees, Financing Fees and Other	43	1
Restructuring and Integration Activities	70	14
Integration Related Capital Expenditures	17	-
Other Items	-	-
Unlevered Historical Combined Free Cash Flow before special items	$ 842	$ 616

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 Adjusted EBITDA, Adjusted EBITDA margin, Free Cash Flow, Free Cash Flow before special items, Unlevered Free Cash Flow before special items, Historical Combined Free Cash Flow, Unlevered Historical Combined Free Cash Flow before special items, Supplemental Pro Forma Financial Information, Adjusted Net Income, Net Income (Loss) before special items, Diluted Earnings Per Share ("EPS") before special items, and Net Leverage Ratio as non-GAAP measures. 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

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 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) goodwill impairment losses (ix) financing and consent fees, (x) foreign currency gains/losses, (xi) losses on extinguishment of debt, (xii) radio conversion costs, (xiii) management fees and other charges, and (xiv) other non-cash items.

There are material limitations to using Adjusted EBITDA. Adjusted EBITDA does 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 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 believe that the presentation of Free Cash Flow is appropriate to provide additional information to investors about our ability to repay debt, make other investments, and pay dividends.

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 deferred subscriber installation costs; and accounts purchased through our network of authorized dealers or third parties outside of our authorized dealer network. These items are subtracted from cash flows from operating activities because they represent long-term investments that are required for normal business activities.

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 payments related to (i) financing and consent fees, (ii) restructuring and integration, (iii) integration related capital expenditures, (iv) management fees and other, (v) the redemption of the Koch Preferred Securities, (vi) radio conversion costs, and (vii) 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.

Unlevered Free Cash Flow before special items

We define Unlevered Free Cash Flow before special items as Free Cash Flow before special items adjusted for cash interest paid. As a result, subject to the limitations described below, Unlevered Free Cash Flow before special items is a useful measure of our cash available to service debt, make other investments, and pay dividends.

Unlevered Free Cash Flow before special items adjusts for contractual interest payments as well as 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. Unlevered Free Cash Flow before special items is not intended to represent residual cash flow for discretionary expenditures since debt service requirements and other non-discretionary expenditures are not deducted. These limitations are best addressed by using Unlevered Free Cash Flow before special items in combination with the GAAP cash flow numbers.

Historical Combined Free Cash Flow and Unlevered Historical Combined Free Cash Flow before special items

We have presented Free Cash Flow and Unlevered Free Cash Flow before special items on a Historical Combined basis for the 2015 and 2016 periods presented in this appendix, which represents the mathematical additions of Free Cash Flow and Unlevered Free Cash Flow before special items of the Company, The ADT Corporation, Protection One, and ASG.

Historical Combined Free Cash Flow and Unlevered Historical Combined Free Cash Flow before special items adjust 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. Historical Combined Free Cash Flow and Unlevered Historical Combined Free Cash Flow before special items are not intended to represent residual cash flow for discretionary expenditures since debt service requirements and other non-discretionary expenditures are not deducted. These limitations are best addressed by using Historical Combined Free Cash Flow and Unlevered Historical Combined Free Cash Flow before special items in combination with the GAAP cash flow numbers.

Supplemental Pro Forma Financial Information

We have presented supplemental pro forma financial information for the 2015 and 2016 periods presented in this appendix, which includes pro forma adjustments necessary to reflect the ADT Acquisition and the Formation Transactions as if they had occurred on January 1, 2015. We believe that Supplemental Pro Forma financial information is appropriate to illustrate the effect that the ADT Acquisition and the Formation Transactions had on our financial performance, assuming that such transactions took place on January 1, 2015.

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 redemption of the Koch 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 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.

Net Income (Loss) and Diluted EPS before special items

Net Income (Loss) before special items is defined as net income (loss) adjusted for (i) merger, restructuring, integration, and other, (ii) financing and consent fees, (iii) foreign currency gains/losses, (iv) losses on extinguishment of debt, (v) radio conversion costs, (vi) share-based compensation expense, (vii) goodwill impairment losses, (viii) other non-cash items, and (ix) the impact these adjusted items have on taxes. Diluted EPS before special items is diluted EPS adjusted for the items above. The difference between Net Income (Loss) before special items and Diluted EPS before special items, and net income (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 Net Income (Loss) and Diluted EPS both before special items are benchmarks used by analysts and investors who follow the industry for comparison of its performance with other companies in the industry, although our measures may not be directly comparable to similar measures reported by other companies. The limitation of these measures is that they exclude 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 measures in combination with the most comparable GAAP measures in order to better understand the amounts, character, and impact of any increase or decrease on reported results.

Net Leverage Ratio

The leverage ratio may be presented as the ratio of Adjusted EBITDA to net 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.

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. 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.