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Introduction to Convex

- Value-based investing across the capital structure in situations with clearly identifiable catalysts
- Active investing to create asymmetric risk/reward opportunities
- 13D investments since inception include AboveNet (acquired by Zayo in March ‘12), Corrections Corporation of America (submitted private letter ruling to IRS for REIT conversion in July ‘12), and Ralcorp (Keith Meister joined Board in October ‘12)
- Convex owns common shares and share equivalents representing approximately 5% of ADT (13D filed today), making the investment our largest position since inception
Company Overview

- ADT is the market leader in home security monitoring in the U.S. and Canada, with approximately 6.5 million subscribers
- 90% of ADT’s revenues are recurring monthly service fees ($38 ARPU), with annual attrition of 13%
- Holds 25% market share, ~6x the next largest competitor
- $9.0B market cap and $11.2B TEV(1); ~$3.2B of revenue and ~$1.6B of EBITDA (~49.2% margin(2)) for the fiscal year ending 9/30/12E
- EV / ‘13E EBITDA of 6.5x and ‘13E levered ‘steady-state’ free cash flow yield of 10% (based on existing capital structure)(3)
- 2007-2012E revenue and EBITDA CAGRs of ~9% and ~13%, respectively (including $2.0B Brinks acquisition)
- Spin-off from Tyco was completed on September 28
Investment Thesis

• Unique franchise asset
• Defensive, predictable business model
• Strong financial profile with stable, consistent cash flows
• Unappreciated secular growth tailwinds
• The right asset for today’s economic and interest rate environment
• Massive balance sheet optionality
  – Ability to increase leverage and improve capital allocation
  – Equity shrink story waiting to happen
  – Accelerate growth (organically or inorganically)
  – Attractive returns on invested capital

Maintaining current capital structure is indefensible
Why is ADT Mispriced?

- Investor disappointment over capital structure post-spin
- Unclear plans for capital allocation
- Lack of true public comps
- Market confusion over sustainability of low cash tax rate
- Capital intensive but high ROIC growth
- Disbelief of market penetration potential
- Complicated accounting
- Flow-back issues after spin-off
- Sellside coverage issues

**We believe all of these issues are temporary / correctable**
Unique Franchise Asset

- #1 market share in the highly fragmented home security industry
- 25% market share and ~6x relative market share
- Large and stably growing industry, with low penetration relative to other home services (~40% addressable market penetration)
- Attractive returns on capital, with ~14-21% unlevered IRRs on new subscribers
Defensive, Predictable Business Model

- Services are valuable to customers: safety and security of family and property represents a non-discretionary expenditure
- Recession resilient: total revenues grew 4% in 2008 and 3% in 2009 (organically); overall industry also grew in both of last recessions
- Customers are generally middle and upper class homeowners with assets to protect

[Chart showing Security Alarm Monitoring and Servicing Industry Revenue]
Recurring, Contract-Based Revenues

- 90% of revenues are recurring monthly service fees
- 3 year initial contract length and ~7-8 year average customer life
- Upfront installation fees of several hundred dollars help screen for committed subscribers

Annual Attrition

![Annual Attrition Chart]

Source: Company filings, Wall Street Research. ADT attrition represents RMR attrition, whereas satellite and wireless attrition represents subscriber attrition. Cable companies have not publicly disclosed attrition and gross adds for a number of years, but are commonly thought to have ~1.7-2.0% levels of monthly subscriber attrition (or ~20-24% annually).
Strong Financial Profile

Recurring Revenue Growth (incl. Brinks acquisition)

EBITDA Growth (incl. Brinks acquisition)

EBITDA Margin %

Unlevered FCF Margin %

Source: Company filings and presentations, Wall Street Research. AQT has fiscal year end of September 30.

CONVEX MANAGEMENT LP
The Right Asset for Today

• ADT is the right asset for today’s economic and interest rate environment

• Equity can be thought of as a stable stream of cash flows from the Company’s existing subscriber base, plus a differentiated platform for ongoing growth investment with attractive returns on capital

• The value of ADT’s existing subscriber base has never been higher given the current ultra-low interest rate environment
  – Furthermore, lowering Company’s cost of capital by increasing leverage creates immediate equity value

• In addition, we believe ADT is currently under-earning with “Pulse” (significantly higher ARPU product) at less than 3% of its subscriber base compared to a take rate of 39% for new internally generated subs last quarter
  – Recovery in new household formation, which appears to be taking hold, should also lift overall market growth
Returns Summary

• ADT represents an attractive risk-adjusted return investment with multiple ways to win and strong downside protection.

• Our Base Case assumes: 6.0% and 7.0% recurring revenue growth in FY13 and FY14, respectively; ~200bps of margin expansion over FY13 and FY14; debt proceeds from step-up in leverage to 3.0X, leveraging ongoing EBITDA growth (Δ in EBITDA x3), and FCF after growth capex used to buy back stock.

<table>
<thead>
<tr>
<th></th>
<th>Base Case</th>
<th>Upside Case</th>
<th>Downside Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target Price (One Year)</td>
<td>$55.00</td>
<td>$63.00</td>
<td>$43.00</td>
</tr>
<tr>
<td>% Change</td>
<td>44.4%</td>
<td>65.4%</td>
<td>12.9%</td>
</tr>
<tr>
<td>2014E EBITDA</td>
<td>$1,862</td>
<td>$1,862</td>
<td>$1,802</td>
</tr>
<tr>
<td>Net Debt / 13E EBITDA</td>
<td>3.0x</td>
<td>3.5x</td>
<td>1.3x</td>
</tr>
<tr>
<td>Diluted Shares @ 9/30/13</td>
<td>156</td>
<td>136</td>
<td>235</td>
</tr>
<tr>
<td>% Change</td>
<td>(33.6%)</td>
<td>(42.0%)</td>
<td>0.0%</td>
</tr>
<tr>
<td>TEV / 14E EBITDA</td>
<td>7.4x</td>
<td>7.8x</td>
<td>6.6x</td>
</tr>
<tr>
<td>Levered Steady-State FCF Yield</td>
<td>10.1%</td>
<td>9.3%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Cash '14E P/E</td>
<td>12.4x</td>
<td>14.0x</td>
<td>13.7x</td>
</tr>
<tr>
<td>GAAP '14E P/E</td>
<td>17.8x</td>
<td>20.1x</td>
<td>19.6x</td>
</tr>
<tr>
<td>'14E ROIR Multiple</td>
<td>49.9x</td>
<td>55.0x</td>
<td>44.3x</td>
</tr>
</tbody>
</table>
Valuation Summary

- ADT’s business model creates an annuitized stream of cash flows
- We think about the stability of these cash flows similarly to REITs, utilities, MLPs, and best-in-class consumer staples companies
- Investors have gotten comfortable valuing REITs and other capital intensive industries on the basis of free cash flow after maintenance capex, and then applying a multiple based on growth opportunities and return on investment
  - Steady-state free cash flow concept, which debt investors have become comfortable with, is essentially the same as AFFO

<table>
<thead>
<tr>
<th>Levered Steady-State Free Cash Flow / AFFO Multiples</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADT @ 3.0x 9x</td>
</tr>
<tr>
<td>Price @ Multiple:</td>
</tr>
</tbody>
</table>
We refer to calculation with no credit for ongoing price increases as AFFO methodology (i.e., free cash flow will continue to grow by level of price increases), and calculation which adds back for price increases as bond methodology (i.e., true fixed income yield)
Multiple Ways to Create Value

- Financial outperformance
  - ARPU growth tailwind
  - Secular penetration opportunity
  - Margin expansion

- Capital structure and capital allocation
  - Company’s existing debt now yields less than 3% (pre-tax)
  - Use balance sheet to accelerate growth organically or via M&A
  - 3.0x net / EBITDA leverage level would enable ADT to immediately repurchase ~30% of the Company at attractive prices

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(1) Capital return could take the form of share repurchases or dividends depending on various considerations.
Pulse and Home Automation

- New interactive service offerings have the potential to transform home security product at a higher price point and expand the addressable market beyond traditional burglar alarms.
- ADT’s advanced “Pulse” offering consists of remote system arm/disarm, lighting and climate control, remote video monitoring and video clips, custom notifications and scheduled events, and other lifestyle features.
Pulse Driving ARPU Growth Tailwind

- Pulse has a 30%+ higher price point ($50+ monthly ARPU) than the Company’s existing subscriber base
- Increased interactivity and higher customer satisfaction should also reduce churn, resulting in higher customer IRRs and cash flow
- Less than 3% of ADT’s existing subscriber base has Pulse today; we believe this mix can rise to ~50% over time
- Pulse take-rate is accelerating, reaching 39% of internal gross adds in the June quarter, compared to 35% in the prior quarter and 19% in the June quarter of last year
- Pulse will begin to be offered through the dealer channel this fall, driving further adoption
- ADT’s ARPU growth is accelerating, growing 2.8%, 3.5%, and 3.6% in the last 3 quarters, respectively
Secular Penetration Opportunity

- In addition to driving ARPU growth, home automation has the potential to increase residential penetration and drive market share gains for ADT.

- Pulse expands the value proposition of ADT’s services beyond the traditional security and life safety platform, increasing the size of the total addressable market.
  - Pulse take-rates have grown more rapidly than expected, indicating strong customer interest in advanced service offerings.

- We estimate total addressable market penetration of only ~40% today; penetration of home automation nascent at only ~2%.

- New technologies will also make it more difficult for ‘mom & pops’ to compete in the historically fragmented home security industry, driving market share gains for technology and scale leaders like ADT.

CORVUS MANAGEMENT LP
Continued Margin Expansion

- We believe ADT’s margins will continue to expand over time, as they have done steadily over the past 5 years, driving EBITDA growth in excess of the top-line.
- Management guidance of flat ~50% EBITDA margins is conservative, consistent with historical Tyco practice.
- Pulse results in increased upfront SAC, followed by increased ARPU flowing through at high incremental margins.
- Service margins in excess of 70%.

EBITDA Margin %

Cost to Serve (GM%)
Cost Structure Opportunity

- After normalizing for estimated SAC expensed in SG&A, we estimate ADT’s pre-SAC SG&A represents over 25% of revenues.
- Based on peers, we conclude that there are potentially material opportunities to improve ADT’s cost structure as a standalone public company, enhancing both EBITDA margins and free cash flow.
Financial Outperformance

- Street has initially responded to management’s growth plan with skepticism
- Analysts projecting ~3-5% revenue growth, compared to management’s goal of 5-7%
- We believe management’s plan is achievable, and the ARPU tailwind from Pulse will lead to ADT exceeding revenue and profit estimates over time
- Subscriber growth through home automation value proposition is a free call option on additional upside, with potential for both increased residential penetration and market share gains
- Additional potential upside drivers include a recovery in new household formation (which appears to be happening), cost savings opportunities, and growth in small business channel
Ability to Change Balance Sheet not Reflected in Current Valuation

- ADT’s defensive business, predictable, contract-based revenue stream, and high free cash flow conversion create opportunity for significant leveraging of its balance sheet
  - ADT capital structure should have been an important consideration in Tyco spin-off rationale
  - Company’s existing 5-year debt literallly trades at ~1.7% yield to maturity and the Company’s entire debt structure trades at a blended 2.96% yield to maturity
  - There is a massive opportunity to lower ADT’s overall cost of capital by prudently increasing leverage that the Company is currently ignoring
- Leverage for home security peers and cable companies is generally 2-5x EBITDA in the public markets (and, not surprisingly, often higher in the private markets)
Optimize Capital Structure and Capital Allocation

• We believe ADT should immediately increase leverage to 3.0x Net Debt / EBITDA and maintain a fixed leverage target of 3.0x going forward
  – 3.0x level is conservative relative to home security peers, cable companies, and other alternative comps
  – Would enable the Company to repurchase ~30% of its float today\(^1\)
• Use debt proceeds to both return capital to shareholders and accelerate growth
  – Multiple accretive options exist
  – Changing cost of capital and buying back under-valued stock now creates significant long-term equity value
• Use ongoing incremental debt proceeds (from leveraging EBITDA growth) and excess free cash flow to return capital to shareholders, and clearly communicate leverage target and capital allocation plan

\(^1\) Capital return could take the form of share repurchases or dividends depending on various considerations.

CORVEX MANAGEMENT LP
Low Cost of Funding Provides Multiple Accretive Options

- We can debate the optimal combination, but we cannot debate or support maintaining the current inefficient capital structure

Cost of Funding

~2-4% (after-tax)

Growth Investment

- Direct Sales
  - ~16-23% IRR

- Dealer Acqs.
  - ~12-19% IRR

- M&A
  - 12-20%+ ROIC

Capital Return

- Dutch Tender
- Special Dividend
- Ongoing Buyback
- Annual Dividend

Repeat Virtuous Cycle
Significant Cost of Capital Arbitrage

- We believe it is irresponsible for ADT not to capitalize on its current cost of funding
- ADT’s debt trades well above par only 3 months after issuance; 4.875% notes recently traded above 110
- 5 year debt now yields only 1.7% pre-tax
- By funding itself with 80% equity, we estimate the Company loses approximately $105 million annually or $286,540 per day of shareholders’ money\(^{(1)}\)

<table>
<thead>
<tr>
<th>Sr Unsecured due 2017</th>
<th>Balance</th>
<th>Recent Price</th>
<th>Current Yield</th>
<th>YTM@ Mkt Px</th>
<th>After-Tax @ 35%</th>
<th>Issued</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.250%</td>
<td>$750.0</td>
<td>102.7</td>
<td>2.19%</td>
<td>1.66%</td>
<td>1.08%</td>
<td>7/5/12</td>
<td>7/15/17</td>
</tr>
<tr>
<td>3.000%</td>
<td>1,000.0</td>
<td>104.7</td>
<td>3.34%</td>
<td>2.94%</td>
<td>1.91%</td>
<td>7/8/12</td>
<td>7/15/22</td>
</tr>
<tr>
<td>4.875%</td>
<td>750.0</td>
<td>106.9</td>
<td>4.33%</td>
<td>4.28%</td>
<td>2.78%</td>
<td>7/5/12</td>
<td>7/15/42</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,200.0</strong></td>
<td><strong>105.6</strong></td>
<td><strong>3.33%</strong></td>
<td><strong>2.90%</strong></td>
<td><strong>1.93%</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^{(1)}\) As compared to 3.0x leverage, with 4.5% pre-tax cost of debt, 35.0% long-term taxe, and 7.0% equity cost of capital.

Note: recent prices per Bloomberg (11/19/12).
## Leverage Comparison

<table>
<thead>
<tr>
<th></th>
<th>Total Debt / EBITDA</th>
<th>Net Debt / EBITDA</th>
<th>Net Debt / (EBITDA + CapEx)</th>
<th>EBITDA / CapEx</th>
<th>EBITDA / Interest Charges</th>
<th>Credit Ratings</th>
<th>Weighted Avg. Interest Rate</th>
<th>Weighted YTM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protection 1</td>
<td>3.6x</td>
<td>3.4x</td>
<td>5.8x</td>
<td>1.5x</td>
<td>1.2x</td>
<td>N/A</td>
<td>6.5%</td>
<td>N/A</td>
</tr>
<tr>
<td>Mintronics</td>
<td>4.2x</td>
<td>3.8x</td>
<td>19.1x</td>
<td>0.7x</td>
<td>0.9x</td>
<td>CCC+</td>
<td>6.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Vrinth</td>
<td>5.5x</td>
<td>5.5x</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Securitas</td>
<td>7.2x</td>
<td>7.1x</td>
<td>17.0x</td>
<td>N/A</td>
<td>N/A</td>
<td>7.2%</td>
<td>6.8%</td>
<td></td>
</tr>
<tr>
<td><strong>Home Security Average</strong></td>
<td><strong>5.1x</strong></td>
<td><strong>4.9x</strong></td>
<td><strong>13.9x</strong></td>
<td><strong>1.1x</strong></td>
<td><strong>1.1x</strong></td>
<td><strong>6.7%</strong></td>
<td><strong>6.4%</strong></td>
<td></td>
</tr>
<tr>
<td>Comcast</td>
<td>1.9x</td>
<td>1.8x</td>
<td>2.5x</td>
<td>6.2x</td>
<td>1.8x</td>
<td>BBB+</td>
<td>5.0%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Time Warner Cable</td>
<td>3.5x</td>
<td>3.1x</td>
<td>5.1x</td>
<td>2.0x</td>
<td>1.4x</td>
<td>BBB</td>
<td>6.4%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Cahillson</td>
<td>6.4x</td>
<td>5.2x</td>
<td>11.1x</td>
<td>1.3x</td>
<td>1.1x</td>
<td>BB</td>
<td>7.5%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Charter</td>
<td>4.8x</td>
<td>4.8x</td>
<td>12.0x</td>
<td>1.2x</td>
<td>1.1x</td>
<td>BS</td>
<td>7.3%</td>
<td>6.6%</td>
</tr>
<tr>
<td>DTV</td>
<td>2.1x</td>
<td>1.8x</td>
<td>3.4x</td>
<td>5.3x</td>
<td>1.3x</td>
<td>BBB</td>
<td>4.6%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Dish</td>
<td>3.0x</td>
<td>2.2x</td>
<td>3.2x</td>
<td>4.5x</td>
<td>1.5x</td>
<td>BS</td>
<td>6.7%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Cable / Satellite Average</td>
<td>3.5x</td>
<td>3.2x</td>
<td>6.2x</td>
<td>3.6x</td>
<td>1.4x</td>
<td></td>
<td>6.4%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Verizon</td>
<td>1.4x</td>
<td>1.1x</td>
<td>1.8x</td>
<td>9.0x</td>
<td>2.2x</td>
<td>A-</td>
<td>5.7%</td>
<td>5.5%</td>
</tr>
<tr>
<td>AT&amp;T</td>
<td>1.5x</td>
<td>1.5x</td>
<td>2.7x</td>
<td>6.0x</td>
<td>2.4x</td>
<td>A-</td>
<td>5.2%</td>
<td>4.4%</td>
</tr>
<tr>
<td><strong>Tech Average</strong></td>
<td><strong>1.5x</strong></td>
<td><strong>1.3x</strong></td>
<td><strong>2.2x</strong></td>
<td><strong>8.0x</strong></td>
<td><strong>1.8x</strong></td>
<td><strong>5.4%</strong></td>
<td><strong>4.5%</strong></td>
<td></td>
</tr>
<tr>
<td>MNT Average</td>
<td>6.2x</td>
<td>6.0x</td>
<td>7.8x</td>
<td>2.7x</td>
<td>2.0x</td>
<td>5.0%</td>
<td>2.4%</td>
<td></td>
</tr>
<tr>
<td>Utilities Average</td>
<td>4.3x</td>
<td>4.2x</td>
<td>16.2x</td>
<td>1.4x</td>
<td>0.8x</td>
<td></td>
<td>5.4%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Staples Average</td>
<td>1.5x</td>
<td>1.2x</td>
<td>1.5x</td>
<td>20.7x</td>
<td>2.2x</td>
<td></td>
<td>3.8%</td>
<td>1.9%</td>
</tr>
<tr>
<td><strong>Total Mean</strong></td>
<td><strong>3.7%</strong></td>
<td><strong>2.5%</strong></td>
<td><strong>8.0%</strong></td>
<td><strong>6.2x</strong></td>
<td><strong>1.5x</strong></td>
<td><strong>5.5%</strong></td>
<td><strong>3.3%</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total Median</strong></td>
<td><strong>3.3%</strong></td>
<td><strong>2.7%</strong></td>
<td><strong>7.8%</strong></td>
<td><strong>3.1%</strong></td>
<td><strong>1.6%</strong></td>
<td><strong>5.4%</strong></td>
<td><strong>3.3%</strong></td>
<td></td>
</tr>
<tr>
<td>ADT - Current</td>
<td>1.6x</td>
<td>1.4x</td>
<td>3.96</td>
<td>6.3x</td>
<td>1.4x</td>
<td>BBB</td>
<td>3.5%</td>
<td>3.4%</td>
</tr>
<tr>
<td>ADTg - 3.qtr.</td>
<td>3.2x</td>
<td>3.0x</td>
<td>8.6x</td>
<td>3.6x</td>
<td>1.3x</td>
<td>IG</td>
<td>4.3%</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

1. Weighted average interest rate for total outstanding debt.
2. Weighted average yield to maturity for total corporate debt.
3. Total debt, cash and LTM EBITDA as of March 31, 2023. Full year capital, interest, and taxes as of 12/31/2022.
4. Debt figure excludes stranded loan.

CONVEX MANAGEMENT LP
Leverage Comparison (cont’d)

Net Debt / CY 2012E EBITDA

Source: Wall Street Equity Research, Capital IQ, and Green Street estimates.
(1) Total debt, cash and 12M EBITDA as of March 31, 2016.
Optimize Capital Structure and Capital Allocation

~30% ‘12E - ‘15E EBITDA Growth

+ 

~45% Reduction in Shares Outstanding

= 

Significant Equity Appreciation

Capital return could take the form of share repurchases or dividends depending on various considerations.
Power of Levered Share Repurchases

- Ongoing equity shrink combined with financial outperformance leads to significant long-term value creation
- A discounted cash flow analysis is the most appropriate way to value ADT in our opinion
- As shown below, changing the Company’s cost of capital by borrowing at today’s ultra-low interest rates and using debt proceeds to repurchase ADT’s stock results in a significant increase in equity value

<table>
<thead>
<tr>
<th>Status</th>
<th>ADT Share Price</th>
<th>% Change to Current</th>
<th>Cumulative % Change in Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quo</td>
<td>$44.68</td>
<td>17.3%</td>
<td>0.0%</td>
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<tr>
<td>%Change to Current</td>
<td>$49.06</td>
<td>28.8%</td>
<td>(9.9%)</td>
</tr>
<tr>
<td></td>
<td>$53.83</td>
<td>41.3%</td>
<td>(21.0%)</td>
</tr>
<tr>
<td></td>
<td>$59.91</td>
<td>57.3%</td>
<td>(33.1%)</td>
</tr>
<tr>
<td></td>
<td>$67.68</td>
<td>77.6%</td>
<td>(43.2%)</td>
</tr>
<tr>
<td></td>
<td>$75.15</td>
<td>105.1%</td>
<td>(54.3%)</td>
</tr>
<tr>
<td></td>
<td>$92.34</td>
<td>142.4%</td>
<td>(65.4%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Debt / EBITDA</th>
<th>1.5x</th>
<th>2.0x</th>
<th>2.5x</th>
<th>3.0x</th>
<th>3.5x</th>
<th>4.0x</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative % Change in Shares</td>
<td>(9.9%)</td>
<td>(21.0%)</td>
<td>(33.1%)</td>
<td>(43.2%)</td>
<td>(54.3%)</td>
<td>(65.4%)</td>
</tr>
</tbody>
</table>

Note: DCF valuation assumes 7.0% discount rate (equity cost of capital) and exit in year 5 at 3.0x equity steady-state free cash flow yield. Analysis assumes interest rate increases with higher leverage.

% Change to Current based on ADT Share Price of $38.10, closing price on October 28, 2012.
“Equity Shrink” Stories Have Significantly Outperformed

- Stable growth combined with an appropriate capital structure, ongoing share repurchases, and clear investor communication of leverage target and buyback strategy has led to significant outperformance.
Comparable Companies Valuation Analysis

TEV / CY 2013E EBITDA

![Comparable Companies Valuation Analysis Chart]

Source: Wall Street Equity Research, Capital IQ, and Green Street estimates.
Note: Market data as of 11/18/2016.
Comparable Companies Valuation Analysis (cont’d)

CY 2013E Levered FCF Yield

Source: Wall Street Equity Research, Capital IQ, and Green Street estimates.
Note: Market data as of 11/18/2016.
Comparable Companies Valuation Analysis (cont’d)

2013E Levered Steady State Free Cash Flow Yield (AFFO methodology / no pricing add-back)

Source: Wall Street Equity Research, Capital IQ, and Green Street Estimates.
Note: ADT and Monitronics methodology assumes recurse for ongoing price increases (i.e., Free cash flow should continue to grow ~2%). Market date as of 10/31/2012.

CONVEX MANAGEMENT LP
Comparable Companies Valuation Analysis (cont’d)

2013E Levered Steady State Free Cash Flow Yield (bond methodology / including pricing add-back)

<table>
<thead>
<tr>
<th>Sector/Group</th>
<th>Median</th>
<th>ADT</th>
<th>Monitronics</th>
<th>Barclays Capital U.S. Corporate High Yield</th>
<th>REITs</th>
<th>30-Year Mortgage Rate</th>
<th>U.S. 30-Year Treasury</th>
<th>Barclays Capital U.S. Aggregate Bond Index</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11.0%</td>
<td>12.5%</td>
<td>9.5%</td>
<td>8.6%</td>
<td>6.7%</td>
<td>4.2%</td>
<td>1.2%</td>
<td>1.96%</td>
</tr>
</tbody>
</table>

Source: Barclays Capital and Ellwood Mortgage Marketplace
Note: ADT and Monitronics methodologies adjust for ongoing price increases (i.e., represents fixed, bond-like yield). Market data as of 12/31/2012.
Comparable Companies Valuation Analysis (cont’d)

TEV / CY 2013E Unlevered FCF

Includes ~$500mm of growth capex


CONVEX MANAGEMENT LP
Comparable Companies Valuation Analysis (cont’d)

TEV / CY 2013E Unlevered Steady-State FCF

Source: Wall Street Equity Research, Capital IQ and Green Street estimates.
Note: Market data as of 11/18/2016
Comparable Companies Valuation Analysis (cont’d)

Price / CY 2013E EPS

![Graph showing price to CY 2013E EPS ratios for different companies](image)

Source: Wall Street Equity Research, Capital IQ, and Green Street Estimates.

Note: 2 Year CAGR's (2011E - 2013E) used for AT&T, cable, satellite, and telecom.

Price / CY 2013E EPS calculated using AFFO for REITs and distributable cash flow per unit for MLPs.

Market data as of 10/23/2013.

CORTEX MANAGEMENT LP
Comparable Companies Operating Performance

Revenue CAGR

<table>
<thead>
<tr>
<th>Company</th>
<th>CAGR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MLPs</td>
<td>9.7%</td>
</tr>
<tr>
<td>Monitronics</td>
<td>7.9%</td>
</tr>
<tr>
<td>ADT</td>
<td>6.0%</td>
</tr>
<tr>
<td>REITs</td>
<td>5.4%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>5.1%</td>
</tr>
<tr>
<td>Charter</td>
<td>4.8%</td>
</tr>
<tr>
<td>Utilities</td>
<td>4.7%</td>
</tr>
<tr>
<td>Comcast</td>
<td>3.7%</td>
</tr>
<tr>
<td>DIRECTV</td>
<td>3.7%</td>
</tr>
<tr>
<td>Time Warner</td>
<td>3.1%</td>
</tr>
<tr>
<td>Dish</td>
<td>3.0%</td>
</tr>
<tr>
<td>Cablevision</td>
<td>1.1%</td>
</tr>
<tr>
<td>Veizon</td>
<td>1.0%</td>
</tr>
<tr>
<td>AT&amp;T</td>
<td></td>
</tr>
</tbody>
</table>

Source: Wall Street Equity Research, Capital IQ, and Green Street Estimates.
Note: 3 Year CAGRs (2012E – 2015E) used for ADT, cable, satellite, and utilities.

Convex Management LP
Comparable Companies Operating Performance

EPS CAGR

<table>
<thead>
<tr>
<th>Company</th>
<th>EPS CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADT (3.0x Leverage)</td>
<td>21.8%</td>
</tr>
<tr>
<td>Time Warner</td>
<td>21.1%</td>
</tr>
<tr>
<td>DirectTV</td>
<td>15.7%</td>
</tr>
<tr>
<td>Comcast</td>
<td>13.6%</td>
</tr>
<tr>
<td>Cablevision</td>
<td>13.4%</td>
</tr>
<tr>
<td>AT&amp;T (Current)</td>
<td>11.3%</td>
</tr>
<tr>
<td>REITs</td>
<td>10.5%</td>
</tr>
<tr>
<td>Utilities</td>
<td>8.4%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>7.8%</td>
</tr>
<tr>
<td>AT&amp;T</td>
<td>6.3%</td>
</tr>
<tr>
<td>Verizon</td>
<td>6.0%</td>
</tr>
<tr>
<td>MLPs</td>
<td>4.0%</td>
</tr>
<tr>
<td>Dish</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

Source: Wall Street Equity Research, Capital IQ, and Green Street estimates.
Note: 3 Year CAGRs (2013 - 2015) used for ADT, cable, satellite and Telecom.
3 Year CAGRs (2014 - 2016) used for REITs, Consumer Staples, MLPs, and Utilities.
EPS CAGR calculated using AFFO for REITs and Distributable Cash Flow per Unit for MLPs.
Recent Precedent Transactions

RMR Purchase Multiples

Source: Company filings, press releases, Wall Street Equity Research, and Capital IQ

Recent Precedent Transactions RMR Purchase Multiples 65.0x Recent Precedent Transactions ADT Source: Company filings, press releases, Wall Street Equity Research, and Capital IQ. | 41 | CORVEX MANAGEMENT LP
Bear Arguments

- Limited FCF after growth capex
- Cash tax shield going away after 2 years
- Cable entry / threat
Limited FCF After Growth Capex

- A DCF is the best way to value ADT in our opinion
- EBITDA – CapEx or FCF yield at a point in time is not a thoughtful cash flow valuation methodology
  - Not atypical for home security companies and other capital intensive businesses to have negative FCF
  - EBITDA – CapEx can be artificially inflated or deflated at any point in time by company’s level of discretionary growth capex
- Equity investors should welcome growth investment by businesses with attractive returns on capital
  - Our analysis and field work supports the Company’s statement of ~14-21% unlevered customer IRRs
  - ADT should borrow at 3% and invest / re-invest in itself at ~14-21% returns as much as it can
The Death of ADT’s Single-Digit Cash Tax Rate Has Been Greatly Exaggerated

- The post-spin tax carryforwards along with cash tax planning opportunities will allow ADT to sustain a single-digit cash tax rate consistent with pre-spin cash tax rates (The ADT Corporation Form 10 Presentation, 4/10/12)
- ADT will have significant deferred tax assets which results in the cash tax rate being significantly below the P&L rate
  - ADT expects to have $1.0-$1.2 billion of federal tax loss carryforwards at the time of the separation
  - In addition, ADT expects to have the ability to accelerate certain tax deductions that would allow us to minimize our cash tax rate for a period of time beyond the full utilization of the initial deferred tax assets (The ADT Corporation Investor Day Presentation, 9/18/12)
Cash Taxes (cont’d)

• While we will all learn more in November, our work has corroborated the existence of deferred tax assets (in addition to the inherited carry forward) which should enable ADT to preserve a low cash tax rate for 6+ years

• Additionally, the business should continue to generate an ongoing cash tax shield through continued subscriber growth and the upfront deduction of subscriber acquisition costs

• A more appropriate capital structure will also lengthen the duration of ADT’s valuable cash tax assets

• No evidence of significant one-time “bonus depreciation” in deferred tax liabilities on ADT’s balance sheet

• Conspiracy theorists seem to not understand that companies are only able to make limited commentary during spin-off and while awaiting IRS rulings
Cash Taxes (cont’d)

- No other home security company is a significant cash tax payer

- Importantly, we expect to be very efficient from a cash tax rate perspective. That's going to be driven by two things. First, we expect that we’re going to inherit between $1 billion and $1.2 billion NOL at the time of the spin. In addition to that, we have the opportunity to accelerate certain deductions that will allow us to minimize that cash tax rate for a period of time beyond fully utilizing that initial NOL that we inherit... Overall, we expect our cash tax rate will be driven by federal AMC taxes, state taxes and Canadian income and withholding taxes resulting in an overall cash tax rate of between 6% and 8%. (Kathryn A. Mikells, 9/18/12)
Cable Entry / Threat

- We believe cable threat is manageable, which is not necessarily a contrarian view
- Discussion of cable entering home security numerous times over the past 10-15 years, without results to date
- Comcast is only cable company with a real home security product today (passes ~40% of homes in the U.S.)
  - Other cablecos behind Comcast; ‘science project’ stage for some
- Home security companies have watched Comcast’s test markets and other test markets historically and not detected any impact
- Home automation and advanced service offerings could change the opportunity for cable, but more likely to grow the overall market and threaten ‘mom & pops’ than negatively impact ADT
Cable Entry / Threat (cont’d)

- Cable industry would need to improve its image and devote resources to effectively compete in home security
  - Much more complicated sales and marketing effort
  - Home security involves thousands of dollars of installed equipment, requiring more skilled technicians (and limiting synergies with existing truck rolls)
  - Need to overcome real and perceived poor customer satisfaction and lousy customer service
  - Cable not historically strong at selling anything other than triple play
  - When cable began providing landline telephony in the 1990s (a commodity product), achieved only ~7-8% share after 5 years
- Home security end market is not material to large cable companies
  - Main area of growth outside of core triple play is SMB
Cable’s Relevance as Comp Group Overstated

- Pay-TV is saturated / fully-penetrated industry
- High speed internet still growing, but blended cable revenue growth still lower than home security by ~30-40%
- Several well capitalized competitors trying to steal existing subscribers in any given market
- Business model based on distributing another company’s content
  - Industry facing declining margins in video product due to rising content costs
- Poor customer satisfaction (negative net promoter scores)
- Requires centralized network maintenance capex
- FCF benefitting from hiatus in growth capex after industry-wide rollout of DOCSIS 3.0
Conclusion

Predictable, Growing Cash Flows

Under-levered Capital Structure / Balance Sheet Optionality

Equity Shrink Story

Multiple Expansion / Equity Appreciation