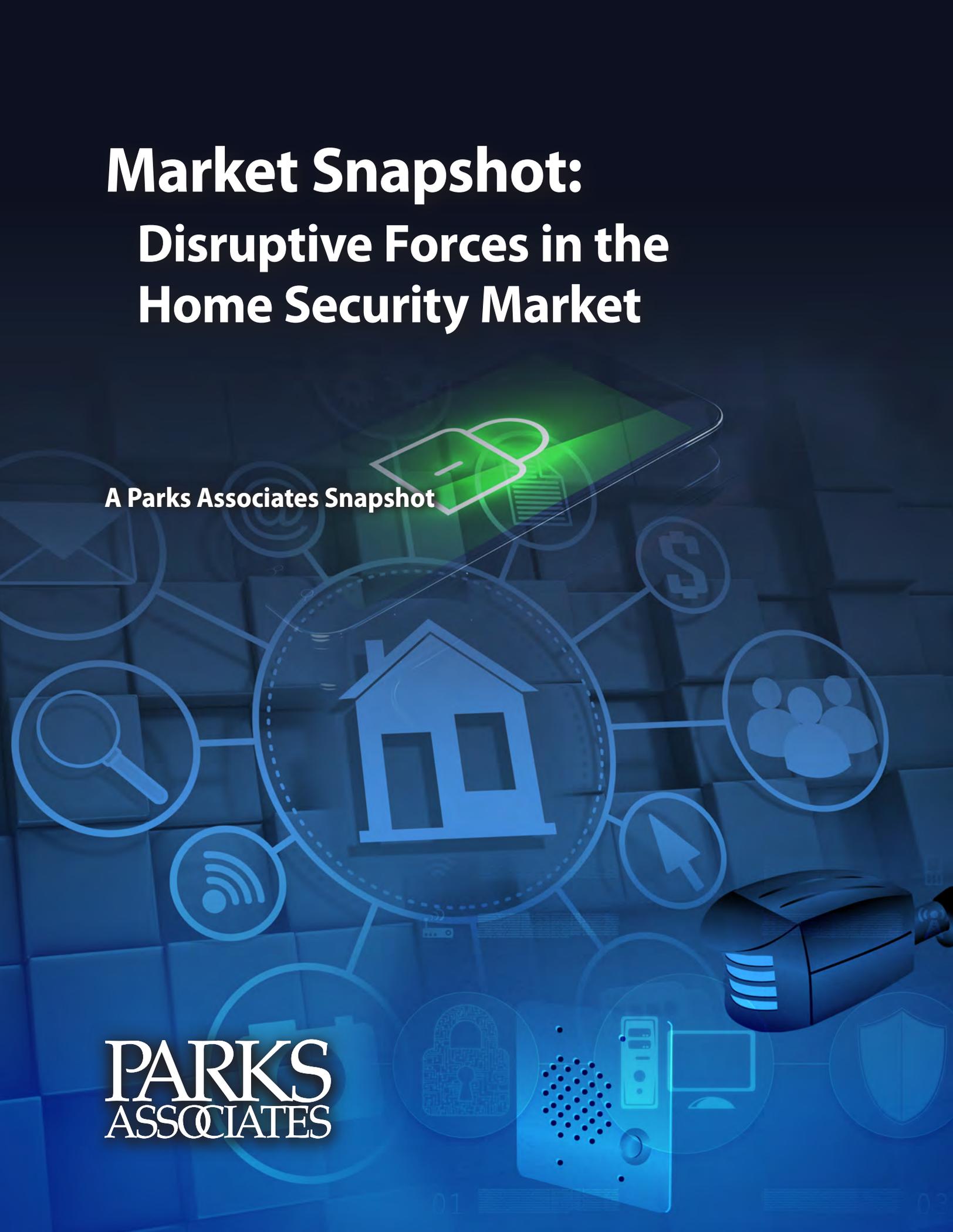


Market Snapshot: Disruptive Forces in the Home Security Market

A Parks Associates Snapshot

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Disruptive Forces in the Home Security Market

2015 was a good year for the residential security industry. Because of that, 2016 followed with a rational growth rate of 4%-5% for the industry itself in terms of volume.

For security adoption among all U.S. households, growth was 1%-1.2%, after attrition is incorporated into the growth equation.

The recession, which began for new-start home builders in mid-2007, hurt the security industry, most particularly professionally monitored security. Adoption dropped from an estimated 21% down to 18%-19%.

Recovery takes time, with improvements in new-start single-family home sales emerging in mid-2013 and improving through 2014.

While recent years have experienced solid security system sales and professional monitoring has recovered, adoption of professionally monitored security has expanded only slightly beyond its pre-recession high. That difference reflects, in part, the declining number of professionally monitored security systems in non-broadband households.

Parks Associates estimates the presence of a working security system at 23%-25% of U.S. broadband households and the presence of professionally monitored security at 21%-22%.

Growth came as a result of, and (in some cases) in spite of, a few specific trends, including IoT innovations, the addition of smart home offerings to traditional security, and the continued emergence of new competitors, particularly broadband providers.

Smart Home Products in the Security Market

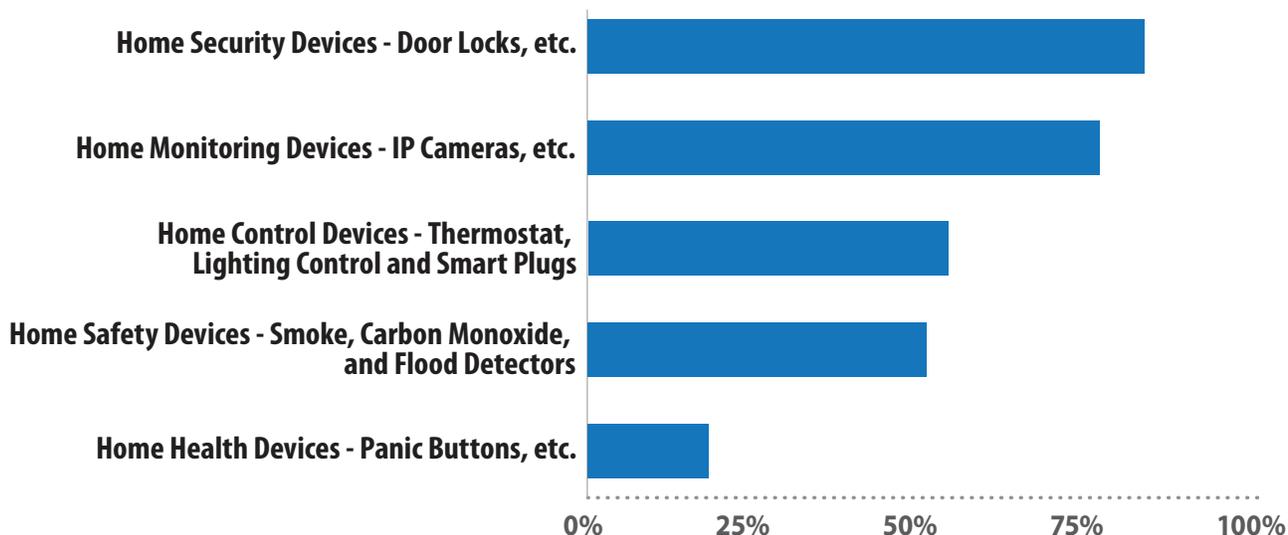
Today, the sale of smart home devices, ranging from IP cameras to lighting control, is the most significant long-term trend for security providers.

Wireless and cloud components of smart home controllers and devices are a major technology disrupter for the security industry. This technology disruption exists across multiple categories, not just the security industry. All consumer electronics, household appliances, and category functions are or will be affected by smart home technology. Lighting, thermostats, network cameras, appliances, water heaters, sprinkler systems, etc.—all have or will incorporate connections wherever benefit is realized, combining to be a part of what is collectively called the Internet of Things (IoT).

Regarding the value propositions for smart home solutions, safety and security continue to be top-of-mind for consumers, which aligns almost perfectly with the home security value proposition.

Top 3 Most Desired Smart Home Device Types from Interactive Service Provider

U.S. Security Dealers



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Firms consistently rank smart home devices that directly relate to the overall security of a home as the most desired devices.
- *Parks Associates Security Dealer Research*

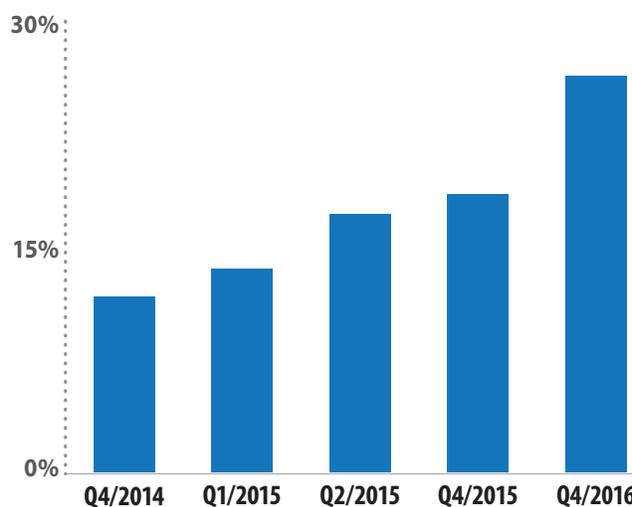
Given the synergy between the value propositions for traditional security and the smart home, the security channel and its customers have been a key avenue of the early adoption of smart home products.

At the end of 2016, the adoption rate for smart home products reached 26% of U.S. broadband households.

Of the nearly 25% of U.S. broadband households with a working and active security system, 65% plan to buy a smart home device within the year.

Smart Home Device Ownership (2014-2016)

U.S. Broadband Households



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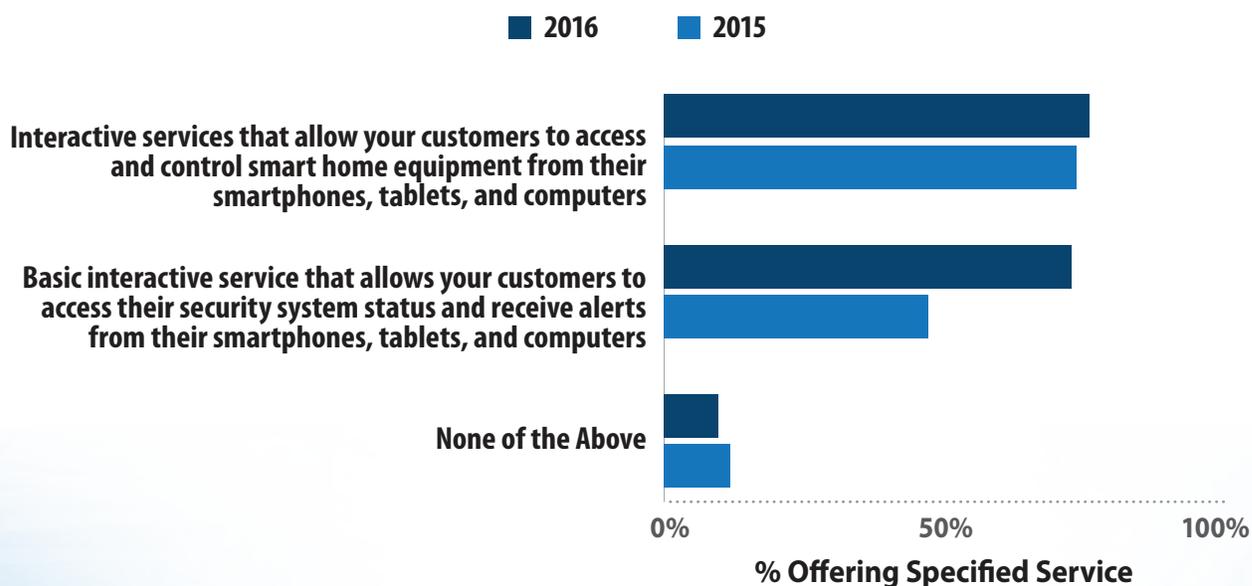
Smart home offerings have helped to revitalize the overall security market opportunity and are now part of the value proposition for professionally monitored security.

This shift changes all but the fundamental function of security providers, which is offering alerts to householders and monitoring agencies about intruders, fire, and (for some subscribers) dangerous levels of CO.

Smart home devices emerged for the first time in traditional security systems in 2009 with the introduction of home automation offerings from Vivint (then APX). Since then, traditional security providers such as ADT and Vivint have launched many new smart home offerings, and the industry now touts smart home benefits alongside traditional protection, promoting the convenience that comes with the access and control of systems such as lighting, thermostats, and garage doors. In 2Q 2015, ADT reported that 21% of its base had some smart home devices.

Type of Residential Security Service Offered

U.S. Security Dealers



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Approximately 60% of U.S. security dealers report that 60%-100% of their security system installations include some smart home control features.



Nearly 75% of U.S. security dealers provide smart security systems, up from less than 50% at the end of 2015.

Broadband Providers in the Security Market

Broadband providers announced their entry into professionally monitored security and the smart home market simultaneously. Their embrace of home security offerings is part of a natural evolution in business strategies after these providers have been battling for their share of broadband, pay-TV, and mobile customers.

Security is not a dominant source of focus or revenue for broadband providers. Their motivations for offering security are varied. For many broadband providers, security represents another way to add marginal revenue and increase stickiness for their offerings. Since providers often view security fees as fungible, they can offer deals or bundles with their security services to broaden the appeal of their core services.

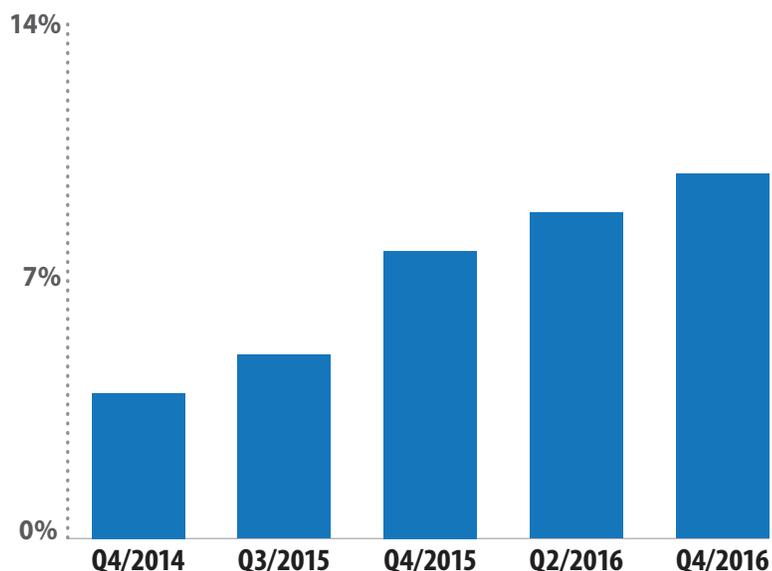
Broadband service providers are also interested in leveraging their role as a security provider to develop large institutional relationships with health providers, property insurance providers, and even energy utilities. These relationships could develop into resources as important for the broadband providers as the actual monies received from their professional monitoring businesses.

Conquering Attrition ... and approaching the Mass Market

Attrition is the natural enemy of security and broadband providers, and both are adding smart home solutions to their offerings in order to lower attrition while achieving slightly higher recurring monthly revenue (RMR). This part of the strategy has so far been successful for security providers, as some large providers like ADT, Vivint, and Protection One are reporting lower attrition than in the past. Increasing RMR via additional fees for those devices also allows the industry to maintain its revenue base without any dramatic increases in monthly monitoring fees. The sale of the security system and devices also allows security companies multiple ways to market bundles. While security is the most prominent early channel for smart home solutions, it is not the only avenue for consumers to acquire these benefits.

Smart Programmable Thermostat Adoption

U.S. Broadband Households



The majority of the 11% of U.S. broadband households with a smart thermostat have a standalone product, not integrated into a smart home system. Smart thermostats are increasingly sold or provided through retail stores, online, HVAC dealers, and energy utilities.

Network security cameras already have a position in retail, some direct corporate sites, and on Internet-only sites like Amazon. Home improvement giants offer these devices, and multiple property insurance companies offer discounts for having active alert devices for high-loss claim areas such as leaks. Garage door installers offer connected remotes at the time of new door installations and at repairs when compatibility exists.

As more products emerge, and as consumer awareness increases, the smart home ecosystem will cross the chasm into early mass-market adoption. Security will be one of several channels where consumers acquire Internet-connected sensors, cameras, thermostats, and other devices with cloud-based capabilities.

Adding smart home solutions has contributed to the success of security system sales in recent years. Parks Associates forecasts the market for professionally monitored security systems will flatten around 30% penetration, with a target market similar to that targeted in the past and today.

Competition for the manner and timing of consumer adoption of smart devices will accelerate. Consumers will decide among standalone devices, systems allowing incremental additions with low or no fees, and security systems. Controllers will add sensors for multiple applications, perhaps including motion detection, with many channels open to sell consumers what they want.



Optimism for the Future

Despite the potential 30% ceiling for the market for professionally monitored security, and multiple channels of competition in a market dominated by smart home solutions, there are several opportunities for business growth and expansion in this new environment. Smart home solutions generate copious amounts of data that offer valuable insight into their subscribers.

Security providers can transform smart home data (safely and securely) into information that creates benefits to customers. This immense and ever-growing cache of data represents an opportunity, albeit one with many challenges. Providers can leverage that data to create personalized experiences, but they could also create new and unwanted complexity for their systems. Security companies can lead in this area of data analytics by investing in adaptive learning (AI) and integrating natural voice (securely) into their system interface.

These are difficult changes, but Parks Associates believes that the security providers can exploit huge opportunity in their markets through AI and through smart home.

To succeed in this new market, which will come to be dominated by smart home solutions, providers of professionally monitored security systems must:

- Continue to offer the consumer choices (options) for new features
- Integrate the best of product categories instead of or in addition to building their own
- Consider alternative strategies to compete with smart home products offering self-monitoring with lower monthly contract costs
- Consider and develop alternative business models to attract new subscribers
- Offer subsidies from energy utilities, broadband, or pay-TV video service providers
- Differentiate their platform or system value from *ad hoc* professionally monitored-enabled devices (smart doorbells, for example)



About The Author



Tricia Parks, Chairman, Founder, President, and CEO, Parks Associates

Tricia Parks is the founder, chairman, president, and CEO of Parks Associates, a market analyst and research company dedicated to providing meaningful information and counsel to companies offering technology-based products aimed at improving people's lives. She presents worldwide on consumer trends, market requirements, and industry structure, with an eye to meshing visionary and progressive ideas to consumer needs and wants.

Parks Associates hosts CONNECTIONS™, an international conference and showcase for the digital home hosted in the U.S., and CONNECTIONS™ Europe, hosted in Europe and focusing on market opportunities for digital products and services in the many nations of Europe. Tricia Parks also developed the Relevancy Theory, a forecasting model for sales across a broad range of digital electronic products and services.

Tricia has served on a variety of industry boards including CEA's Home Networking and Information Technology division, the National Research Council's Committee for a Partnership to Assess Technology for Housing (PATH), the AMD Board of Global Consumer Advocacy, and CABA. Tricia Parks has a BA from Sweet Briar College and graduate studies from the University of Texas.

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Parks Associates is an internationally recognized market research and consulting company specializing in emerging consumer technology products and services.

Founded in 1986, Parks Associates creates research capital for companies ranging from Fortune 500 to small start-ups through market reports, primary studies, consumer research, custom research, workshops, executive conferences, and annual service subscriptions.

The company's expertise includes the Internet of Things (IoT), digital media and platforms, entertainment and gaming, home networks, Internet and television services, digital health, mobile applications and services, support services, consumer apps, advanced advertising, consumer electronics, energy management, and home control systems and security.

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