Mossberg's Investor Digest

Best Idea Profile: **Ascent Capital Group Inc. (NASDAQ:ASCMA)**

DESCRIPTION:

Ascent Capital Group, Inc. is the holding company that owns 100% of its operating subsidiary, Monitronics International Inc. It is the second largest residential security alarm monitoring provider in the U.S. It monitors signals arising from burglaries, fire, and medical emergencies. It serves more than a million customers in all 50 states, Puerto Rico and Canada, with over 600 independent dealers. It is the largest dealer-only model. Ascent was spun off as a separate public company in 2008. The company headquarters are in Dallas.

KEY INVESTMENT CONSIDERATIONS:

Favorable Environment – The monitoring industry is currently underpenetrated and fragmented, and in a period of rising awareness of the benefits of home monitoring. There are only a few large national players, with almost half of the market in the hands of about 13,000 local independent dealers. Management believes there is significant consolidation opportunity that could be supported by Ascent's highly leverageable model. Ascent's business model results in high margins, and predictable and recurring revenues. The company has loyal customers, resulting in low attrition and an average life of eight years. Attrition rates are improving too, from 12.6% to 12.3% year over year. In addition it is a recession resistant industry that currently has penetrated under 20% of the residential population.

Acquisition Growth – In addition to its successful organic growth, Ascent acquired 93,000 accounts in October 2012, and another 200,000 in its acquisition of Security Networks in August 2013. Security Networks operates a dealer-based business model similar to Monitronics, which should contribute to the $6 million in annual operational synergies management is expecting. The combination will increase the dealer network density across the U.S., especially in high-growth markets such as Florida and Texas. This focus on acquiring accounts is likely to continue and is supportable with a strong balance sheet that has sufficient liquidity and access to capital.

Growth of New Products – Approximately 57% of new customers signed up for interactive or home automation services in the fourth quarter of 2013, a higher rate than the 32% of customers who already have these services. Interactive allows customers to remotely control and receive notices from their security systems on the smart phones. Home automation allows users to control lights, thermostats, door locks and cameras from a remote location. Another growing product line is the personal emergency response system that is essentially a medical panic button.

Strong Year-end Financial Report – Fourth quarter revenues were up almost 40% year over year, and 31% for full-year 2013 compared with 2012. Adjusted EBITDA for 2013 increased 28% over 2012. Of particular importance is the 3.5% increase in average recurring monthly revenue per subscriber to $41 at the end of the year. Ascent is nearing the completion of an upgrade of its production facility; therefore free cash flow is expected to expand meaningfully beginning in the second half of 2014.

VALUATION:

Ascent will report first quarter earnings in mid-May. It is coming off a strong year-end and could likely continue this positive trend of capitalizing on a growing, consolidating market. In addition, in November 2013 Ascent authorized a $25 million stock repurchase program that would further support growth in the share price. Ascent had $174 million in cash and marketable securities at year end.

Ascent Capital Group Inc. (NASDAQ:ASCMA)
Investment Data (as of 4/28/14)

Recent Price	**$68.34**
52-Week Range	$64.35 - $89.04
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	13.8 M
Average Trading Volume (3 mos)	68k
Market Capitalization	$944 M
Cash	$174 M
Long-term Debt	$1.6 B
Enterprise Value (EV)	$2.4 B
Book Value	$37.18
TTM Revenue	$451 M
P/ Revenue	2.1x
TTM EPS	$(1.61)
P/ EPS	NA
TTM EBITDA	$288.6 M
EV/ EBITDA	8.2x