



Mossberg's Investor Digest

Idea Profile

Brink's Home Security (NYSE: CFL)

DESCRIPTION:

Founded in 1983, Brink's Home Security is the second largest provider (next to Tyco's ADT) of monitored security services. CFL has approximately 1.3 million residential (95% of revenue) and commercial (5% of revenue) customers in the U.S. and Canada. The company was spun off of The Brinks Company (NYSE: BCO) on October 31, 2008.

KEY INVESTMENT CONSIDERATION:

Security monitoring market is highly fragmented...The big will get bigger. The top five players comprise just under 40% of the market. As in any fragmented market, larger players typically take share from smaller ones due to competitive advantage created by economies of scale and scope. CFL has already proven its ability to take share, growing its top line at a pace that is 50% greater than the overall market (12% CAGR past 5 years).

Entry into the commercial market provides significant opportunity – According to Barnes & Associates, the security monitoring market is a \$14 billion annual market (\$8 billion commercial and \$6 billion residential). With only 5% of revenue derived from commercial customers, CFL has plenty of room to grow in the commercial market. The company has indicated an appetite for acquisitions and the depressed economy may be creating a buyers market in which CFL could more easily pick up attractive commercial monitoring companies at bargain prices.

Customer retention is among the highest in the industry and key to driving returns – The average net cost to acquire a new customer is approximately \$1,100, which includes the costs of the equipment, installation, commissions and the pro-rata portion of marketing and other costs, less installation fees collected. With average monthly cash flow (revenue minus operating expenses) of about \$22 per subscriber, it takes about 48 months to have a nominal payback per subscriber. Therefore, it is imperative that the company retain its customer base. CFL's customer attrition rates have averaged between 6.5% to 7.5% over the past several years. By comparison, ADT, the largest securing monitoring company, reported attrition of 13% for the fiscal year ended in September. Apparently there are some difference in the way this number is calculated. Nevertheless, CFL's attrition has been consistently 200 to 300 basis points lower than the industry on an apples-to-apples comparison.

Good business with long term recurring revenue streams and returns in excess of 20% - Approximately 90% of the company's revenue is from recurring monthly subscribers, which on average, remain customers for over 10 years. With this average customer life, the rate of return on the initial \$1,100 customer acquisitions cost is over 20%.

RISK:

Over a period of 3 years, beginning in mid-2009, the company will make a brand transition, eliminating the Brinks name. While changing the brand is unlikely to affect the current customer base, establishing a new brand may increase the costs of acquiring new customers and have a negative effect on returns. To help offset these costs, rebranding the company will also eliminate the 1.25% royalty payment that is currently being paid to Brink's (NYSE: BCO).

VALUATION:

CFL was spun off from its parent in strong financial condition, including approximately \$4 million in cash and no debt. The current valuation of 4.7x EV/EBITDA appears attractive for a market leader, with strong recurring revenue, and solid returns.

(NYSE: CFL)	
Investment Data (as of 1/28/09)	
Recent Price	\$22.46
52-Week Range	13.15 - 25.00
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	45.8 MM
Average Trading Volume (3 mos)	450,000
Market Capitalization	1.0 B
Cash	4.2 MM
Long Term Debt	0
Enterprise Value (EV)	1.0 B
LT Debt/ Equity	N/A
BV/ Share	9.78
TTM Revenue	523 MM
P/ Revenue	1.9x
TTM EPS (non-GAAP)	1.19
P/ EPS	18.9x
TTM EBITDA	214 MM
EV/ TTM EBITDA	4.7x

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