

# APX Group Holdings, Inc.

## Financial and Operating Highlights

Fourth Quarter and Full Year 2014

# forward-looking statements

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APX Group, Inc. (the "Company", "Vivint", "we", "our", or "us") obtained the industry, market and competitive position data included in this presentation from its estimates and research as well as from industry publications, surveys and studies conducted by third parties. Industry publication studies and surveys generally state that the information contained therein has been obtained from sources believed to be reliable but there can be no assurance as to the accuracy or completeness of such information. While APX Group, Inc. believes that each of the publications, studies and surveys is reliable, APX Group, Inc. has not independently verified industry, market and competitive position data from third-party sources. While APX Group, Inc. believes its internal business research is reliable and the market definitions are appropriate, neither such research nor these definitions have been verified by any independent sources. Accordingly, you should not place undue weight on the industry and market share data in this presentation.

This presentation includes forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995, including but not limited to, statements related to the performance of our business, our financial results, our liquidity and capital resources, our plans, strategies and prospects, both business and financial and other non-historical statements.. Forward-looking statements convey the Company's current expectations or forecasts of future events. All statements contained in this earnings release other than statements of historical fact are forward-looking statements. These statements are based on the beliefs and assumptions of our management. Although we believe that our plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve or realize these plans, intentions or expectations. Forward-looking statements are inherently subject to risks, uncertainties and assumptions. These statements may be preceded by, followed by or include the words "believes," "estimates," "expects," "projects," "forecasts," "may," "will," "should," "seeks," "plans," "scheduled," "anticipates" or "intends" or similar expressions.

Forward-looking statements are not guarantees of performance. You should not put undue reliance on these statements which speak only as of this date hereof. You should understand that the following important factors, among others, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements: (1) risks of the security and home automation industry, including risks of and publicity surrounding the sales, subscriber origination and retention process; (2) the highly competitive nature of the security and home automation industry and product introductions and promotional activity by our competitors; (3) litigation, complaints or adverse publicity; (4) the impact of changes in consumer spending patterns, consumer preferences, local, regional, and national economic conditions, crime, weather, demographic trends and employee availability; (5) adverse publicity and product liability claims; (6) increases and/or decreases in utility and other energy costs, increased costs related to utility or governmental requirements; and (7) cost increases or shortages in security and home automation technology products or components. In addition, the origination and retention of new subscribers will depend on various factors, including, but not limited to, market availability, subscriber interest, the availability of suitable components, the negotiation of acceptable contract terms with subscribers, local permitting, licensing and regulatory compliance, and our ability to manage anticipated expansion and to hire, train and retain personnel, the financial viability of subscribers and general economic conditions. These and other factors that could cause actual results to differ from those implied by the forward-looking statements in this presentation are more fully described in the "Risk Factors" section of our annual report on Form 10-K for the year ended December 31, 2013 as such factors may be updated from time to time in our periodic filings with the SEC. These risk factors should not be construed as exhaustive. We disclaim any obligations to and do not intend to update the above list or to announce publicly the results of any revisions to any of the forward-looking statements to reflect future events or developments. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements. We undertake no obligations to update or revise publicly any forward-looking statements, whether a result of new information, future events, or otherwise.

# non-GAAP financial measures

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This presentation includes Adjusted EBITDA and Steady-State Free Cash Flow (“SSFCF”), which are supplemental measures that are not required by, or presented in accordance with, accounting principles generally accepted in the United States (“GAAP”). Adjusted EBITDA and SSFCF are not measurements of our financial performance under GAAP and should not be considered as an alternative to net income or any other measure derived in accordance with GAAP or as alternatives to cash flows from operating activities as a measure of our liquidity. We believe that Adjusted EBITDA provides useful information about flexibility under our covenants to investors, lenders, financial analysts and rating agencies since these groups have historically used EBITDA-related measures in our industry, along with other measures, to estimate the value of a company, to make informed investment decisions, and to evaluate a company’s ability to meet its debt service requirements. Adjusted EBITDA eliminates the effect of non-cash depreciation of tangible assets and amortization of intangible assets, much of which results from acquisitions accounted for under the purchase method of accounting. Adjusted EBITDA also eliminates the effects of interest rates and changes in capitalization which management believes may not necessarily be indicative of a company’s underlying operating performance. Adjusted EBITDA is also used by us to measure covenant compliance under the indenture governing our senior secured notes, the indenture governing our senior unsecured notes and the credit agreement governing our revolving credit facility.

We believe that SSFCF is a useful measure of pre-levered cash that is generated by the business after the cost of replacing recurring revenue lost to attrition, but before the cost of new subscribers driving recurring revenue growth. The use of SSFCF is subject to certain limitations. For example, SSFCF adjusts for cash items that are ultimately within management’s discretion to direct and therefore the measure may imply that there is less or more cash that is available for the Company’s operations than the most comparable GAAP measure.

We caution investors that amounts presented in accordance with our definition of Adjusted EBITDA and SSFCF may not be comparable to similar measures disclosed by other issuers, because not all issuers and analysts calculate Adjusted EBITDA and SSFCF in the same manner.

See Annex A of this presentation for a reconciliation of Adjusted EBITDA and SSFCF to net loss for the Company, which we believe is the most closely comparable financial measure calculated in accordance with GAAP. Adjusted EBITDA and SSFCF should be considered in addition to and not as a substitute for, or superior to, financial measures presented in accordance with GAAP.

# participants

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Todd Pedersen

Chief Executive Officer

Alex Dunn

President

Mark Davies

Chief Financial Officer

Dale R. Gerard

SVP, Finance & Treasurer

# 2014 in review

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- Launched vivint sky operating platform
- Introduced “proprietary” sky panel
- Ramped Internet... Opened 2<sup>nd</sup> Market
- Acquired peer-to-peer data cloud storage technology
- Implemented new CRM and billing systems
- RIF in December... Right-sizing operational expenses for 2015

**204K** net new originations<sup>(1)</sup>

**~70%** take rate for additional services<sup>(1)</sup>

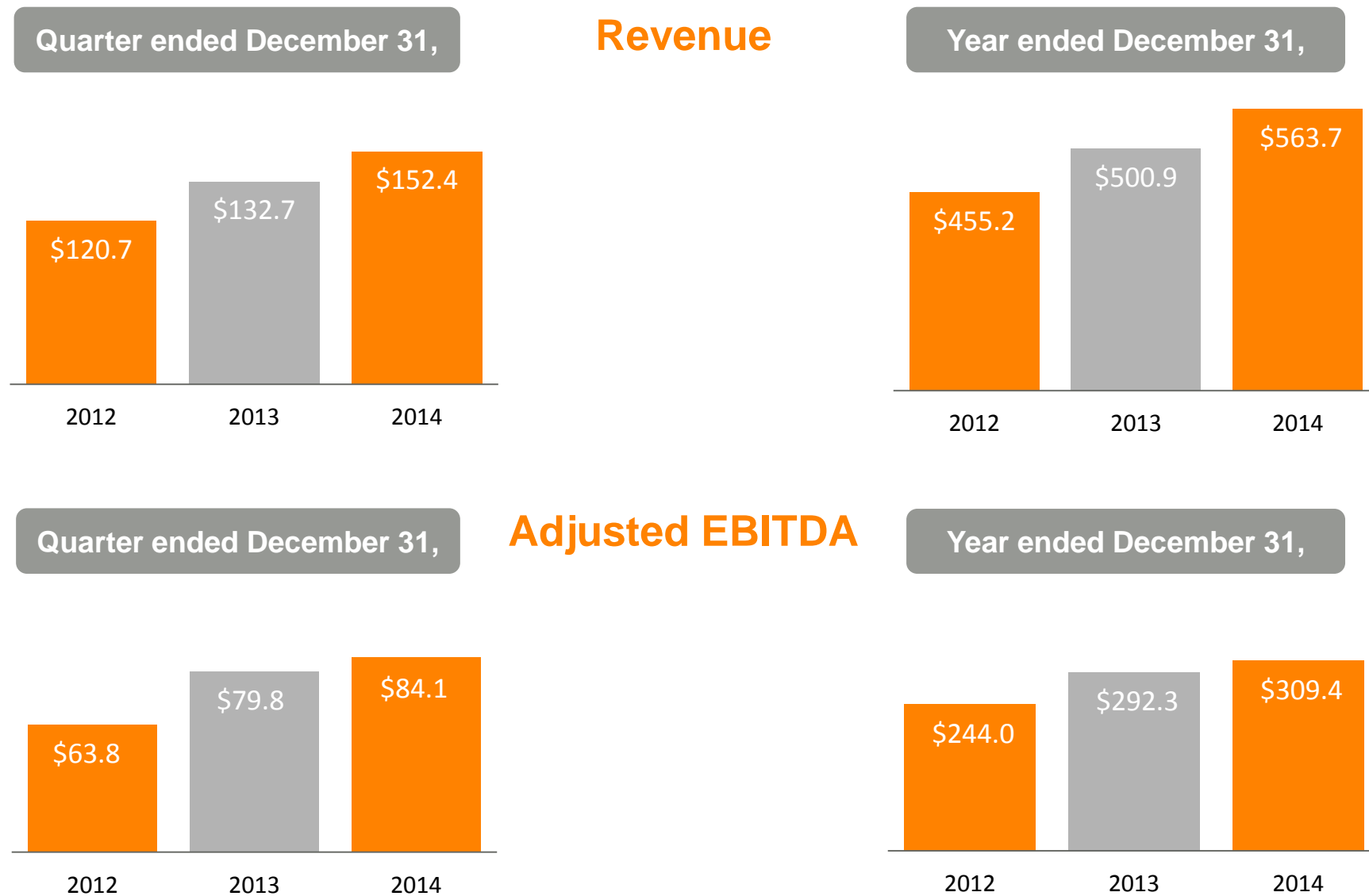
**12.5%** low and improving attrition rate<sup>(1)</sup>

**~70%** net service margin<sup>(1)</sup>

**168K** subscribers on Vivint sky platform<sup>(1)</sup>

(1) For the year ended December 31, 2014, all data excludes wireless internet business

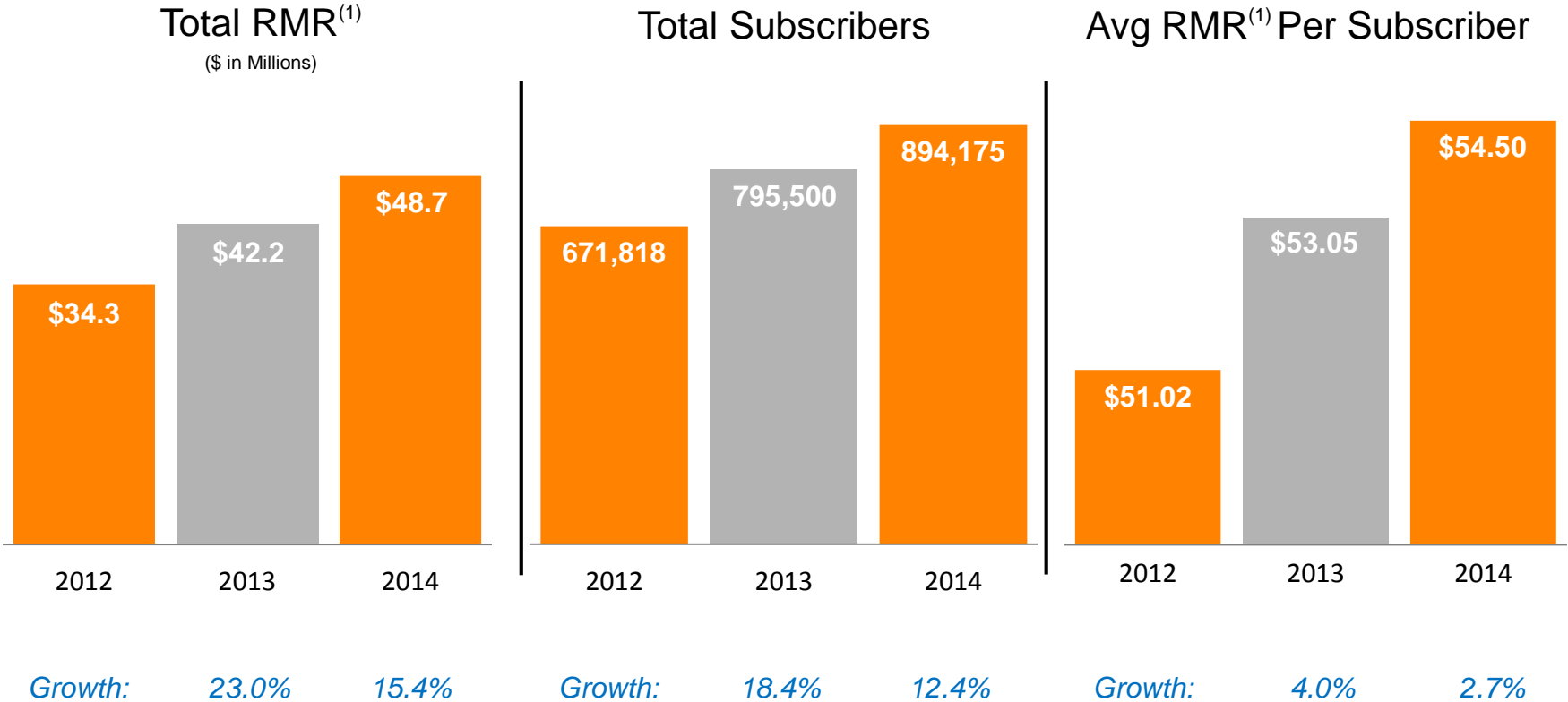
# revenue and adjusted EBITDA<sup>(1)</sup>



(1) A reconciliation of Adjusted EBITDA to GAAP is included in Annex A of this presentation

# subscriber portfolio data<sup>(1)</sup>

Year ended December 31,



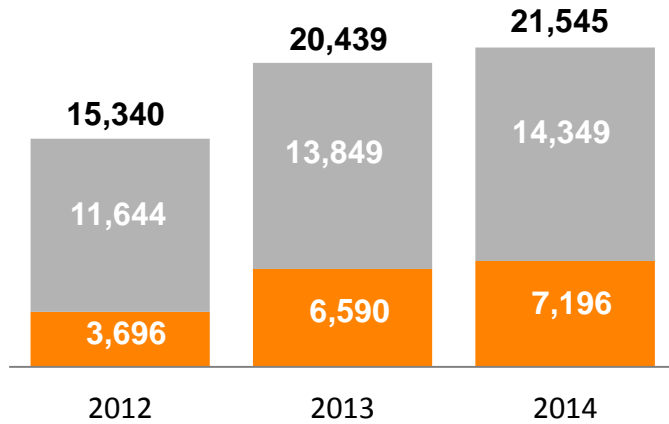
(1) All subscriber portfolio data presented excludes wireless internet business

(2) RMR is stated as of the end of each period.

# new subscriber originations<sup>(1)</sup>

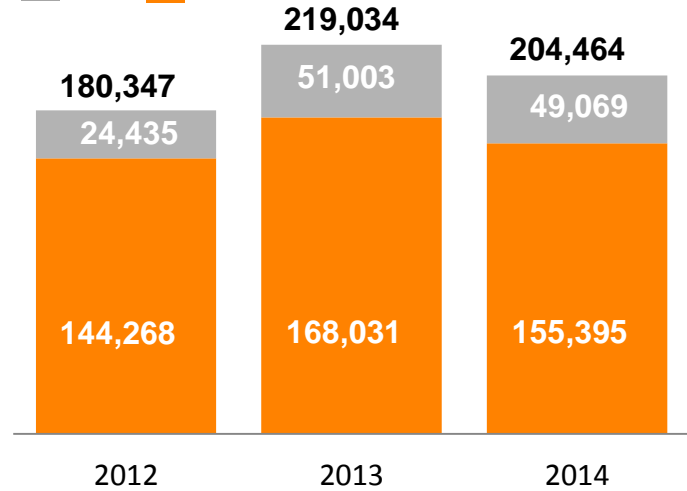
Quarter ended December 31,

IS D2H

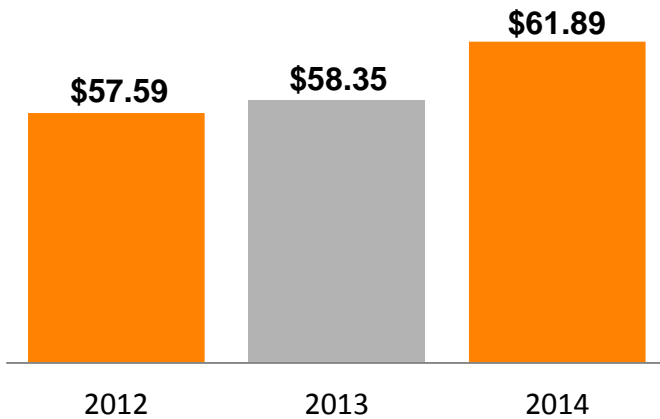


Year ended December 31,

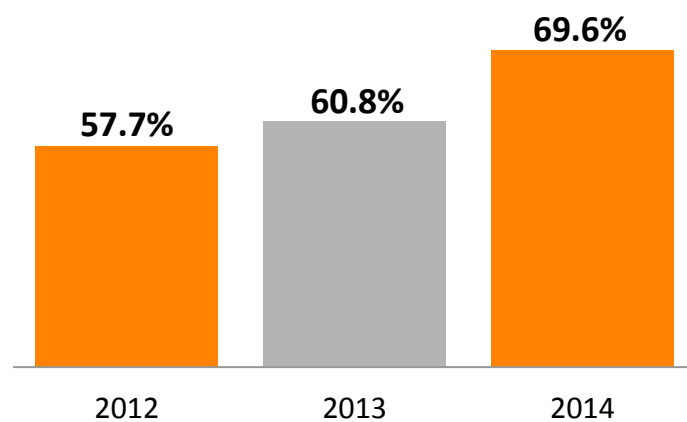
IS D2H



Avg. RMR<sup>(2)</sup> per New Subscriber



Adoption Rate



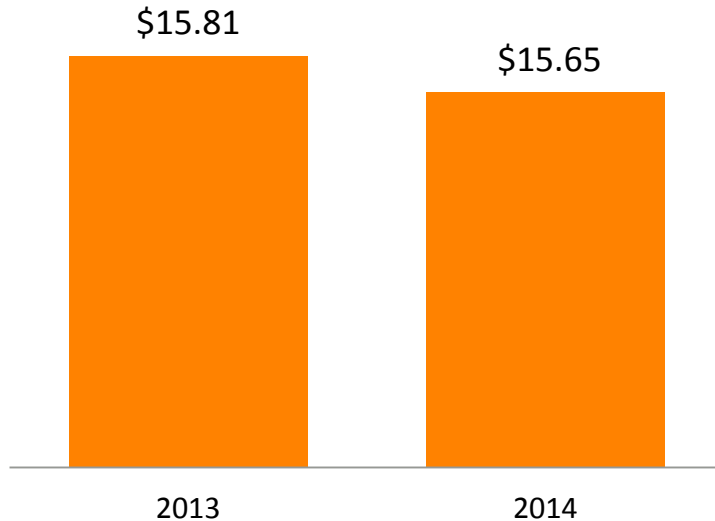
(1) All subscriber data presented excludes wireless internet business

(2) RMR is stated as of the end of each period



# service and creation costs

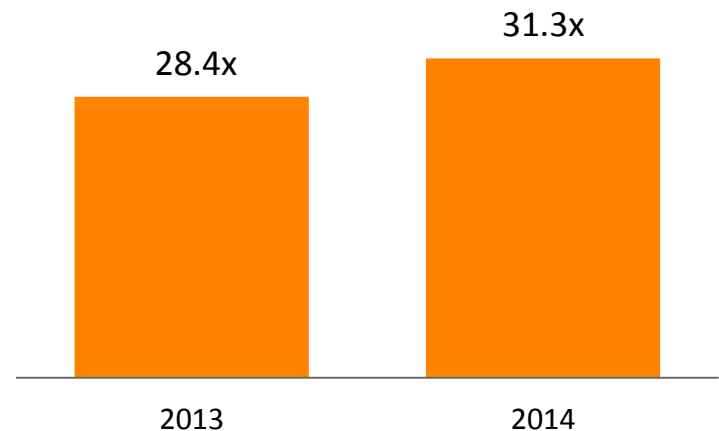
## Net Service Cost per Subscriber



- 71% Service Margins in 2014
- Increase in cellular expense, offset by scaling overhead and allocation costs

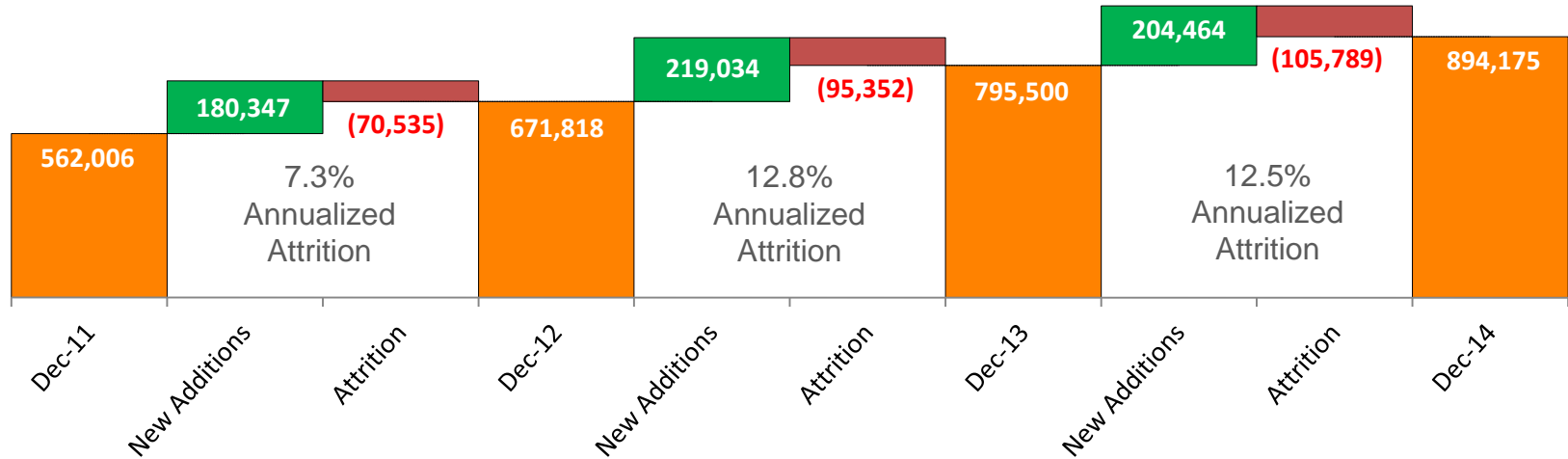
- New Panel and Equipment 3.2x
- Installation .4x
- Sales Overhead .8x
- G&A Allocation .4x
- RMR increase per subscriber (1.7x)

## Net Creation Cost Multiple

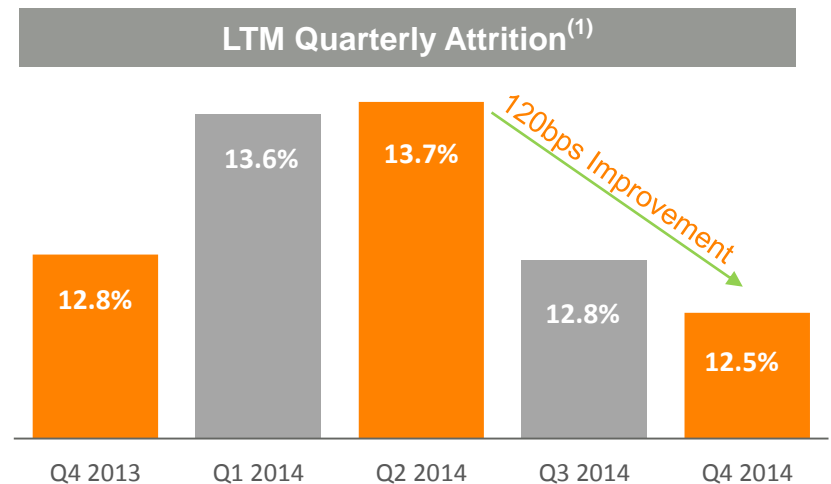


# subscriber account attrition<sup>(1)</sup>

(# of Subscriber Accounts)



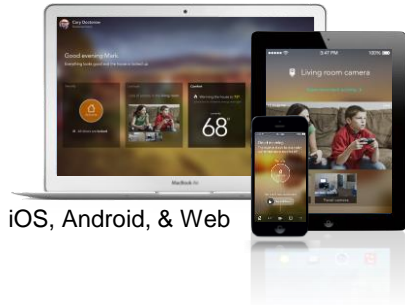
- ~15% of portfolio reaching initial end of contract term during 2015
  - End of 2011 42-mo contracts
  - Beginning of 2012 42-mo contracts



(1) All subscriber attrition data presented excludes the wireless internet business for all periods presented

# completing the Smart Home bundle

Vivint is the **only fully vertically integrated** Smart Home solution in the industry, allowing us to offer a compelling bundle of innovative products, apps, services, and monitoring to more than 900,000 home automation enabled customers

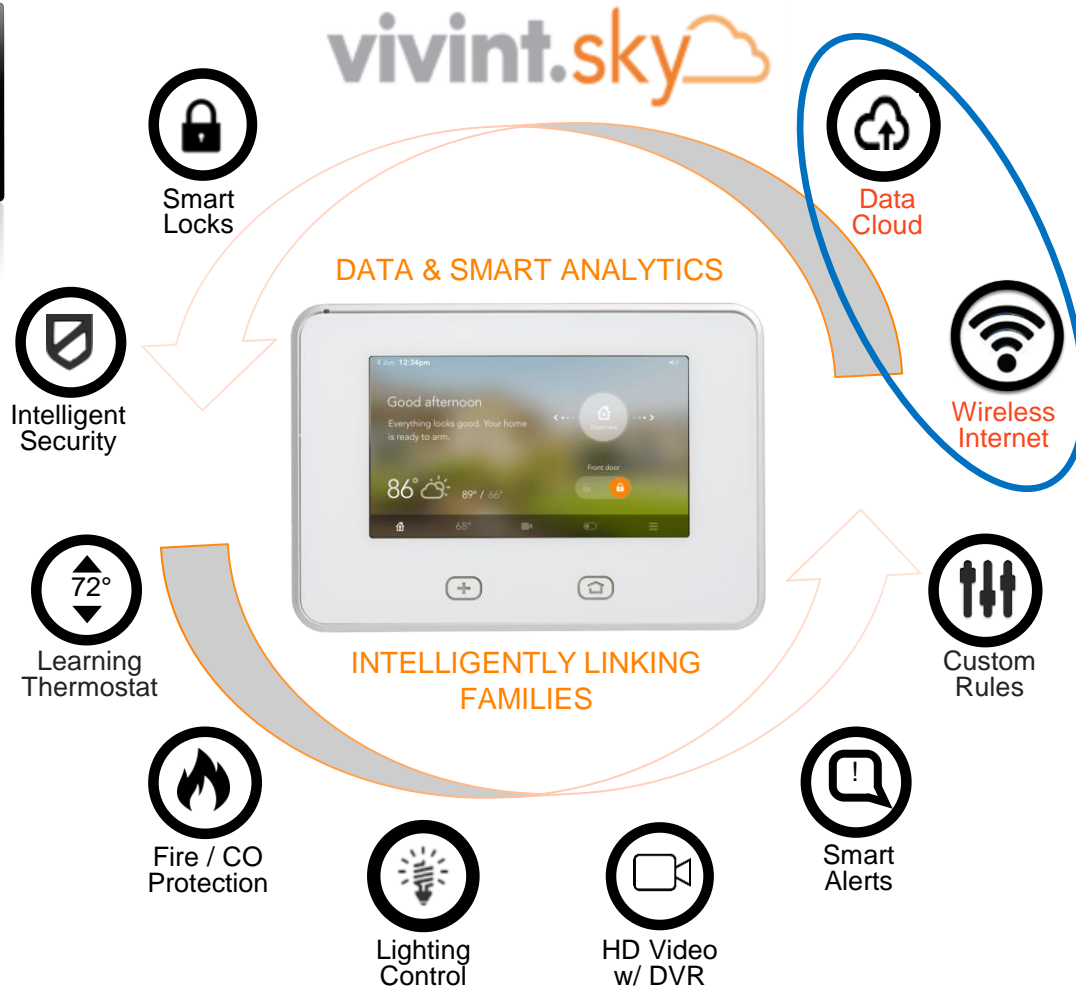


*“Instead of piecemeal gadgets and apps, Vivint Sky streamlines home automation.”*  
- DWELL Magazine

*“The Vivint home system gives you unprecedented control of your entire house.”*  
- TechRadar

*“Think of it like Nest’s smart thermostat feature, except on steroids. It’s unlike anything out right now.”*

- Entrepreneur

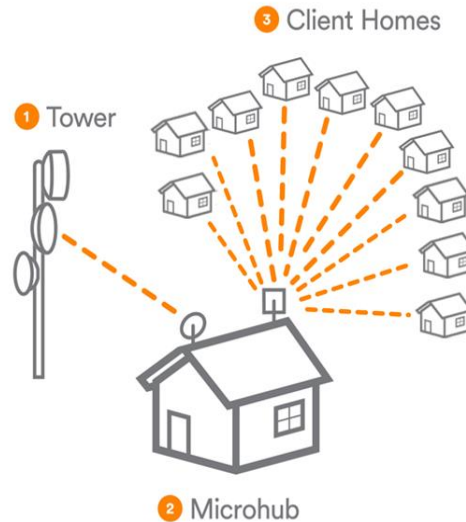


- 168,000+ subscribers on sky platform
- 96+ million daily inbound data points
- 56+ million daily smart home analytics
- Expandable smart home platform
- Cloud based access anywhere from Internet enabled devices

# wireless internet and cloud data storage



Bundled in Full Home Automation packages



- 2014 Exit: 8,324 Total Subscribers
- 2015 Subscriber Growth (Estimated)
  - 25K to 30K new subscribers
  - Concentrating on select markets
- At full scale: (Estimated)
  - 8-10 subscribers per hub
  - ~\$55 Avg. RMR per New Subscriber
  - Net Service Margins 50%- 60%
  - Net Creation Cost Multiple  $\leq 20x$

# 2015 objectives

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## Financial

- Subscriber growth... D2H, NIS, Recruiting, Mix of Exp vs. Inexp Reps
- New bundle offerings... Cloud storage, doorbell camera & outdoor camera
- Drive growth in Adjusted EBITDA... RMR growth, Service Cost & G&A scaling
- Creation Cost... Panel and peripheral cost & scaling overhead

## Operational

- Continued focus on NPS and attrition
- Enhance vivint sky operating platform... Customized rules and analytics
- Wireless internet growth... Subscribers, Creation Cost & Service Cost
- Offer complete “cord-cutting” bundle

Q & A



**vivint.**

# APX Group Holdings, Inc.

## Consolidated Financial Statements

Quarter and Year Ended December 31, 2014 and 2013

# condensed consolidated balance sheets

## APX GROUP HOLDINGS, INC. and SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands)

(Unaudited)

	December 31,	
	2014	2013
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents.....	\$ 10,807	\$ 261,905
Restricted cash and cash equivalents.....	14,214	14,375
Accounts receivable, net .....	8,739	2,593
Inventories, net .....	36,157	29,260
Prepaid expenses and other current assets .....	15,454	13,870
Total current assets .....	<u>85,371</u>	<u>322,003</u>
Property and equipment, net .....	62,790	35,818
Subscriber contract costs, net .....	548,073	288,316
Deferred financing costs, net .....	52,158	59,375
Intangible assets, net .....	703,226	840,714
Goodwill .....	841,522	836,318
Restricted cash and cash equivalents, net of current portion .....	-	14,214
Long-term investments and other assets, net .....	10,533	27,676
Total assets .....	<u>\$ 2,303,673</u>	<u>\$ 2,424,434</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable .....	\$ 31,324	\$ 24,004
Accrued payroll and commissions .....	37,979	46,007
Accrued expenses and other current liabilities .....	28,862	33,118
Deferred revenue .....	33,226	26,894
Current portion of capital lease obligations .....	5,549	4,199
Total current liabilities .....	<u>136,940</u>	<u>134,222</u>
Notes payable, net .....	1,863,155	1,762,049
Revolving line of credit .....	20,000	-
Capital lease obligations, net of current portion .....	10,655	6,268
Deferred revenue, net of current portion .....	32,504	18,533
Other long-term obligations .....	6,906	3,905
Deferred income tax liabilities .....	9,027	9,214
Total liabilities .....	<u>2,079,187</u>	<u>1,934,191</u>
Stockholders' equity:		
Common stock, \$0.01 par value, 100 shares authorized; 100 shares issued and outstanding.....	-	-
Additional paid-in capital .....	636,724	652,488
Accumulated deficit .....	(393,275)	(154,615)
Accumulated other comprehensive (loss) income .....	(18,963)	(7,630)
Total stockholders' equity .....	<u>224,486</u>	<u>490,243</u>
Total liabilities and stockholders' equity .....	<u>\$ 2,303,673</u>	<u>\$ 2,424,434</u>



# consolidated statements of operations

## APX GROUP HOLDINGS, INC. and SUBSIDIARIES

### Consolidated Statements of Operations

(In thousands)

(Unaudited)

	Quarter Ended December 31,		Year Ended December 31,	
	2014	2013	2014	2013
Revenues:				
Monitoring revenue .....	\$ 144,313	\$ 125,786	\$ 537,695	\$ 460,130
Service and other sales revenue .....	6,910	6,233	21,980	39,135
Activation fees .....	1,207	692	4,002	1,643
Total revenues .....	<u>152,430</u>	<u>132,711</u>	<u>563,677</u>	<u>500,908</u>
Costs and expenses:				
Operating expenses (exclusive of depreciation and amortization shown separately below)	61,466	39,885	202,769	164,221
Selling expenses .....	26,168	23,490	107,370	98,884
General and administrative expenses .....	33,830	31,267	126,083	97,177
Depreciation and amortization .....	59,762	52,539	221,324	195,506
Total costs and expenses .....	<u>181,226</u>	<u>147,181</u>	<u>657,546</u>	<u>555,788</u>
Loss from operations .....	(28,796)	(14,470)	(93,869)	(54,880)
Other expenses (income):				
Interest expense .....	38,033	31,167	147,511	114,476
Interest income .....	-	(406)	(1,455)	(1,493)
Other (income) expenses .....	(2,017)	(309)	(1,779)	(76)
Gain on 2GIG Sale .....	-	256	-	(46,866)
Loss from continuing operations before income taxes ...	(64,812)	(45,178)	(238,146)	(120,921)
Income tax expense (benefit).....	833	(8,006)	514	3,592
Net loss .....	<u>\$ (65,645)</u>	<u>\$ (37,172)</u>	<u>\$ (238,660)</u>	<u>\$ (124,513)</u>

# summary of consolidated statements of cash flows

## APX GROUP HOLDINGS, INC. and SUBSIDIARIES

### Summary Cash Flow Data

(In thousands)

(Unaudited)

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Net loss	\$ (238,660)	\$ (124,513)
Net cash provided by operating activities	3,349	79,425
Net cash used in investing activities	(363,645)	(176,477)
Net cash provided by financing activities	109,432	350,986
Effect of exchange rate changes on cash	(234)	(119)
Net (decrease) increase in cash	(251,098)	253,815
Cash:		
Beginning of period	261,905	8,090
End of period	\$ 10,807	\$ 261,905

# APX Group Holdings, Inc.

## Annex A

# reconciliation of non-GAAP financial measures – APX Group

(\$ in Millions)

	Quarter Ended December 31,			Year Ended December 31,		
	2014	2013	2012	2014	2013	2012
<b>Net loss</b>	\$ (65.6)	\$ (37.2)	\$ (145.1)	\$ (238.7)	\$ (124.5)	\$ (184.9)
Interest expense, net	38.0	30.8	29.3	146.1	113.0	119.2
Other (income) expense, net	( 2.0 )	( 0.3 )	0.2	( 1.8 )	( 0.1 )	0.3
Income tax expense (benefit)	0.8	( 8.0 )	( 11.2 )	0.5	3.6	( 6.0 )
Depreciation and amortization (i)	41.4	43.1	12.4	162.6	173.3	18.9
Amortization of capitalized creation costs	18.4	9.4	12.0	58.7	22.2	72.2
Non-capitalized subscriber acquisition costs (ii)	38.3	22.9	24.7	135.0	101.0	70.4
Non-cash compensation (iii)	0.5	0.6	0.4	1.9	1.9	0.9
Gain on 2GIG Sale (iv)	-	0.2	-	-	( 46.9 )	-
Adjustment for Solar business	-	-	5.1	-	-	7.1
Transaction costs related to 2GIG Sale (v)	-	-	-	-	5.5	-
Transaction related costs	-	0.2	128.4	-	0.8	132.4
Other Adjustments (vi)	14.3	18.1	7.6	45.1	42.5	13.5
<b>Adjusted EBITDA</b>	<b>\$ 84.1</b>	<b>\$ 79.8</b>	<b>\$ 63.8</b>	<b>\$ 309.4</b>	<b>\$ 292.3</b>	<b>\$ 244.0</b>

(i) Excludes loan amortization costs that are included in interest expense.

(ii) Reflects subscriber acquisition costs that are expensed as incurred because they are not directly related to the acquisition of specific subscribers. Certain other industry participants purchase subscribers through subscriber contract purchases, and as a result, may capitalize the full cost to purchase these subscriber contracts, as compared to our organic generation of new subscribers, which requires us to expense a portion of our subscriber acquisition costs under GAAP.

(iii) Reflects non-cash compensation costs related to employee and director stock and stock option plans.

(iv) Non-recurring gain on the 2GIG Sale.

(v) Bonuses and transaction related costs associated with the 2GIG Sale.

(vi) Other adjustments represent primarily items on the following slide (in millions):

# Reconciliation of non-GAAP continued - other adjustments

	Quarter Ended December 31,			Year Ended December 31,		
	2014	2013	2012	2014	2013	2012
<b>Other Adjustments</b>						
Product development	\$ 4.8	\$ 4.3	\$ -	\$ 14.2	\$ 12.3	\$ -
Fire related losses, net of probable insurance recoveries	(0.9)	-	-	-	-	-
Purchase accounting deferred revenue fair value adjustment	1.2	1.5	1.6	5.3	6.9	1.6
CMS technology impairment loss	-	-	-	1.4	-	-
Information technology implementation	0.7	1.2	-	3.1	1.2	-
Subcontracted monitoring agreement	-	1.1	-	2.2	1.1	-
Monitoring fee	0.6	(0.6)	-	3.2	2.9	-
Start-up of new strategic initiatives	0.5	1.7	-	3.3	3.1	-
Non-operating legal and professional fees	0.1	0.9	0.1	0.9	5.4	0.6
Non-cash contingent liabilities	-	6.5	2.1	-	6.5	2.1
Non-cash payroll tax reserve	-	-	-	-	-	-
Solar business costs	-	0.1	1.1	-	0.1	4.1
One-time compensation-related payments	4.2	-	-	6.1	-	-
Rebranding	-	-	-	-	-	1.4
Discontinued operations	-	-	0.2	-	-	0.2
Technology licensing disputes	-	-	2.2	-	-	2.2
All other adjustments	3.1	1.4	0.3	5.4	3.0	1.3
<b>Total other adjustments</b>	<b>\$ 14.3</b>	<b>\$ 18.1</b>	<b>\$ 7.6</b>	<b>\$ 45.1</b>	<b>\$ 42.5</b>	<b>\$ 13.5</b>

# certain definitions

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Total Subscribers – The aggregate number of active subscribers at the end of a given period

RMR – The recurring monthly revenue billed to a subscriber

Total RMR – The aggregate RMR billed for all subscribers

Avg. RMR per Subscriber – The Total RMR divided by Total Subscribers. This is also commonly referred to as Average Revenue per User, or ARPU

Avg. RMR per New Subscriber – The aggregate RMR for new subscribers originated during a period divided by the number of new subscribers originated during such period

Attrition – The aggregate number of canceled subscribers during a period divided by the monthly weighted average number of total subscribers for such period. Subscribers are considered canceled when they terminate in accordance with the terms of their contract, are terminated by us, or if payment from such subscribers is deemed uncollectible (120 days past due). Sales of contracts to third parties and moves are excluded from the attrition calculation

Net Subscriber Acquisition Costs – Defined as direct and indirect costs to create a new subscriber. These include commissions, equipment, installation, marketing and other allocations (G&A and overhead), less activation fees and up sell revenue. These costs exclude residuals and long-term equity direct-to-home expenses.

Net Creation Cost Multiple – Defined as Net Subscriber Acquisition Costs, divided by the number of net new subscribers originated, and then divided by the Average RMR per New Subscriber

Adjusted EBITDA – Net Income (loss) before interest expense (net of interest income), income and franchise taxes and depreciation and amortization (including amortization of capitalized subscriber acquisition costs), further adjusted to exclude the effects of certain contract sales to third parties, non-capitalized subscriber acquisition costs, stock-based compensation, the historical results of the Company's Solar variable interest entity and certain unusual, non-cash, non-recurring and other items permitted in certain covenant calculations under the indentures governing the notes

Last Quarter Annualized Adjusted EBITDA ("LQA Adjusted EBITDA") – A common industry measure used to reflect the step-function in earnings during the sales season related to the subscribers generated from April to August. LQA Adjusted EBITDA, calculated by multiplying Adjusted EBITDA for the most recent fiscal quarter by 4, represents the ongoing earnings power of Vivint's current subscriber base and is potentially a more relevant metric than LTM due to the recurring nature of the revenue and expected earnings

Net Service Cost – Defined as total service costs, including monitoring, customer service, field service and other allocations (G&A and overhead) costs, less total service revenue divided by total service subscribers

Net Service Margin – Defined as Avg. RMR per subscriber less Net Service Costs divided by Avg. RMR per subscriber