



*Central Station Alarm Association – Security Trends Survey*  
*May 2010*

# *CSAA Inaugural Security Trends Survey*

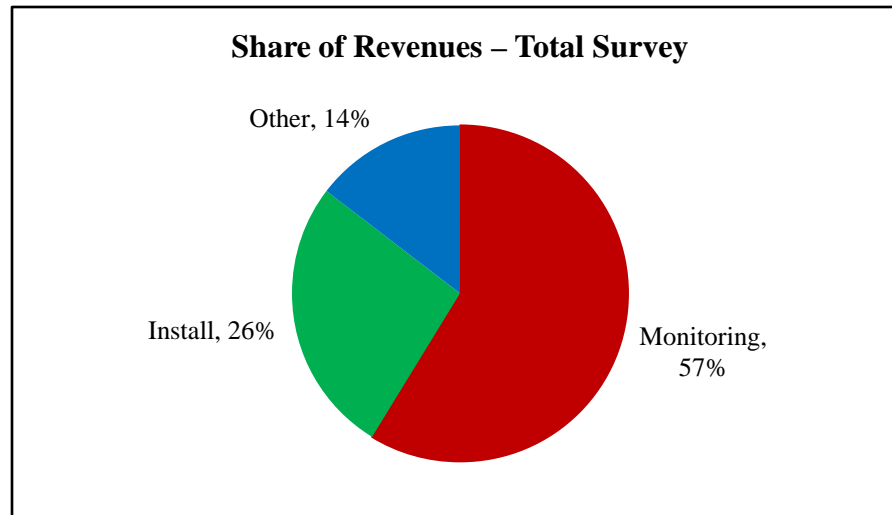
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## *Background*

## ***Background***

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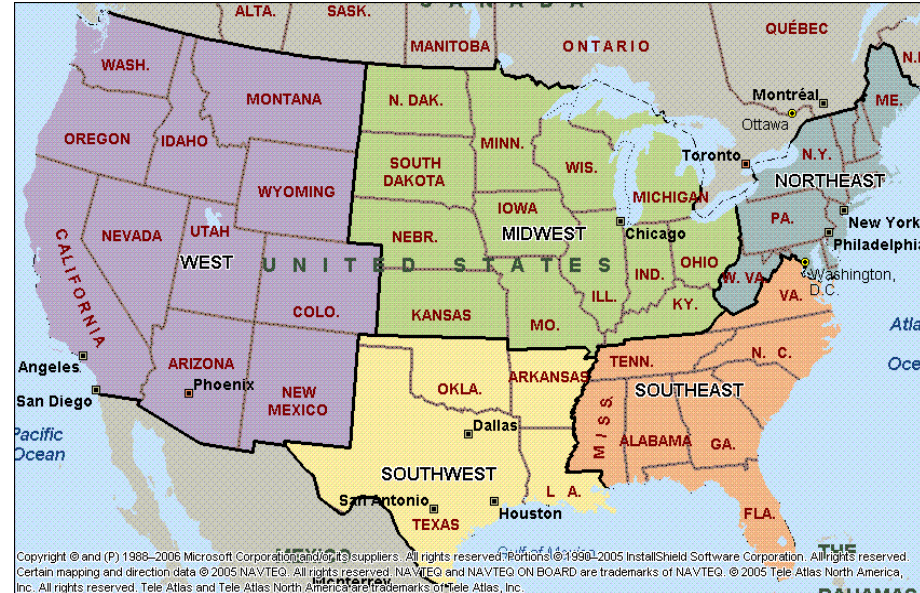
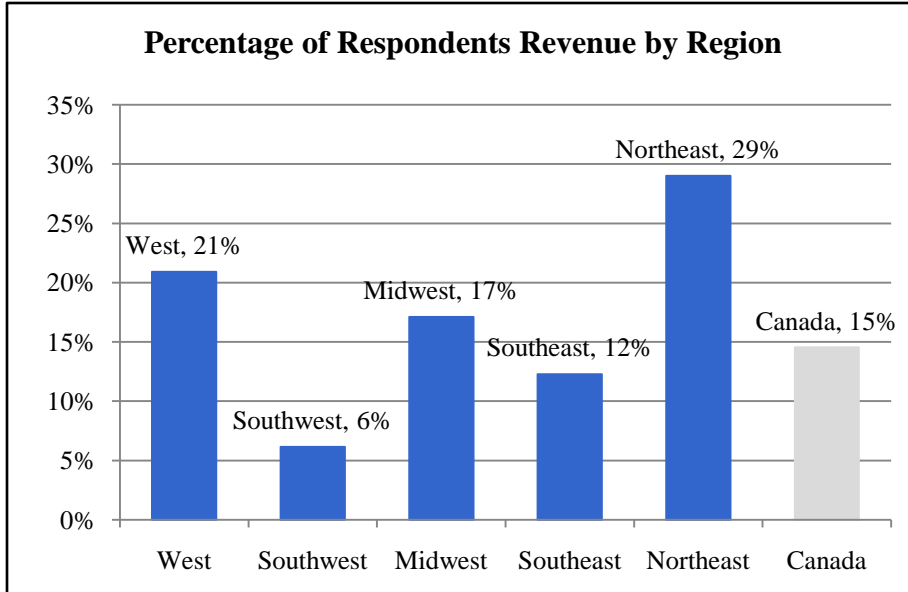
- CSAA has just completed the first iteration of its Security Trends survey. The goal of the survey is to identify and measure recent Security themes within the monitoring/installation industry (revenues, profits, attrition).
- The study is currently scheduled to be updated monthly in an effort to more accurately measure trends and provide CSAA members with a timely forecasting/benchmarking tool.
- The May survey consisted of 42 total responses:
  - *57% of respondents' revenues were driven by Monitoring*
  - *26% of respondents' revenues were driven by Install*
  - *14% of respondents' revenues were driven by Other*



## Background

- Survey respondents' revenues by region are as follows:

29% Northeast	15% Canada
21% West	12% Southeast
17% Midwest	6% Southwest



# *CSAA Security Trends Survey*

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## *Results and Conclusions*

## ***Key Conclusions from the May CSAA Survey***

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### **Revenues**

- CSAA respondents saw revenues trend “flat” in 1Q10. This compares to -5% in 2009.
- April revenue trends were down 1%, slightly worse than the “flat” trend in 1Q. Respondents note that revenues improved slightly in early May (in-line to slightly better than YTD trend).

### **End-Markets**

- Government and residential trends are the strongest end-markets, commercial expected to improve from here.

### **Attrition**

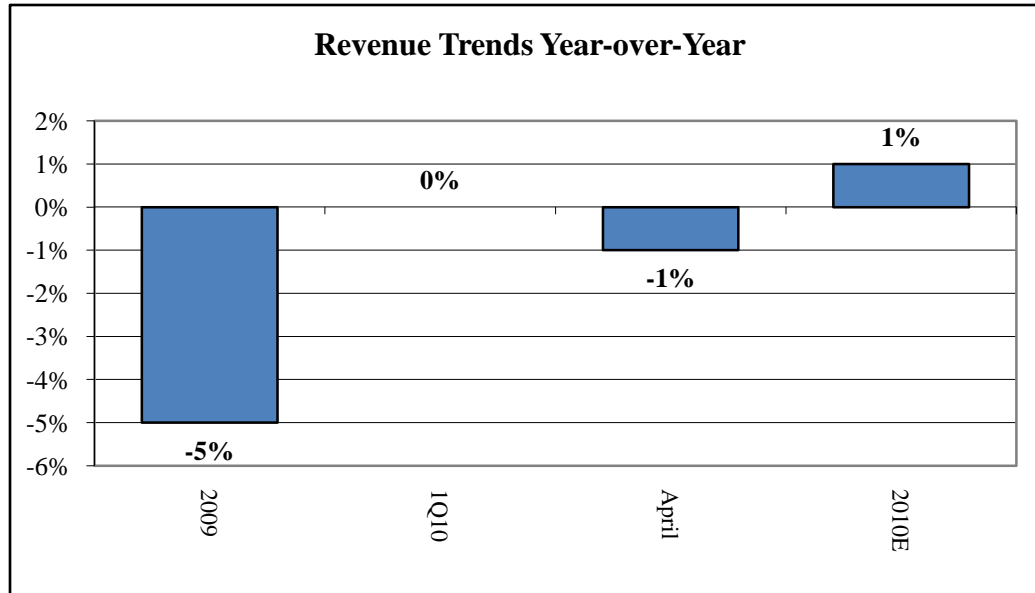
- Average member attrition expected to be 8% in 2010. This compares to 8.6% in 2009.

### **Profits**

- CSAA member profitability is expected to be flat to up slightly in 2010, continuing the improvement posted in 2009.

***CSAA Respondents' Revenues Flat in 1Q, April Softer/Down 1% (2009 was -5%)***

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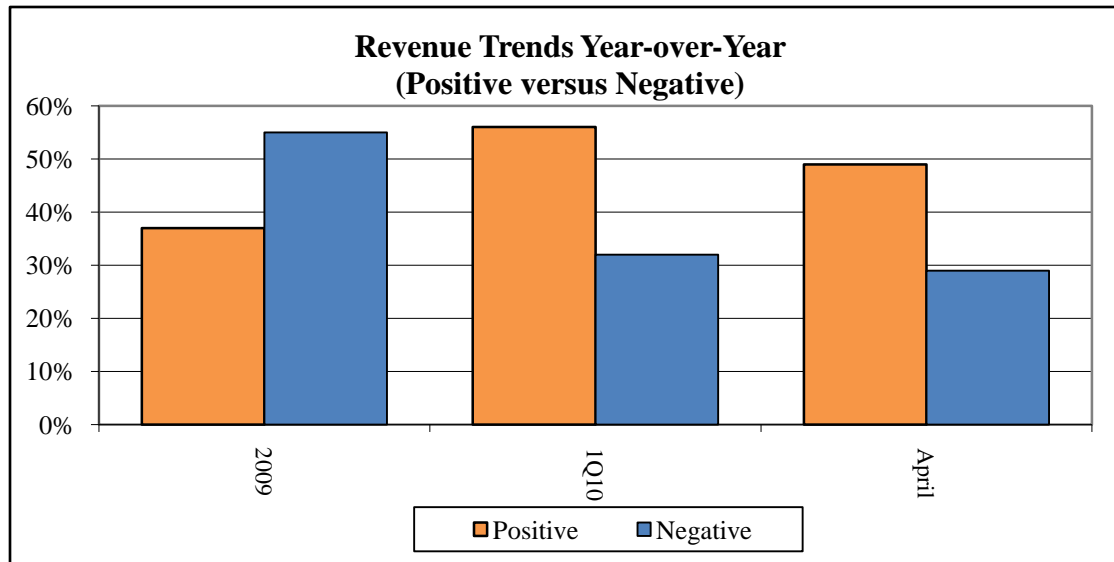
- CSAA respondents posted flat revenues in 1Q10. This compares to down 5% on average in 2009.
- April revenues were down 1% on average, slower than the “flat” results posted in 1Q10.
- Early feedback on May trends suggest revenues have improved slightly versus April year/year. In total, 2Q to date is basically running in-line with the year-to-date trend at this point.
- CSAA respondents are currently forecasting 1% revenue growth for 2010. This suggests slightly better trends are anticipated through the remainder of 2010.

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Source: CSAA Security Trends Survey

## *CSAA Respondents Seeing Improving Trends in Total in 2010 (When Compared to 2009)*

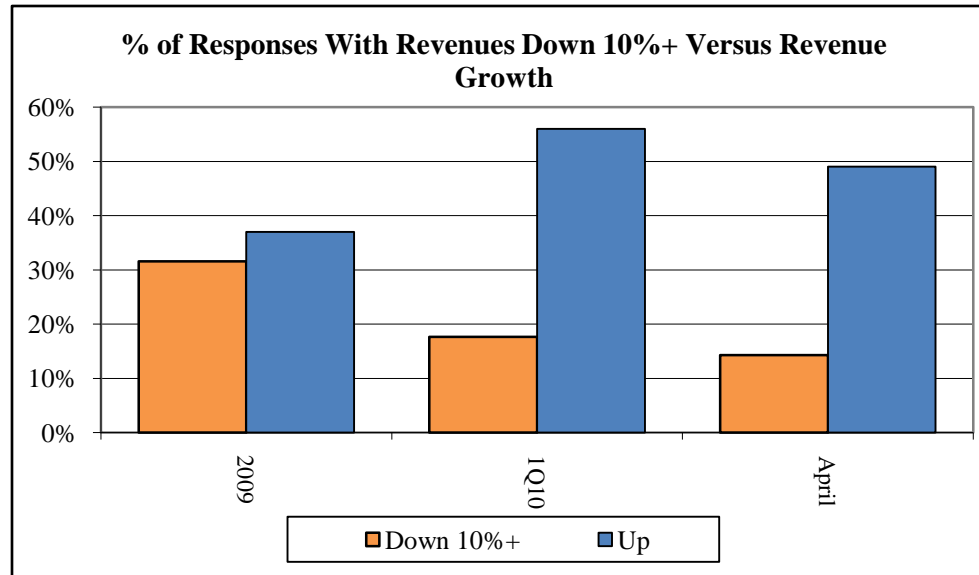
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- **Greater** than half of the CSAA respondents saw **negative** revenues year/year in 2009.
- This trend reversed in 1Q10 with **greater** than half of the CSAA respondents seeing **positive** revenue growth in 1Q10.
- **Fewer** than half of the CSAA respondents saw positive revenue growth year/year in April, a slight slowing from 1Q10.

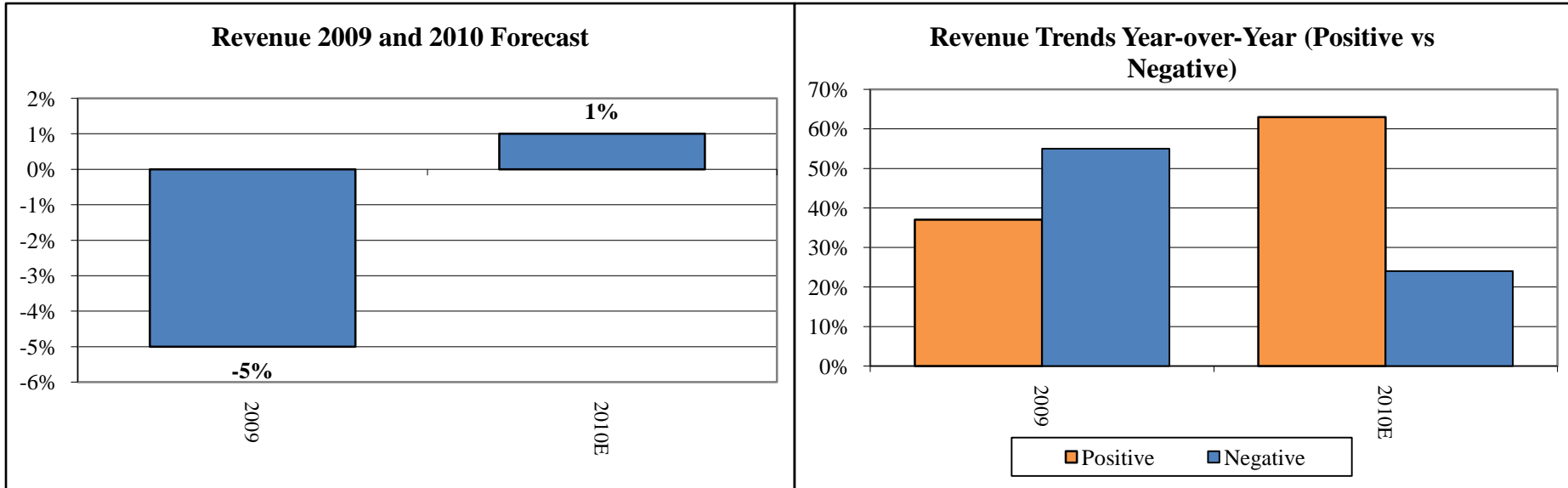
## *CSAA Respondents Seeing Less Demand Volatility in 2010 (When Compared to 2009)*

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- **Greater** than 30% of CSAA respondents saw revenues decline > 10% in 2009.
- **Fewer** than 20% of CSAA respondents saw revenues decline > 10% in 1Q10.
- **Fewer** than 15% of CSAA respondents saw revenues decline > 10% in April, continuing the positive inflection seen with the measure in 1Q10.

## 2010 Outlooks Remain Better than 2009

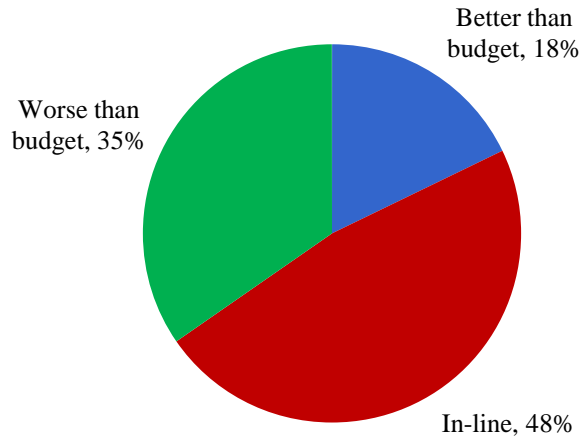


- CSAA respondents are currently forecasting 1% growth for 2010. This compares to down 5% in 2009 and “flat” results year-to-date.
- **Greater** than 60% of respondents expect positive year/year trends in 2010. This compares to less than 40% in 2009.

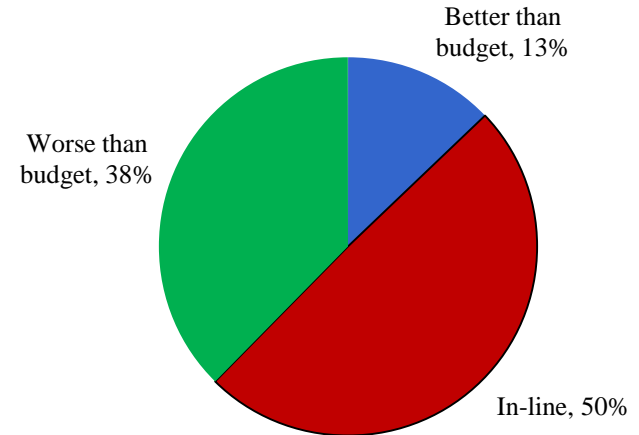
***Despite the Better Trends, CSAA Respondents Missing Budget On Average in 2010***

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**Year-to-Date Revenue**



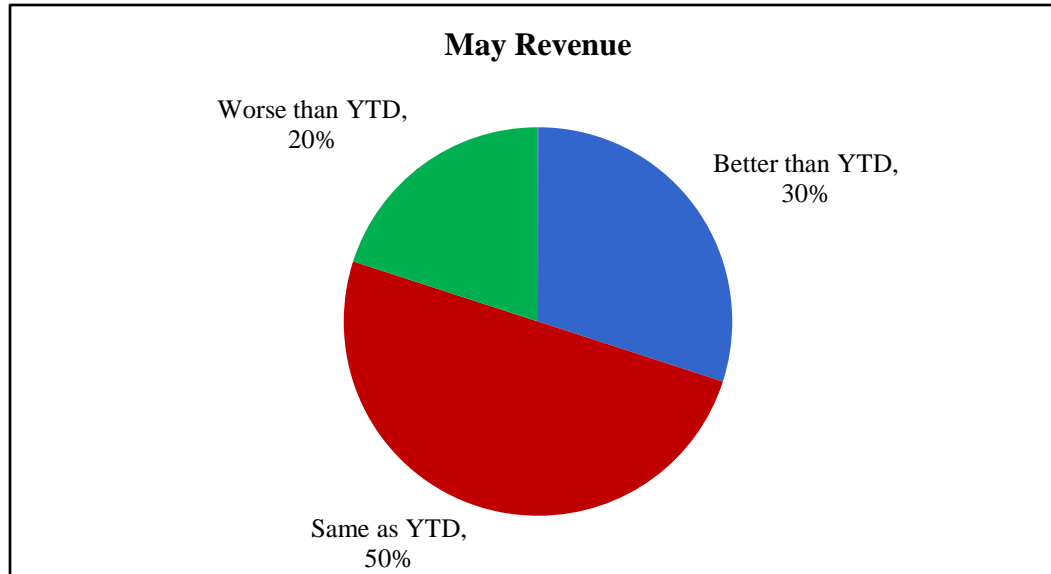
**April Revenue**



- Despite the better outlooks for the industry (less volatility, better revenue outlooks), CSAA respondents are net “**missing**” plan in 2010 with roughly half at plan, 35%, below plan, and 18% ahead of plan.
- Additionally, April results **missed** plan to a slightly larger degree than year-to-date trend. This suggests trends were expected to improve in 2Q versus 1Q.

## ***Early Read on May Suggests a Slight Improvement Versus Year-to-Date Trend***

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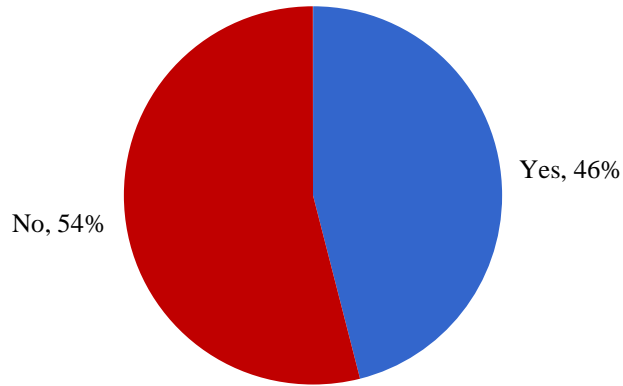


- Revenue trends in May appear to show some slight improvement versus both April and year-to-date trend.
- Roughly 30% of CSAA respondents are posting better May trends (versus year-to-date).
- The above chart suggests May revenues were relatively flat for CSAA members, a “slight” improvement versus April (down 1%) and YTD trend (flat to down slightly).

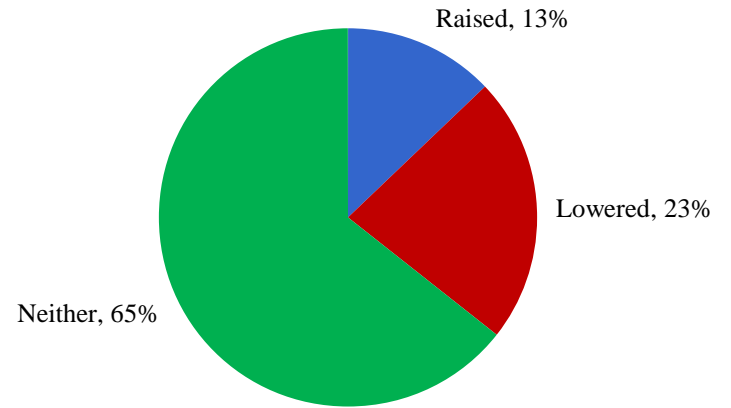
***CSAA Respondents Split on Underlying Demand Trends, 2010 Forecasts Largely Unchanged***

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**Underlying Demand Improving?**



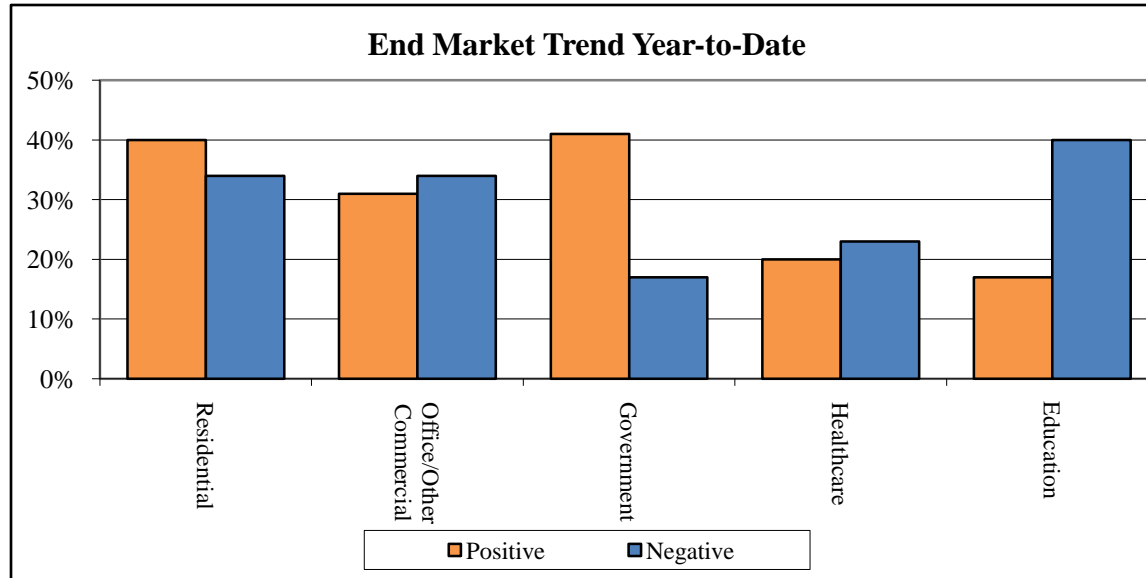
**Forecasts Largely Unchanged Last 90 Days**



- CSAA respondents expect similar demand trends for the remainder of 2010.
- 2010 forecasts remain mostly unchanged over the past 90 days.

## *Government and Residential End-Markets the Key Drivers Year-to-Date*

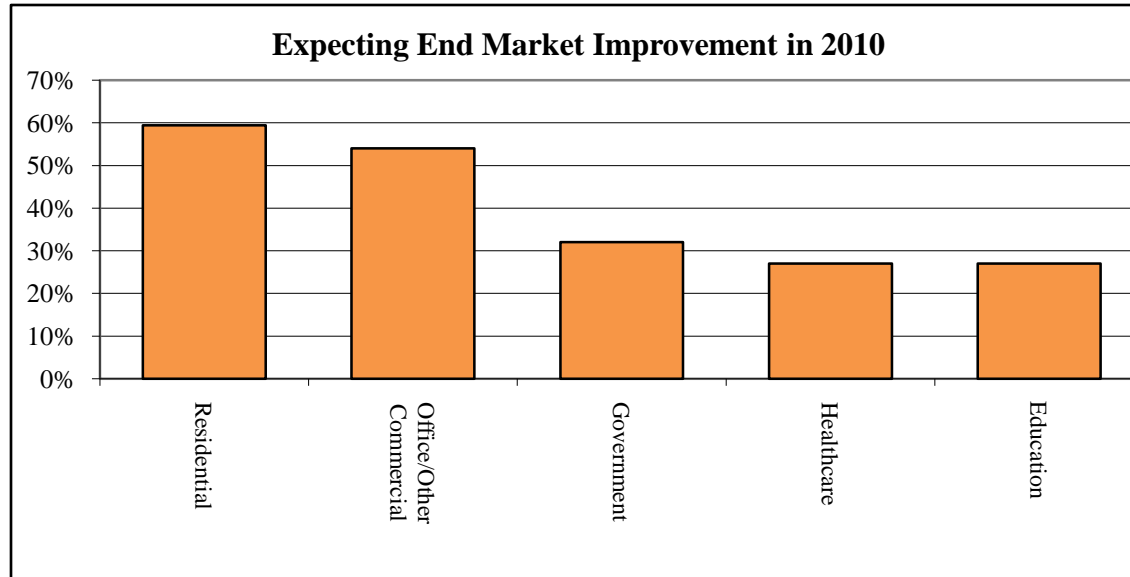
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- CSAA respondents are seeing improved demand in the Government and Residential end-markets year-to-date.
- CSAA respondents are seeing negative growth year-to-date in Education, Commercial, and Healthcare.
- CSAA respondent feedback suggests the Residential end-markets have seen further improvement over the past 60-90 days.

## *Commercial End-Market Forecasted to Improve Through 2010*

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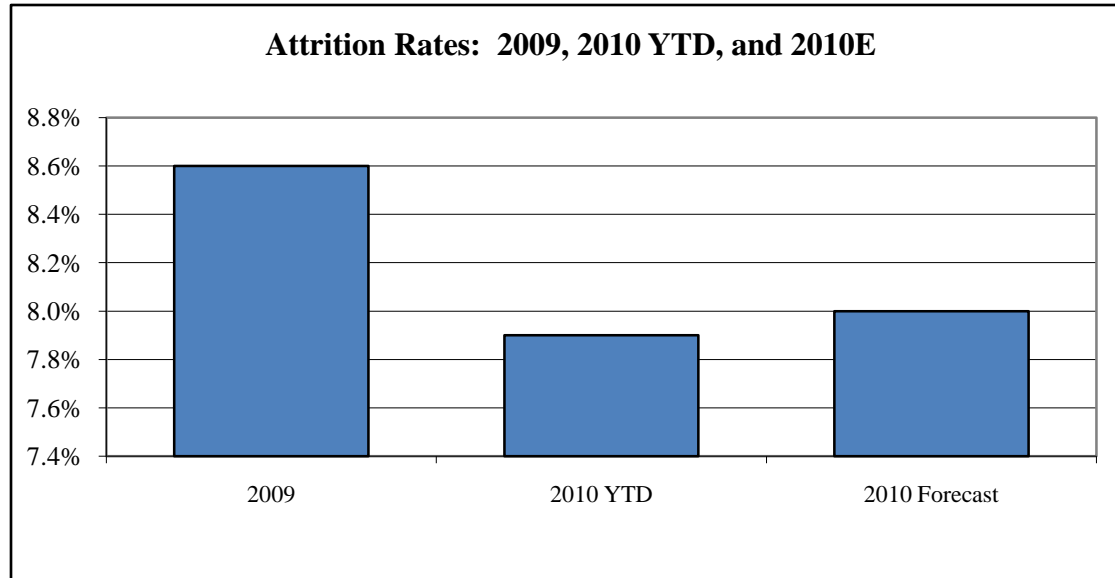
- **Greater** than 50% of CSAA respondents expect year/year growth in the Commercial end-market in 2010. This suggests the Commercial end-market is expected to improve through the remainder of 2010.
- The majority of this improvement is tied to an easing in Commercial comparisons as we move through 2010 rather than a significant improvement in demand trends.
- The Residential end-market is viewed as the strongest end-market in total for 2010, consistent with year-to-date trends.

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Source: CSAA Security Trends Survey

## ***Attrition Rates Expected to Improve in 2010***

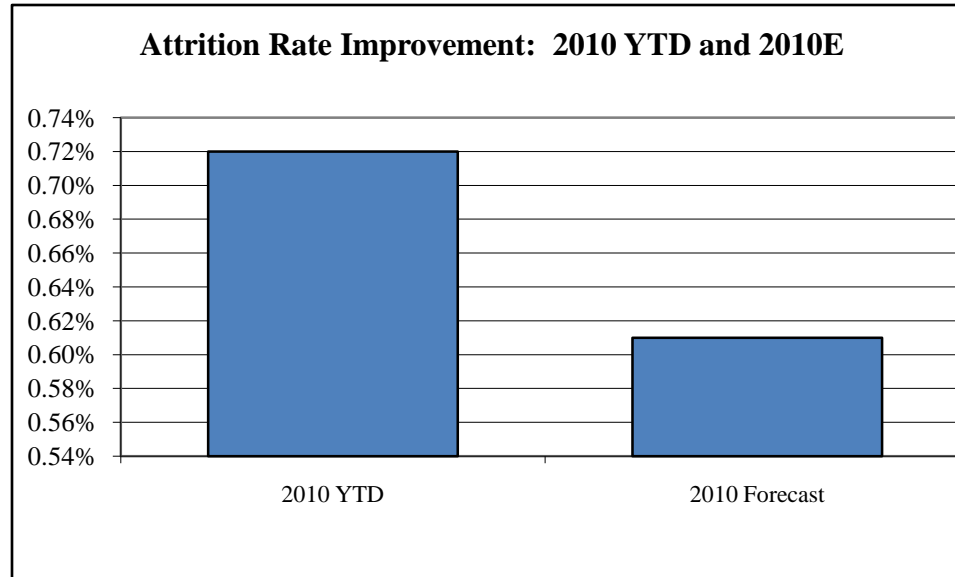
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- CSAA respondent attrition was 8.6% on average in 2009.
- CSAA respondent attrition is 7.9% year-to-date.
- Full year 2010 attrition rate is currently forecasted to finish in the 8% range, roughly 60bps better than 2009.

## ***Attrition Rates Better than Expected Year-to-Date***

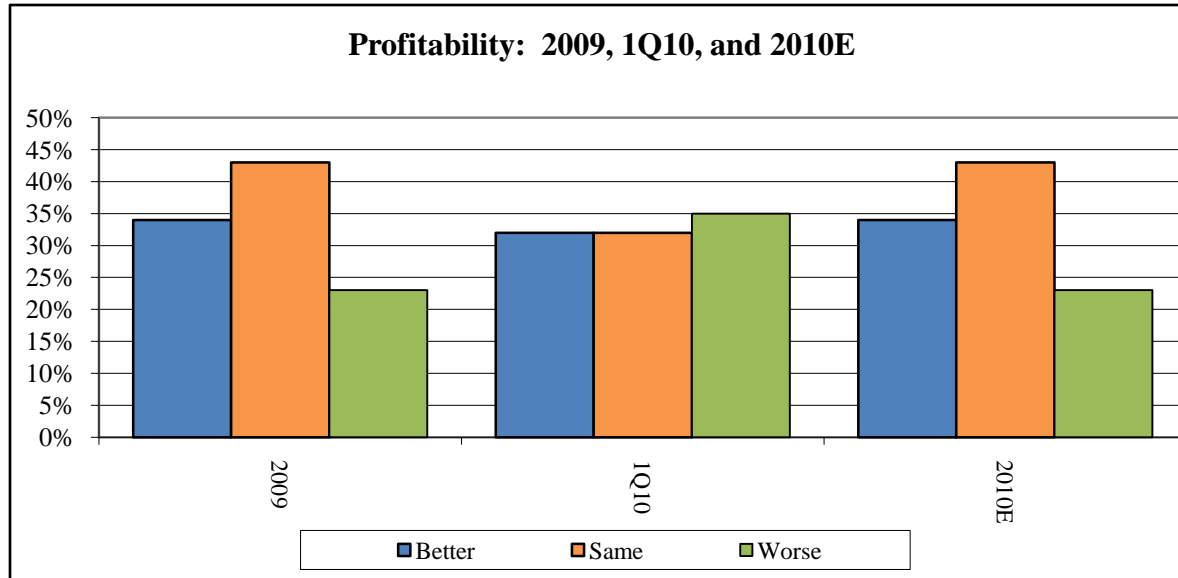
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- CSAA respondents' attrition rates are down roughly 70bps year-to-date (to 7.9% from 8.6% in 2009).
- CSAA respondents anticipate 2010 attrition rates to be down 60bps in total in 2010 (to 8% from 8.6%). This suggests year-to-date trends are ahead of plan for CSAA members.

## *Profitability Expected to Improve from Here*

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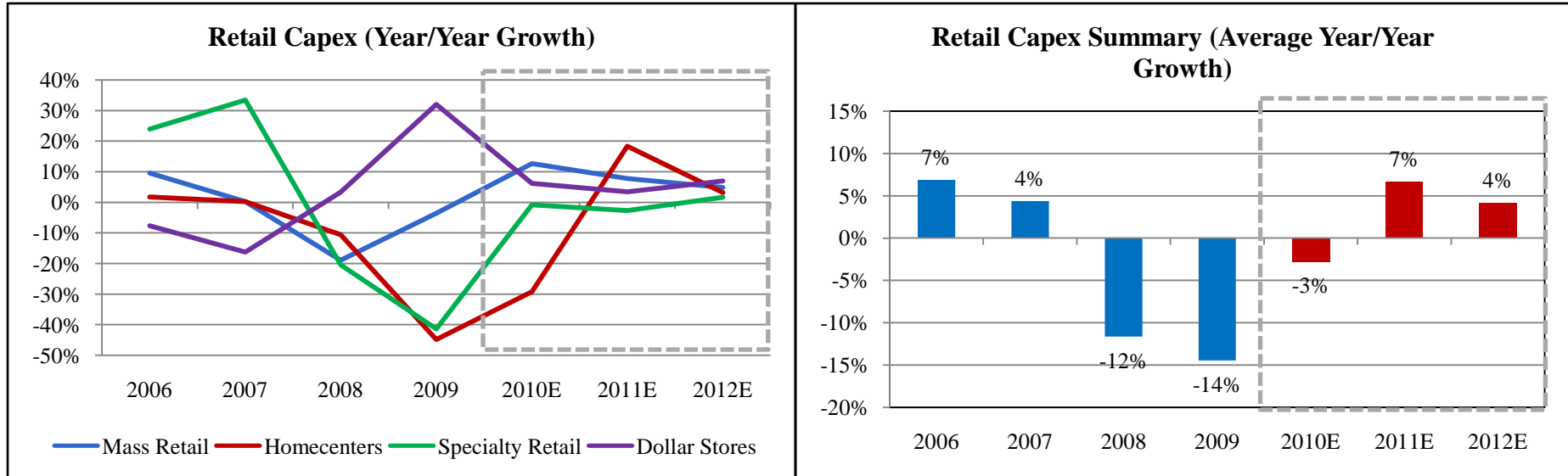


- CSAA respondents' profitability contracted a bit in 1Q10. The key driver to this contraction was added selling/marketing expenses without the corresponding lift in revenue in 1Q (revenues flat).
- Profitability outlooks are improved for the remainder of 2010, with fewer companies expecting "worse" profits in full year 2010 versus 1Q10.

## *Key Construction Indicators*

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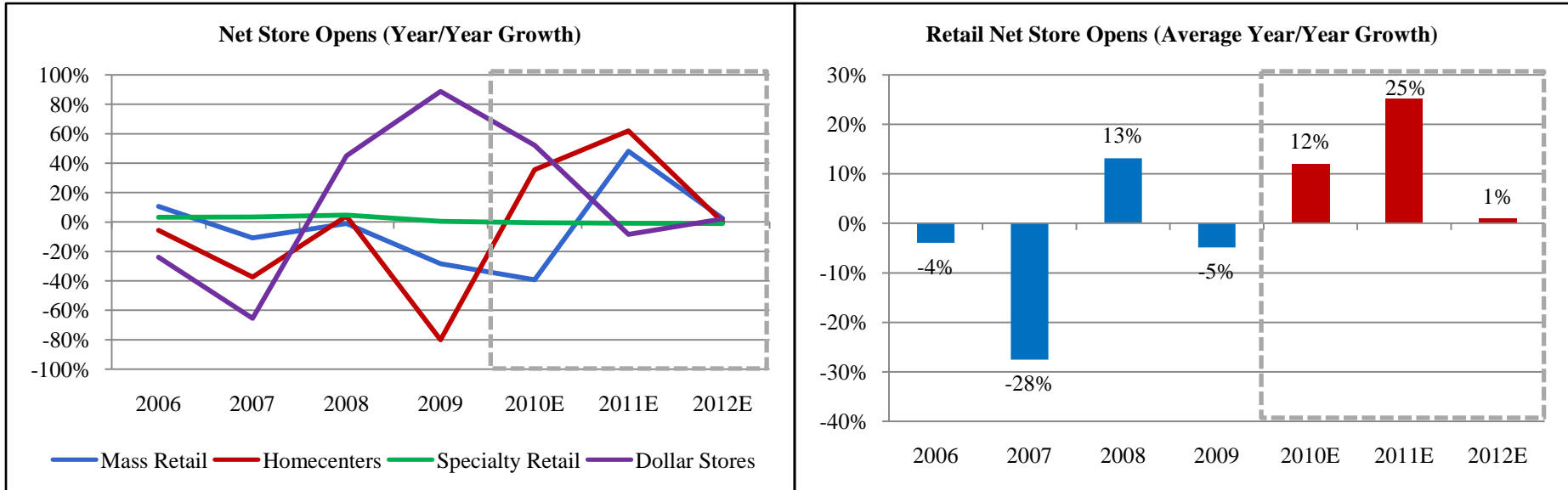
***Retail Capital Spending Expected to Increase in 2011 and 2012 (Was Down in 2008 and 2009)***



- Dollar stores were the only retail end-market that increased capital spending in 2009. The retail industry was down 14% on average in 2009.
- Retail (mass retail, homecenters, specialty retail, dollar stores) capital spending is expected to increase in 2011 and 2012 (7% and 4%, respectively). This compares to capex declines in 2008 and 2009 (and likely 2010 as well).
- The 3 year softening in capex trends (2008, 2009, 2010) look likely to reverse in 2011 and 2012, a positive for the Security Industry in total.

Source: Company reports, Industry sources

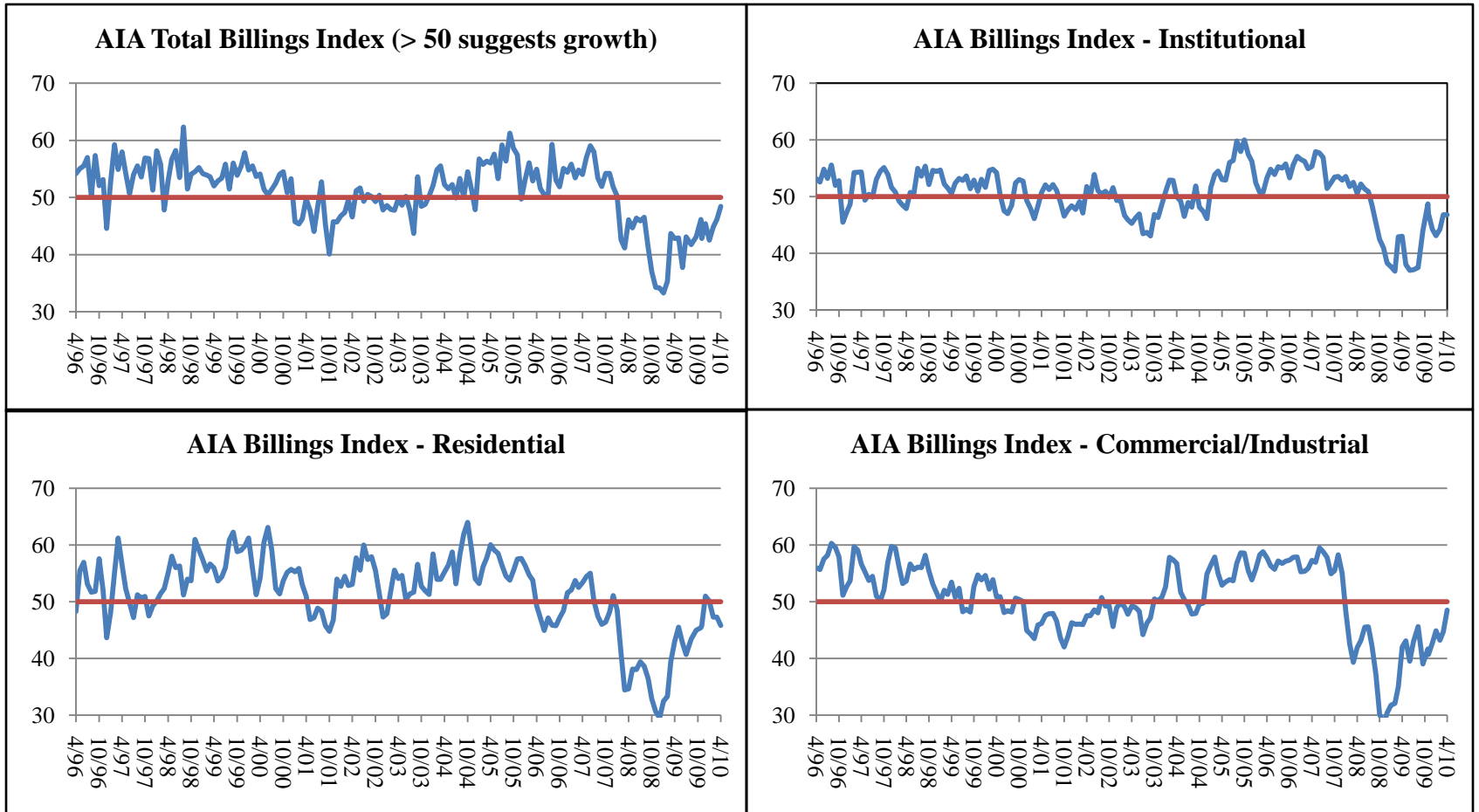
## Retail Net Store Openings Expected to Show Significant Growth in 2011



- The above graphs show the expectation for net new store openings (openings minus closings) for retail end-markets.
- Dollar stores are expected to increase the net store count by roughly 50% in 2010, a continuation of the trend in place since 2007.
- In total, retailers are expected to grow the net store count by 12% in 2010 and 25% in 2011. Note this is in large part driven by fewer store closures.

Source: Company reports, Industry sources

## Architectural Billings Continue to Show Slight Improvement in Total



Source: American Institute of Architects

## Non-Residential Construction Starts Forecasted to Accelerate in 2011 and 2012

<b>McGraw Hill Construction Starts Forecasts by Segment (square footage)</b>					
<b>Building Category</b>	<b>2008</b>	<b>2009</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Hotels and Motels	-8%	-62%	-16%	18%	37%
Manufacturing Plants, Warehouses, Labs	-13%	-52%	-11%	24%	42%
Schools, Libraries, and Labs (nonmfg)	2%	-23%	-7%	9%	12%
Office and Bank Buildings	-25%	-54%	-7%	36%	52%
Amusement, Social and Recreational Bldgs	-10%	-29%	-7%	16%	22%
Parking Garages and Automotive Services	-26%	-49%	-6%	39%	45%
Stores and Restaurants	-34%	-54%	-5%	35%	56%
Religious Buildings	-9%	-12%	-5%	4%	6%
Warehouses (excl. manufacturer owned)	-25%	-63%	-4%	41%	68%
Dormitories	9%	-20%	-1%	-4%	14%
Hospitals and Other Health Treatment	5%	-36%	3%	10%	14%
Government Service Buildings	-4%	0%	6%	-3%	-5%
Miscellaneous Nonresidential Buildings	2%	-5%	11%	14%	4%

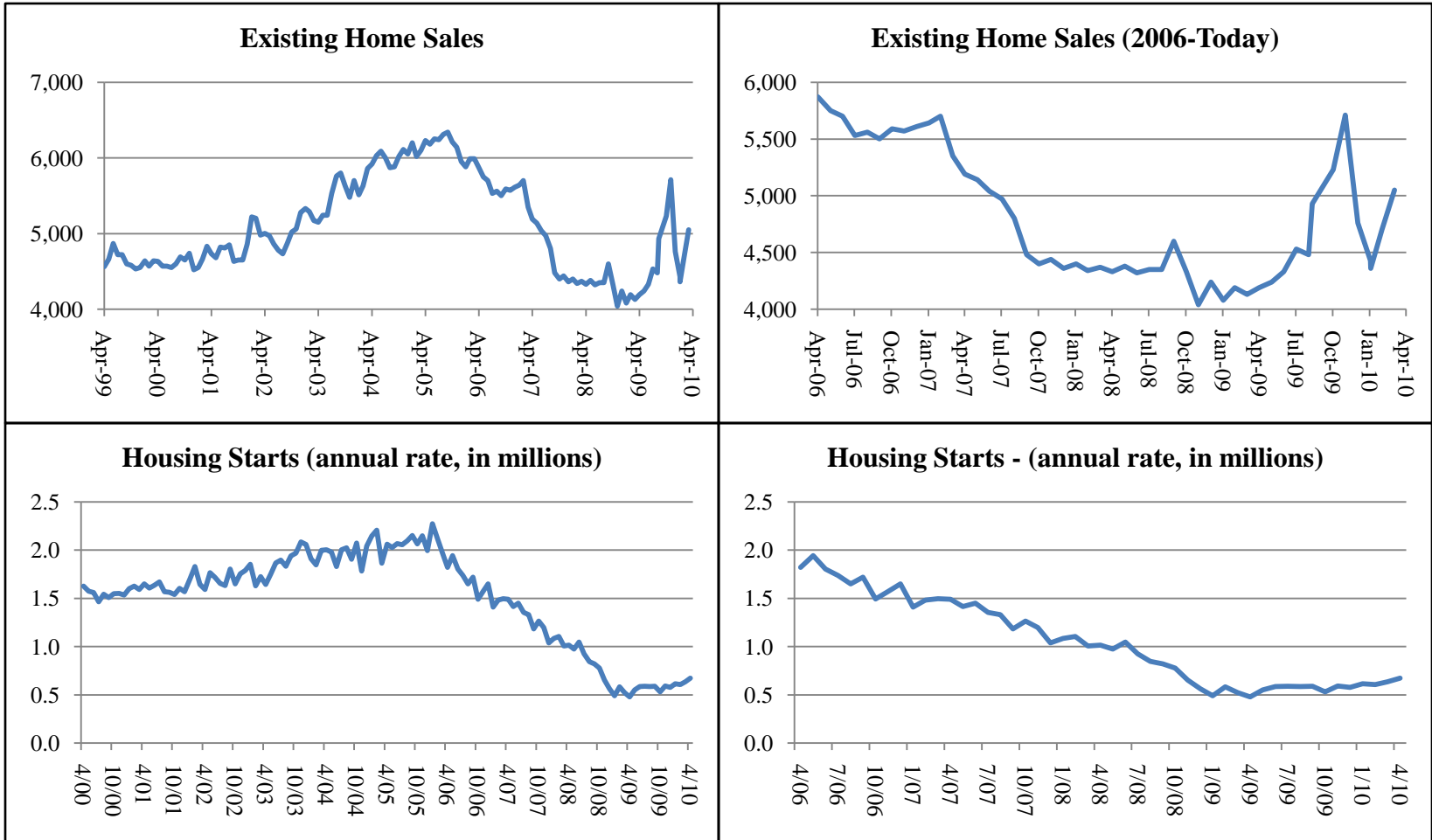
Source: McGraw Hill Dodge, Cleveland Research estimates

<b>McGraw Hill Construction Non-Residential Building Starts Forecasts</b>					
<b>1Q10 Forecast</b>	<b>2008</b>	<b>2009</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Square Feet, % Change	-17%	-43%	-5%	21%	33%
Dollars, % Change	1%	-30%	-1%	14%	23%
<b>4Q09 Forecast (OLD)</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Square Feet, % Change	-17%	-42%	-4%	21%	32%
Dollars, % Change	2%	-30%	-2%	15%	22%

Source: McGraw Hill Dodge, Cleveland Research estimates

Source: American Institute of Architects

***Existing Home Sales and Housing Starts Showing Some Slight Progress Year/Year***

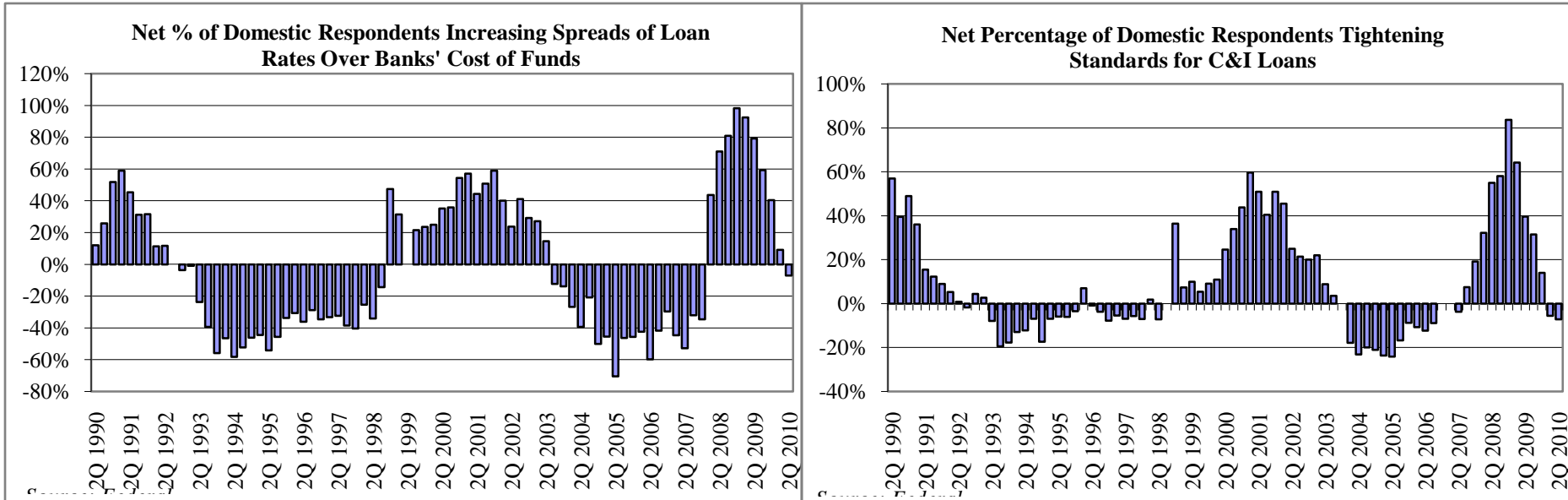


Source: Thomson Baseline, NAR

## ***Key Economic/Financial Indicators***

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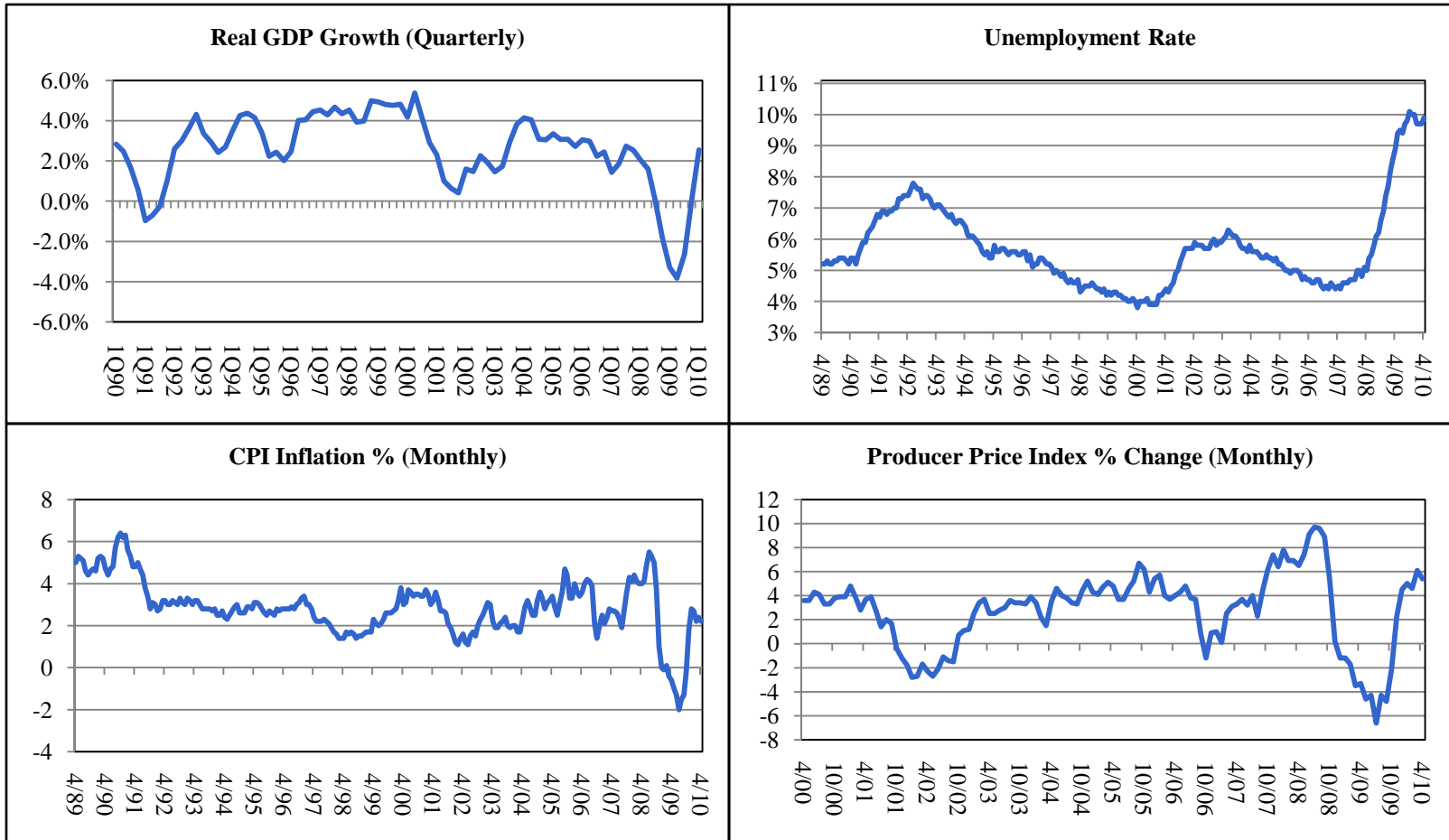
## Lending Standards Loosen Further in 2Q10



- The 2Q10 Senior Loan Officer survey saw a further loosening of loan standards in 2Q10. A net 7% of loan officers reported loosening credit standards in 2Q10. This compares to a net 6% that saw a loosening in 1Q10 and a net 14% that saw tighter standards in 4Q09.
- Loan rates have moved lower as well, with a net 7% of loan officers reporting a **decreased** lending spreads in 2Q10. This compares to net 9% reporting **increased** lending spreads in 1Q10 and 40% in 4Q09.

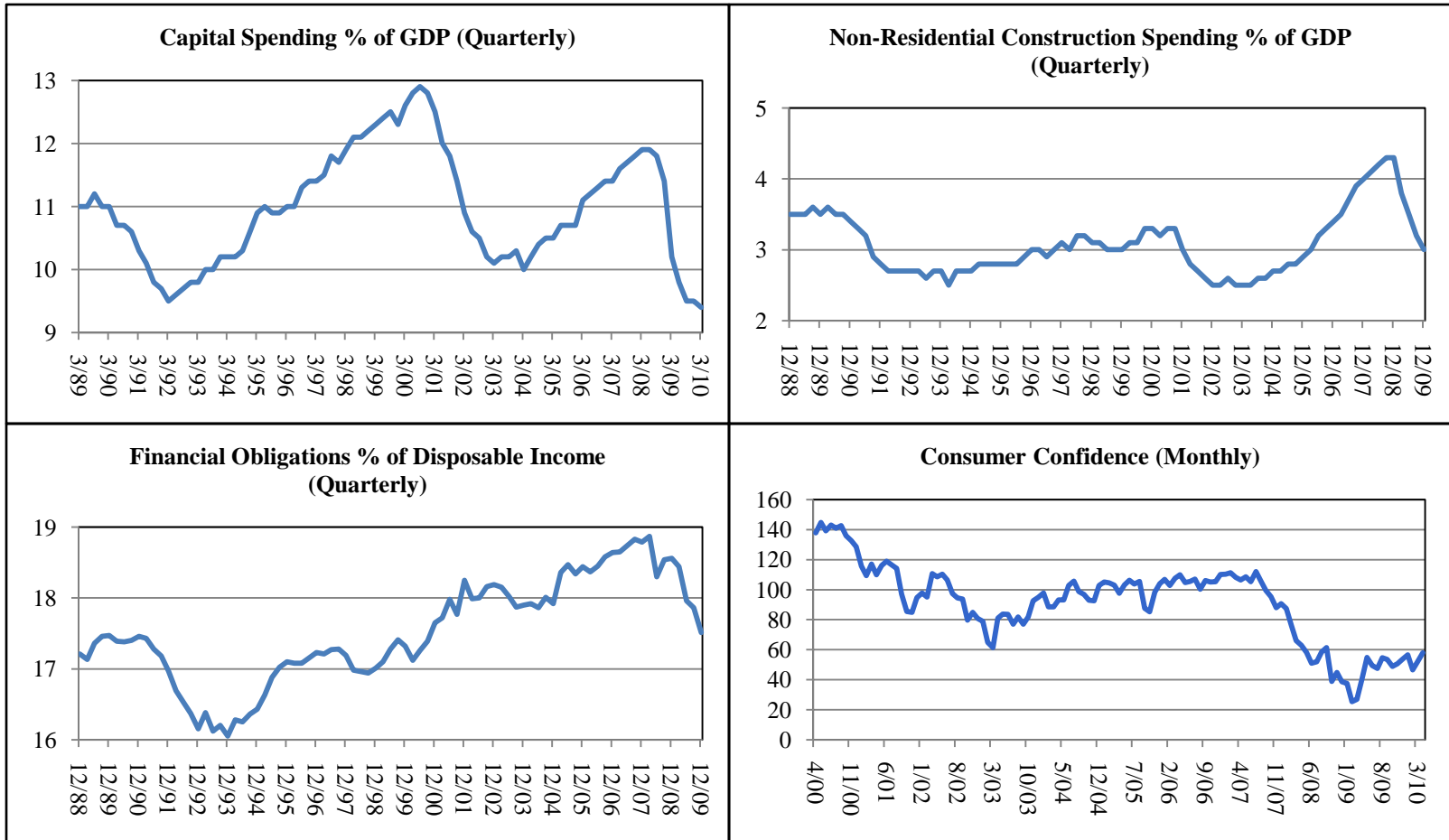
Source: Federal Reserve Board

## GDP, Unemployment, and Inflation Data



Source: Thomson Baseline

## Key GDP Components, Consumer Confidence, and Debt Levels



Source: Thomson Baseline

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*Canada*

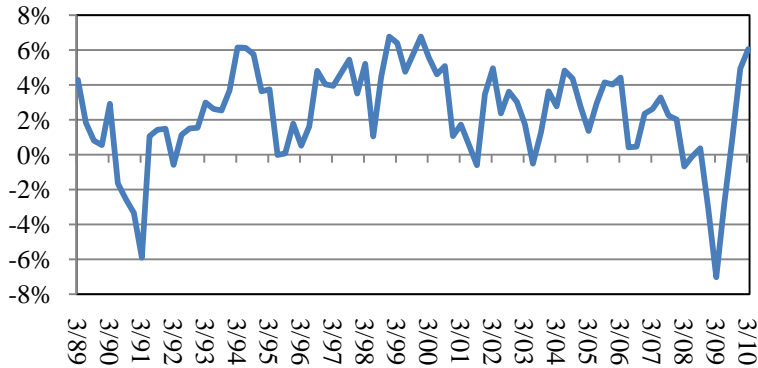
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*Key Economic/Financial Indicators*

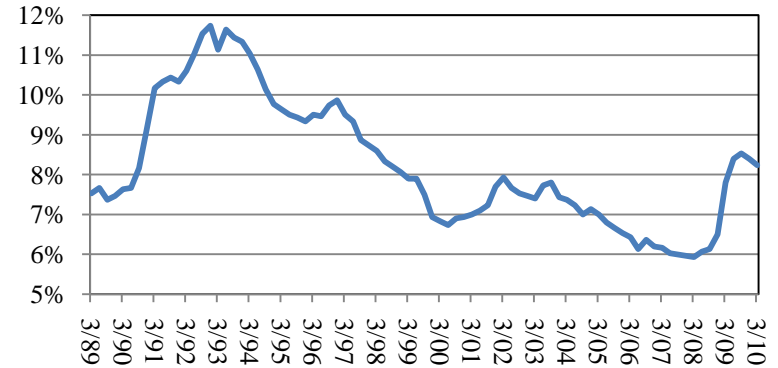
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## Canada Macroeconomic Data Points

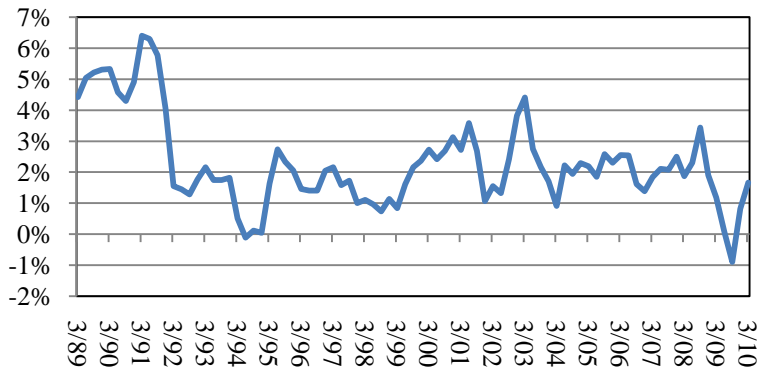
**Canada Real GDP Growth (Quarterly)**



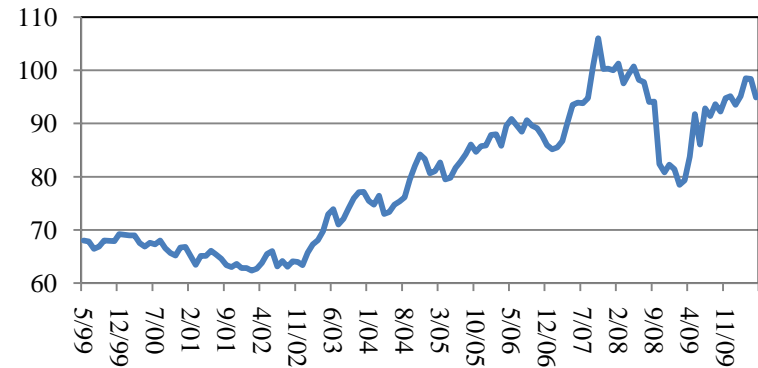
**Canada Unemployment Rate (Quarterly)**



**Canada y/y CPI Inflation (Quarterly)**



**Canadian Dollar Exchange Rate (USD per \$100 CAD)**



Source: Thomson Baseline

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*Please Look for the Next CSAA Survey in Early July*

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*Thank You*

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