HOME DEPOT TARGETS INTEGRATORS

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INTEGRATION
AUDIO/VIDEO
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CONTROL
BUSINESS

LARGEST CUSTOM RESIDENTIAL INTEGRATORS **SHOW 11% GROWTH**

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2013 CE PRO 100
RETURN TO GLORY?

Integrators report 11% revenue growth as more large players enter the market with entry-level home automation.

BY JASON KNOTT

THERE'S BEEN A definite change of tune amongst members of the CE Pro 100. While some might still be singing Bruce Springsteen's "Glory Days" song, longing for the heady years of 2006-07, others are humming the old 1929 standby "Happy Days are Here Again."

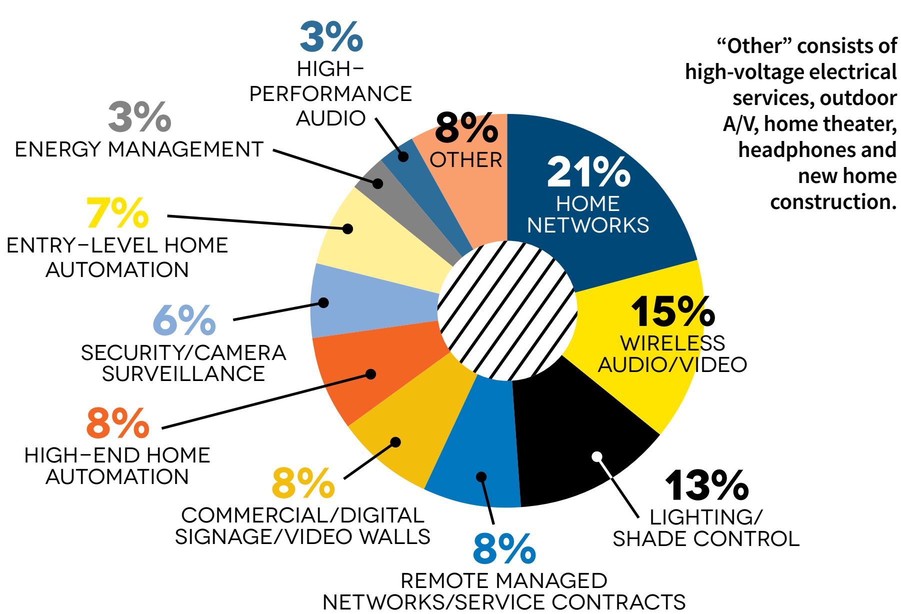
Either way, the results of *CE Pro*'s 15th annual list of the highest revenue residential integration companies in North America are in and the data is improving. Both high-end custom integrators and entry-level home automation-based dealers reported improvement in 2012. The list also marks the continuing entry of large security-based players offering low-cost connected systems to the market.

The most significant trend in this year's list is the emergence of bigger and bigger companies into the market coming from outside the industry. The top three integrators — AudioVisions/Best Buy/Magnolia, Vivint and ADT — are joined this year by other mammoth firms offering entry-level home automation: Nebraska Furniture Mart ($800 million in total revenue and owned by Warren Buffett's Berkshire Hathaway) and Vector Security ($236 million in total revenue).

When the CE Pro 100 was first introduced in 1999, the largest company on the list did $5 million in residential custom installation revenue. This year, there are 38 companies on the list that exceed that $5 million number. In terms of total revenues, which would include money from recurring revenue, over-the-counter retail and commercial work, there are 47 companies over $5 million — nearly half the list.

In total, the companies on this list earned $1.5 billion in residential installation revenue last year. That means the average company had revenues of $15.5 million. That's up 11 percent from last year. Even if you subtract the top three companies, which had residential custom installation revenues of $986.3 million, the average company on the CE Pro 100 did $5.8 million in revenues, up 7 percent from the year before. Even still, that figure is down from the halcyon year of 2007, in the

FASTEST GROWTH SEGMENTS IN 2013
(PERCENTAGE OF CE PRO 100 INTEGRATORS THAT INDENTIFIED THESE PRODUCT CATEGORIES AS THEIR FASTEST GROWTH SEGMENT)



midst of the housing boom when the average company earned $7.4 million.

While the top three companies on the list are unchanged, the order is different. Once again, AudioVisions/Best Buy/Magnolia tops the list as the big-box retailer continues to boost its reputation as an integration company in the face of competition from telecom companies and others *(See 'Big Guns' box on page 48)*.

This year, Vivint jumped to the No. 2 slot. The company is so focused on home automation that nearly every security-based installation it does connects to lighting and climate control systems. For No. 3 company ADT's part, home automation via its ADT Pulse offering is a secondary focus behind stand-alone alarm systems. *(See 'Estimating ADT' box on page 49)*.

As described in previous years, many of the large players' offerings don't allow an apples-to-apples comparison to traditional custom integrators' solutions. Some continue to argue that they do not even represent "custom installation." But many entrepreneurial integrators on the list are offering identical products and services at their most basic level as the large players are offering. For example, many local integrators do simple flat panel installations and limited lighting and HVAC control tied in with a security panel.

ANALYZING KEY METRICS

› **REVENUE PER EMPLOYEE:** This once-bellwether statistic in the industry is taking a hit with the influx of mass-marketed systems. For 2012, the average revenue per full-time employee was $8,521. That figure is misleading because of the high-volume players. The range stretches from a mind-blowing $900,000 per employee at Intech in Hicksville, N.Y. to just $4,701 per employee at AudioVisions/Best Buy/Magnolia. Of course, many of the latter company's employees are not involved in custom installation so that figure is a bit skewed. The median revenue-per-employee figure is a respectable $192,000.

Remember, the CE Pro 100 revenue number does not include recurring monthly revenue derived from monitoring of security accounts. Of course, subsidized systems sacrifice upfront payment in return for the long-term commitment of a monitoring contract, which turns

KEY BENCHMARK NUMBERS

$1,552,330,438
TOTAL CUSTOM REVENUES LOGGED BY THE CE PRO 100 **IN 2012**

$15.5 MILLION
AVERAGE CUSTOM REVENUES EARNED BY THE CE PRO 100 **IN 2012**

11%
INCREASE IN AVERAGE CUSTOM REVENUES IN 2012 VS. 2011.

475,474
ESTIMATED TOTAL **NUMBER OF MULTI-SUBSYSTEM RESIDENTIAL INSTALLATIONS** DONE BY THE CE PRO 100

40%
PERCENTAGE **INCREASE IN THE TOTAL NUMBER OF MULTI-SUBSYSTEM RESIDENTIAL INSTALLATIONS** DONE BY THE CE PRO 100 IN 2012 VS. 2011.

150
MEDIAN NUMBER OF MULTI-SUBSYSTEM RESIDENTIAL INSTALLATIONS PER COMPANY IN 2012

15%
INCREASE IN THE NUMBER OF MULTI-SUBSYSTEM RESIDENTIAL INSTALLATIONS IN 2012 VS. 2011.

$192,000
MEDIAN **REVENUE PER EMPLOYEE**

$3,265
AVERAGE **REVENUE PER INSTALLATION**

-9%
THE **DECREASE IN THE AVERAGE REVENUE PER INSTALLATION** IN 2012 VS. 2011

$12,444
AVERAGE **REVENUE PER INSTALLATION 12 YEARS AGO IN 2001** (RECORD HIGH)

22
MEDIAN NUMBER OF EMPLOYEES PER CE PRO 100 COMPANY

2
NUMBER OF EMPLOYEES ON AVERAGE THAT EACH CE PRO 100 COMPANY ADDED IN 2012 VS. 2011

$731 MILLION
ESTIMATED CUSTOM RESIDENTIAL INSTALLATION REVENUES FOR THE **NO. 1 COMPANY**.

17
NUMBER OF **CE PRO 100 COMPANIES BASED IN CALIFORNIA**

25
AVERAGE NUMBER OF **YEARS IN BUSINESS**

1
MEDIAN NUMBER OF **BUSINESS LOCATIONS/STOREFRONTS**

67
NUMBER OF CE PRO 100 **COMPANIES WITH A SINGLE BUSINESS LOCATION/ STOREFRONT**

13%
PREDICTED AVERAGE **REVENUE INCREASE IN 2013**

$24,619
MEDIAN **REVENUE PER INSTALLATION**

BIG GUNS

TOP INTEGRATORS BY TOTAL REVENUES (ALL SOURCES)

1. **AudioVisions/Best Buy/Magnolia** $50.7 billion
2. **ADT** $3.2 billion
3. **Nebraska Furniture Mart** $800 million
4. **Vivint** $396.9 million
5. **Abt Electronics** $320 million
6. **Vector Security** $236 million
7. **Guardian Protection Services** $150.1 million
8. **Just One Touch/Video & Audio Center** $42.7 million
9. **World Wide Stereo** $30 million
10. **MODIA** $24.8 million

This list shows total company revenues from all sources, including custom installation, and is a mix of retailers and security companies.

that subsidization into profit after a certain point in time. So in terms of this list, as more subsidized companies participate, this metric will have less relevance and may be dropped from future lists of the CE Pro 100. The list also does include commercial revenues. Meanwhile, the median number of employees increased from 20 to 22 as integrators grew while staying lean.

› NUMBER OF INSTALLATIONS: The total number of installations continues to climb, rising a whopping 40 percent in 2012. That was after a similar jump took place in 2011 as the first mass-marketed entry-level systems hit the market, namely from Vivint and ADT. Overall, the CE Pro 100 performed an estimated 475,474 installations, up from 338,094 the previous year. That includes an estimated 206,450 installations by public companies AudioVisions/Best Buy/Magnolia and ADT (these companies do not officially report that piece of data) and a verified 269,024 installations from the other 98 companies on the list.

However, with many large players on the list this year skewing the average higher, a more accurate snapshot of a typical CE Pro 100 company might be to look at the median number of installations. Median represents the number in which half the respondents are above and half are below. In this case, it is 150 installations per company.

› REVENUE PER INSTALLATION: The number of jobs did not translate into higher-paying installations in 2012. Indeed, just the opposite. The average revenue per installation continues to fall as the influence of entry-level home automation hits the market. The average multi-subsystem installation price fell 9 percent in 2012 to $3,265. That is only about half as much as it dropped the previous year, which is perhaps a signal that the price pressure is waning a bit. That downward trend is likely to continue as the public becomes even more accustomed to subsidized home automation models from alarm companies adding HVAC and lighting control to their security packages.

OLD SCHOOL ACES

TOP 10 TRADITIONAL CUSTOM A/V INTEGRATORS

1. **Audio Command Systems** $22 million
2. **Audio Video Systems** $17.3 million
3. **Engineered Environments** $17.2 million
4. **Audio Interiors** $13.5 million
5. **Cyber Sound** $13.4 million
6. **DSI Entertainment Systems** $10.8 million
7. **ETC** $10.6 million
8. **Intech** $9 million
9. **Advanced ESI** $8 million
10. **Performance Imaging** $7.4 million

These traditional A/V specialists have the time-tested business model of working closely with homeowners, architects, interior designers and custom builders to fashion sophisticated integrated systems — one at a time.

VOLUME EXPERTS

TOP 9 SECURITY/STRUCTURED WIRING-BASED INTEGRATORS

1. **Vivint** $130.5 million
2. **ADT Security Services** $124 million
3. **Guardian Protection** $28.9 million
4. **Vector Security** $11.8 million
5. **SST** $7.4 million
6. **PWM Technology** $5.7 million
7. **iWired** $5.6 million
8. **Dynamark Systems** $4.9 million
9. **Trinity Wiring & Security Solutions** $4 million

Volume is the key word for these top integrators whose efficiency is based on doing as many jobs as possible in the most efficient manner. Most of them are security-based and often they work with homebuilders on large housing tracts.

RETAIL GIANTS

TOP 8 CUSTOM RETAILERS (INSTALLATION REVENUE ONLY)

1. **AudioVisions/Best Buy/Magnolia** $731 million
2. **Abt Electronics** $32.6 million
3. **Just One Touch/Video & Audio Center** $24.9 million
4. **MODIA** $20.9 million
5. **Hifi House** $12 million
6. **World Wide Stereo** $5.6 million
7. **(tie)**
   - **Bjorn's Audio Video** $4 million
   - **County TV & Appliances** $4 million

These integrators sell equipment over the counter and/or online to form relationships with customers that lead to installing the equipment.

PRODUCTIVITY KINGS

TOP 10 HIGHEST REVENUE-PER-EMPLOYEE INTEGRATORS

1. **Intech** $900,000
2. **Sound Concepts** $499,662
3. **Audio Video Systems** $456,433
4. **Elite Custom Audio Video** $425,077
5. **Peak Audio & Video** $403,222
6. **Audio High** $380,000
7. **Accent ESI** $375,000
8. **Just One Touch/Video & Audio Center** $360,367
9. **Acoustic Designs** $339,472
10. **Acadian Home Theater & Automation** $337,325

These are the most efficient integrators that have been able to maximize employee productivity.

BIG JOB GURUS

TOP 10 HIGHEST AVERAGE REVENUE-PER-INSTALLATION INTEGRATORS

1. **Accent ESI** $300,000
2. **Engineered Environments** $285,505
3. **DSI Entertainment Systems** $215,600
4. **Bekins** $181,250
5. **Audio Video Systems** $173,292
6. **Audio Images** $170,320
7. **Home Entertainment Design South** $135,200
8. **Logic Integration** $133,643
9. **Signals A/V** $133,436
10. **Hometronics** $132,400

These companies are the ones that focus on big jobs that often entail long-term, complex integration of multiple subsystems.

The Continuing Evolution of Best Buy

MANY CE PROS MIGHT BE WONDERING how Best Buy's custom revenues grew in 2012 to an estimated $731 million from $680 million in 2011, especially when all anyone ever reads about these days in the press is that the company is struggling.

Yes, the company is facing serious competitive influences to its retail business. And the company president had to resign in scandal, while founder Richard Schulze was making overtures to purchase the company. Despite all the bad press, according to the company's Fiscal Year 2012 Annual Report, Best Buy's total revenue grew to $50.7 billion in 2012, up about $1 billion from the previous year, growth of about 1.5 percent. And about $600 million of that growth was in the domestic U.S.

But in the world of public companies, it's all about pleasing shareholders and keeping the stock price higher. Total profits were down, but the company still made $1.8 billion in profit last year. That's why the company embarked on some cost-cutting moves, closing a handful of Best Buy locations and one Magnolia. The big cost savings came in staff, where the company's slashed nearly 3,000 employees.

Best Buy readily admits that sales fell in "several key consumer electronics product categories" and the company's overall marketshare declined, specifically in televisions. Same-store sales of consumer electronics fell 5.4 percent year vs. year.

So how did the company's revenues still grow? Custom integration services had a lot to do with it. Best Buy had double-digit gains in computing and mobile phones, as well as in appliances. Meanwhile, its "services" business remained steady, accounting for 6 percent of overall sales. "Services" include installation and extended warranties, although Best Buy does not break apart the two components of that category.

Last year, based on public statements by Best Buy execs in various other media, *CE Pro* was able to estimate that approximately 4 percent of the company's total revenues are derived from installation services. The three-location AudioVisions division experienced double-digit increases in revenues and installations last year. ■

Estimating ADT's Custom Revenues

ADT HAD A BIG YEAR IN 2012, not in terms of revenues but in terms of corporate structure. It broke away from its mammoth Tyco parent company in September 2011 as a stand-alone residential integration company. Now, ADT is 100-percent focused on home security/home automation.

ADT's total revenues grew 3.8 percent in 2012 to $3.2 billion. Amazingly, recurring revenue accounts for $2.96 billion of that total, or 92.5 percent of total revenue. The growth is being driven by the traction continuing to be gained in the marketplace by ADT Pulse, an entry-level home automation system that links security with control of lighting, HVAC and deadbolt locks.

Also in 2012, ADT opened up sales of Pulse to its 400 authorized dealers, in addition to its 206 locations in the U.S. and Canada. For 2012, *CE Pro* estimates custom installation revenues for ADT of approximately $124.8 million. This includes high-end integrated security installations via the ADT Custom program, plus installation revenue only from ADT Pulse installations. We are estimating there were 78,000 installations of the two higher-tier integrated Pulse systems (Advantage and Premier) in 2012, which is slightly up from last year. At $1,000 apiece ($78 million), plus the first year of monitoring at $50/month on average ($46.8 million) totals to $124.8 million. ■

INDUSTRY VETERANS

TOP 10 OLDEST INTEGRATORS

1. **ADT** 139 years
2. **Abt Electronics** 77 years
3. **Ray Supply** 76 years
4. **Nebraska Furniture Mart** 75 years
5. **Century Stereo** 63 years
6. **Guardian Protection Services** 62 years
7. **County TV and Appliances** 60 years
8. **(tie) HiFi House** 58 years
9. **(tie) Jamiesons Audio/Video** 58 years
10. **Hermary's** 51 years

These companies have seen it all. The tenure represents the number of years the company itself has existed, not the number of years in the custom installation business.

› **GEOGRAPHIC TRENDS:** California continues to lead the list with 17 companies based there. It makes sense — the Golden State is the most populous and has several hubs of wealth in Northern and Southern California.

Next, the tri-state area of New York/New Jersey/Connecticut with 12, followed by 10 in Texas, nine in Florida, seven in Arizona, and five in Pennsylvania. Other areas with strong representation include Illinois (four) and Nevada (four). We have been waiting for Nebraska to crack the list, and the Cornhusker State did this year.

› **PREDICTIONS FOR 2012:** Optimism continues to abound for the coming year. Only one company says it anticipates 2013 to be worse than 2012. Another seven are expecting a "flat" year in terms of revenue, while another one declined to speculate. That means 91 companies in the group are bullish on 2013, which is up from 84 companies that felt that way heading into 2012. Meanwhile, the average revenue increase predicted by integrators is 13 percent for next year.

HOW COMPANIES VERIFY THEIR DATA

Ever since *CE Pro* started asking for verification of the financial data 10 years ago, we have been waiting for this year. For 2012, every company in the final CE Pro 100 either submitted its data, had it verified by an outside accountant, or was verified via manufacturers. The verification is optional. Companies were required to sign a statement (for faxed or mailed entries) that says, "the information provided is accurate and truthful." That statement also appears at the bottom of electronic submissions.

Similar to previous years, *CE Pro* has selected gross revenue in multisystem residential installations as the determining factor for the ranking. Keep your eyes peeled for the June issue of *CE Pro* that will include a brand analysis by the CE Pro 100. The list allows you to gauge your own company's performance against others. It may even provide you with a valuable tool to use with investors or bankers when trying to describe the scope of the custom installation business.

The *CE Pro* list is obtained in several ways:

- A qualification form appeared in the February and March 2013 issues of *CE Pro*.
- An online form was posted on *www.cepro.com* for three months, inviting entries. The website will also maintain a list of the 2012 CE Pro 100 for the next 12 months.
- A blast email was sent out to the installing companies that subscribe to *CE Pro*.
- Special emails and phone calls were made to a handful of firms that appeared in previous CE Pro 100 listing.

The list is ranked by the volume of billed, not booked, business from residential systems that incorporate at least three of the following subsystems:

- Audio (sources, speakers, processors or multiroom distribution components)
- HVAC control/energy management systems
- Lighting controls
- Security systems (alarms, integrated fire, access control or CCTV)
- Structured wiring
- Telecommunications
- Video (sources, monitors, projectors, screens, DBS, multiroom distribution components or gaming)
- Whole-house automation/integration
- Networking (PC/broadband routers, modems, WAPs, etc.)
- Window covering controls
- Other (central vacuum, surge protection, irrigation control, spa controls, acoustical panels, seating, furniture, etc.)

As always there are several large companies that chose not to participate in this year's listing. Many higher-end custom companies do not want to be compared with high-volume companies on any list. Is your company missing from the list? If so, email *CE Pro* at *jknott@ehpub.com*, or please email any other comments about the CE Pro 100. **CE Pro**

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RANK	VERIFIED	COMPANY	CITY, STATE	CUSTOM RESIDENTIAL REVENUES	TOTAL REVENUE	RESIDENTIAL INSTALLS	CUSTOM REVENUE/ INSTALL	FULL-TIME EMPLOYEES	CUSTOM REVENUE/ EMPLOYEE	YEARS IN BUSINESS	2013 OUTLOOK
21	✓	**Performance Imaging**	Stamford, Conn.	**$7,450,000**	$9,385,500	105	$70,952	31	$240,323	17	Up 5%
22	✓	**Audio Video Crafts**	Long Island City, N.Y.	**$7,000,000**	$7,000,000	89	$78,652	22	$318,182	26	Up 5%
23	✓	**Service Tech AV**	Cedar Park, Texas	**$6,954,347**	$6,954,347	150	$46,362	40	$173,859	7	Up 25%
24	✓	**Home Entertainment Design South**	Hollywood, Fla.	**$6,760,000**	$7,510,208	50	$135,200	22	$307,273	16	Up 10%
25	✓	**Audio High**	Mountain View, Calif.	**$6,460,000**	$6,800,000	150	$43,067	17	$380,000	16	Up 20%
26	✓	**Tunnel Vision Technology**	Chicago, Ill.	**$5,967,456**	$5,967,456	266	$22,434	22	$271,248	14	Up 20%
27	✓	**PWM Technology**	Irvine, Calif.	**$5,772,875**	$6,514,081	3,410	$1,693	52	$111,017	35	Flat
28	✓	**Innerspace Electronics**	Port Chester, N.Y.	**$5,750,000**	$5,775,000	81	$70,988	22	$261,364	25	Up 5%
29	✓	**World Wide Stereo**	Hatfield, Pa.	**$5,600,000**	$30,000,000	2,013	$2,782	72	$77,778	35	Up 12%
30	✓	**iWired**	Scottsdale, Ariz.	**$5,581,140**	$5,581,140	1,823	$3,062	32	$174,411	12	Up 17%
31	✓	**Sound Concepts**	Jonesboro, Ark.	**$5,496,287**	$5,725,299	730	$7,529	11	$499,662	10	Up 5%
32	✓	**The Sound Room**	Chesterfield, Mo.	**$5,300,000**	$5,900,000	500	$10,600	35	$151,429	30	Up 15%
33	✓	**Signals Audio/ Video**	El Segundo, Calif.	**$5,204,014**	$5,204,014	39	$133,436	19	$273,895	18	Up 20%
34	✓	**Audio Images**	Tustin, Calif.	**$5,109,602**	$5,472,926	30	$170,320	25	$204,384	21	Up 10%
35	✓	**Bethesda Systems**	Bethesda, Md.	**$5,000,000**	$5,400,000	75	$66,667	30	$166,667	9	Up 15%
36	e	**Nebraska Furniture Mart**	Omaha, Neb.	**$5,000,000**	$800,000,000	3,274	$1,527	36	$138,889	75	Up 10%
37	✓	**Audio Video Design**	Newton, Mass.	**$4,993,750**	$5,875,000	166	$30,083	30	$166,458	40	Up 20%
38	✓	**Dynamark Systems**	Tampa, Fla.	**$4,900,000**	$5,100,000	2,000	$2,450	49	$100,000	19	Up 20%
39	✓	**AVL PRO**	Naples, Fla.	**$4,813,143**	$4,813,143	85	$56,625	16	$300,821	13	Up 20%
40	✓	**Stereo East Home Theater**	Frisco, Texas	**$4,790,000**	$5,037,000	600	$7,983	25	$191,600	30	Up 18%

e = ESTIMATED CUSTOM REVENUES