"Red Alert, Where There's Smoke, There's Fire"

/ STRONG SELL OPINION /

Resideo Technologies, Inc. | NYSE: REZI

SPRUCE POINT CAPITAL MANAGEMENT

INVESTMENT RESEARCH REPORT

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Spruce Point Capital Management

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Spruce Point Has A Track Record With Companies Touching REZI's End Markets

Spruce Point has a track record of calls of companies in and around the home and facility services markets.

	GENERAC	LIMBACH	FLOOR & DECOR
Report Date	NYSE: GNRC | 6/22/2022	Nasdaq: LMB | 7/22/2025	NYSE: FND | 7/1/2024
Enterprise Value	$15.7 billion	$1.5 billion	$12.9 billion
Company Promotion	Leader in home standby power generation and alternative energies.	Leading building services company that designs, constructs, serves and maintains mechanical heating, ventilation, and air conditioning ("HVAC"), electrical, and plumbing infrastructure.	Leading omnichannel retailer in specialty hard surface flooring and decor home products.
Our Criticism	To deflect from growing core challenges in its power generator business, we believe Generac is trying to position itself as a new clean energy play to buff its ESG and transparency image. However, our review of its recent M&A roll-up activity to expand its core and clean energy efforts reveal a host of serious concerns. We see 40%-50% downside risk.	Concerns with LMB's aggressive accounting practices, several connections to actual high-profile and alleged fraud cases, decelerating organic growth in the Company's Owner Direct Relationships ("ODR") segment, the key growth driver for the Company, and Adj. EBITDA and free cash flow are overstated by 13% and 200%, respectively, over the last twelve months. We estimate a 20% - 50% potential long-term downside and market underperformance risk.	FND's growth strategy issues are structural and not cyclical as competition increases, product, technology, marketing and labor advantages disappear, and customer demographics worsen. Concerns raised that the Company recently made revisions to key revenue claims, numerous omissions of past disclosures, changes to accounting policy language and modifications to business practices that obscure its growing challenges. We see 40%-60% downside risk.
Successful Outcome	Generac's shares declined as much as -60% since our report. Generac's largest solar distributor filed a lawsuit alleging it covered-up defective products. The Company's COO resigned. Generac issued preliminary financial results that blind-sided investors with a slow down in growth. Generac disclosed it received a subpoena related to a grand jury investigation.	Limbach's share price declined by as much as -48% since our report. Recent reported results have validated some concerns we raised about the sustainability of margins, quality of cash flow, and organic growth.	Floor & Decor's share price declined up to -44% following our report and key executives such as President Lang, the Chief Accounting Officer, Board member Starrett, and CEO Taylor each transitioned from the Company. Warren Buffett's Berkshire Hathaway sold its entire stock position.

The recommendations shown above are not intended to be exhaustive or represent investment returns following Spruce Point's research campaigns. A full list of all recommendations made over the past twelve months can be found on our website.

Spruce Point Has A Track Record With Legacy Technology Companies Failing To Transform

Spruce Point has a track record of calls of companies in legacy technology markets that fail to adapt to changing trends.

	NCR	iRobot
Report Date	NYSE: NCR | 4/23/2015	Nasdaq: IRBT | 2016-2019
Enterprise Value	$8.6 billion	$2.0 billion
Company Promotion	Best of breed ATM manufacturer capable of making a hardware to software transition, especially with acquisitions.	Leading home robotics company driving broad adoption of vacuum robots with significant growth opportunities in lawn mower, gutter-cleaning and other robot categories.
Our Criticism	GAAP/Non-GAAP metric diversion, inability to sustain operating cash flow, mounting competition and technology disintermediation, bad acquisitions, insider selling and overvaluation. Nobody would acquire NCR and its software transformation would disappoint.	Hyper-promotional company that uses aggressive accounting and acquisitions to cover its growing financial stress. Insiders milk shareholders by rewarding itself with egregious compensation schemes despite missing targets. SharkNinja market entry and wave of lower-cost vacuum robots are likely to pressure margins.
Successful Outcome	NCR's strategic alternative process failed with an inability to find a buyer. This resulted in NCR having to issue $820m of perpetual convertible preferred stock with a 5.5% coupon to Blackstone. NCR's cash flow declined YoY as we forecasted. After years of underperformance, in 2023, NCR split up into two separate companies, NCR Atleos (NATL) and NCR Voyix (VYX).	The Company filed for Chapter 11 bankruptcy and the stock has been delisted. Is there anything more to say?

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Executive Summary

We Are Short Resideo Technologies (NYSE: REZI) And See Potential 25% - 50% Downside Risk

After conducting a forensic financial review of Resideo Technologies, Inc. (NYSE: REZI or "the Company") Spruce Point calls for an independent investigation into the accuracy of its financial reporting and accounting. As a troubled spin-off from Honeywell in 2018 that has cycled through four CFOs and four CAOs in only seven years, we provide evidence that it has failed to achieve its long-term financial goals, suffers from years of organizational complexity, and has failed to fix lingering Enterprise Resource Planning ("ERP") systems and technology. Management has gingerly talked about the ERP issue while providing no roadmap for timing or cost of completion, but we conservatively estimate it may need to spend another $100 - $250m. Having passed off $220m of cumulative restructuring charges as "one-time" add backs to inflate growing Non-GAAP financial results, and engaging in multiple aggressive accounting and financial reporting tactics, our math illustrates that operating cash flow has declined -37% since 2018.

We also provide analysis that suggests Resideo has engaged in value-destructive M&A with questionable financial reporting to bolster the appearance of earnings growth. Notably, in 2022 Resideo acquired First Alert (smoke detectors) from Newell Brands (Nasdaq: NWL) for $593m. Ironically, First Alert was once used as an acquisition pawn to cover-up a massive accounting fraud in 1998 by Sunbeam Corp. (NYSE: SOC) run by the notorious Al "Chainsaw" Dunlap. Later, the business would pass to Newell (through Jarden Corp.) where both it and the CEO settled with the SEC in 2023 for $12.5m related to accounting violations and misrepresenting core "organic" growth. We provide evidence of revenue reporting issues and challenges faced with the business. Following the First Alert deal, Resideo acquired Snap One Holdings ("Snap") (Nasdaq: SNPO) for $1.4 billion. Snap itself was an amalgamation of businesses, notably through the acquisition of Control4 (Nasdaq: CTRL). We provide evidence that Snap is also under strain with various accounting and financial reporting tactics used to bolster earnings. In 2021, Resideo presented revenue and gross margin goals for 2024. Our analysis, which adjusts for recent M&A and FX, estimates that total organic growth was ~2.9% or 310bps below target. The underperformance was largely driven by the Product and Solutions ("P&S") segment which we estimate grew 0.8% vs. 4-6% targeted. In 2021, REZI even said the addressable market for P&S was growing "mid-to-high single digits" which suggests it may have lost serious market share. Furthermore, gross margins were projected to be 30-32% but came in at 28.1%. Again, the biggest variance was in the P&S segment which was projected to have 46-48% gross margins but produced 41%. One notable pocket of weakness is its security business where it lost $100m of revenue from ADT following Google's investment in 2021.

With few, if any, levers left to spin upside potential, we believe REZI is now doing an about face and claims the best way to unlock value is to split-up the Company. We think this is a red herring and the real problem is weakening competitive positioning, diminished growth vectors, and growing accounting strains which can't simply be solved by a split-up. While we applaud REZI for finally settling its obligations to Honeywell in July 2025, it is now left precariously levered at 5.5x (up from 3.3x in 2018) with significant financial uncertainties ahead. Based on our sum-of-the-parts analysis, we believe the share price to be materially overvalued and see 25% – 50% downside risk and expect shares to underperform the market and its related industries.

REZI Has A Troubled History And Problems Appear To Be Intensifying

1

REZI has a troubled history of organizational complexity, financial failure, and the recent split up announcement is likely to intensify its problems.

REZI spun-off from Honeywell in 2018 with the high hopes of unlocking value for the assets. But according to a former high-level executive we spoke with said the businesses were *"smushed together"* for the spin-off and *"operationally behind the scenes there were a lot of growing pains in terms of how to harmonize these businesses"*. The initial vision of being a software-centric company did not pan out and early slides promoting connected customers and recurring revenue were dropped. Today, we believe solutions for the residential and commercial building space need connectivity and technology edge to succeed, especially with the likes of Amazon and Google focusing on the home. After a period of 16% annual connected customer growth, we estimate that REZI's growth rate plummeted to 1.6% in 2025. The Company has also deemphasized R&D and has made three expense reporting reclassifications. By our estimate, R&D expense per engineer has fallen -10% in the past three years while its current and pending patent portfolio has declined.

We frequently find that companies with capex mis-forecasting issues either have underlying business problems or poor financial management. For starters, REZI has changed its capex nomenclature on its cash flow statement four times to obscure the amount of software spending. Management has frequently missed capex forecasts by 15-25%, with a 122% miss at spin-off. At its March 2021 Investor Day, REZI said annual capex would be 2-3% of revenue through 2024, but it never exceeded 2%. Capex spending is crucial to the story, especially when it comes to spending on its ERP system. A former executive told us it was a *"bit of a rat nest that spun out in terms of those back office systems"*. Management has only gingerly discussed the ERP since 2021, but recently revised financial guidance and blamed the ERP while suggesting that even some issues may not be fixable from systems that can't connect. Based on REZI's size and complexity (e.g. ADI which distributes more than 500,000 products from over 1,000 manufacturers to a customer base of more than 100,000), we conservatively estimate it may need to spend another $100 - $250m on its ERP system.

Our forensic research finds severely problematic financial reporting when it comes to explanatory factors driving revenue and acquisitions. These issues are likely a function of REZI's problematic ERP and further complicated by the fact it has completed at least thirteen acquisitions and three divestitures since the spin-off. Of course, with the Company having rotated through four Chief Financial Officers and four Chief Accounting Officers since coming public, the potential for problems are exacerbated from the lack of continuity in financial leadership. Complicating matters, Nebraska's Attorney General recently sued Resideo for *"deceptive and unfair business practices"* and *"deceptively marketed"* security products.

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REZI's Landmark Acquisitions Also Appear Troubled

2

Recent acquisitions look troubled, paper over REZI's long-term goal failures, and appear to intensify its financial problems. Its initial foray into large scale acquisitions was First Alert in 2022.

In March 2021 during its Investor Day, REZI set specific organic revenue and gross margin by segment and consolidated operating cash flow goals to be achieved by 2024. The Company did not mention acquisitions as being integral to the strategy, leading investors to believe its objectives were organic growth. In fact, acquisitions were listed as its lowest priority at its 2018 spin-off. Based on our analysis, we believe that REZI has woefully missed its 2024 targets communicated to investors in early 2021. Over the same period, REZI has ceased to provide key annual guidance metrics such as revenue growth per segment, gross margin and corporate expenses. Our analysis, which adjusts for recent acquisitions, FX, and divestitures estimates that total organic growth was ~2.9% or 310bps below the target. The underperformance was largely driven by the Product and Solutions ("P&S") segment which we estimate grew 0.8% vs. 4-6% targeted. In 2021, REZI even said the addressable market for products and solutions was growing "mid-to-high single digits" which suggests it may have lost serious market share. Furthermore, gross margins were projected to be 30-32% but came in at 28.1%. Again, the biggest variance was in the P&S segment which was projected to have 46-48% gross margins but produced 41%.

Our analysis also suggests that REZI has engaged in value-destructive M&A with questionable financial reporting to bolster the appearance of earnings growth. Notably, in 2022 it acquired First Alert (smoke detectors) from Newell Brands (Nasdaq: NWL) for $593m. Ironically, First Alert was once used as an acquisition pawn to cover-up a massive accounting fraud in 1998 by Sunbeam Corp. (NYSE: SOC) run by the notorious Al "Chainsaw" Dunlap. Later, the business would pass to Newell (through Jarden Corp.) where both it and the CEO settled with the SEC in 2023 for $12.5m related to accounting violations and misrepresenting core "organic" growth. We provide evidence of challenges that lie ahead with the business, which one former employee who went through the acquisition described as *"a disaster"*. Notably, we find revenue reporting issues around the time of acquisition and uncharacteristic strength followed by restructuring programs and sporadic synergy updates. The early revenue in 2022 went ahead of plan, and in early 2025, First Alert again had uncharacteristically strong performance against what it previously said were seasonally weak Q1 trends. The business is heavily retail distribution focused (66% Home Depot, Lowes, Costco, etc.) and 34% professional. An uplift in 2025 from a new Google connected device is likely to create difficult comps and carry lower margins. REZI is touting strengthening partnerships with home builders, but we believe price wars and volume discounts result in lower margins through this channel. Overall, a former executive intimately familiar with the First Alert business expressed the view that REZI overpaid for the business. First Alert's "premium" connected brand called Onelink also appears to have been quietly discontinued.

Troubled Acquisitions Continued: A Look At Snap One Holdings

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Following the First Alert deal, REZI acquired Snap One Holdings ("Snap") (Nasdaq: SNPO) for $1.4bn. Snap was an amalgamation of businesses, notably through SnapAV's acquisition of Control4 (Nasdaq: CTRL) in 2019 for $680m. This created a hybrid company with both product development and distribution. For reporting purposes, REZI classifies it within the ADI distribution segment, despite requiring significant R&D costs. We provide evidence that Snap came under various culture, financial reporting, and accounting strains during the integration. Former Snap employees working through the Control4 acquisition describe it as challenged and that product innovation had fallen behind. Increasing adoption of Matter, a universal smart home technology standard, is also seen as likely to pressure REZI's branded hardware. For example, IKEA just launched 21 Matter-enabled products. Sonos has also been described as an emerging competitor, especially in the Do-It-Yourself ("DIY") market which has been gaining traction. Snap's early success was high-end installations among the wealthy Do-It-For-Me ("DIFM") segment which received a boost during COVID-19 along with general home project improvement trends. Another former executive highlights that Comcast was a big customer who bought a lot of RG6 coaxial cable. <u>Given cable cord-cutting trends, we expect this to impact Snap. Our analysis of Control4, ~30% of Snap's revenue, indicates stagnant home installs and dealer network expansion</u>.

<u>Following the preliminary deal valuation, we find that REZI made two revisions to lower Snap's inventory value. In our opinion, this increases the likelihood that Snap's historical earnings were overstated by under-provisioning for slow moving or obsolete inventory</u>. Second, REZI increased its customer life assumption from 10 to 12 years. Given challenges described by former employees, we believe this is an extremely aggressive assumption and well beyond the 7 – 8 years supported by our competitive analysis. Also, as a proxy and based on a recent interview of an executive at a major security company that moved away from Alarm.com and Resideo, the average customer life is 7 – 8 years and that moving is a big reason for churn. <u>We believe that REZI's pre-tax income in the YTD 2025 period is inflated by 8-12% as a result of overly aggressive assumptions about the average customer life from the Snap transaction</u>.

We also find stress in REZI's inventory accounts following the Snap deal. Finished goods now make up ~87% of inventory and the ratio of inventory to projected sales is at a multi-period high. We think this indicates future margin pressure. Management says inventory issues started near the end of Q3'25 and are temporary due to HVAC equipment regulatory changes for new refrigerants but our analysis suggests inventory stress rose for over a year since the Snap deal closed.

Lastly, accrued customer rebate reserves have accelerated in growth since Q1'25 to double digits while the spread between revenue growth, accounts receivable, and accrued rebate reserve have also hit multi-period highs. These factors, combined with elevated inventory and newly disclosed third-party costs for R&D for new products, all suggest lower future margins. The Board appears to recognize the growing influence of customer incentives. A careful review of the revenue definition for short-term bonus incentives in the proxy statement now calls out "rebates, other customer incentive programs".

REZI's Promoted Growth Opportunities Appear To Be Fizzling Out Fast

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Exclusive Brands and Ecommerce:

In the ADI segment, REZI points investors to opportunities with its ecommerce sales and exclusive brands which it says are faster growing with higher margins. The problem appears self-evident in that we find cases of brands on ADI's website that can be purchased directly from the manufacturer and available elsewhere with easy price comparison. REZI also recently claims its goals are to have touchless revenue at 60-65% of revenue and that exclusive brands can be a $1bn business. To have faith in these goals, REZI should provide reliable and consistent metrics for investors to track its progress. REZI stopped disclosing touchless revenue at the end of FY23.

Moreover, reported organic ecommerce revenue appears to have received a big uplift during the first year of the Snap One transaction. However, in Q3'25 the growth rate declined dramatically back to just 3%. ADI (ex-Snap) exclusive brands organic revenue growth collapsed from 32% to 3% from Q2-Q3'25. If we include Snap exclusive products, organic revenue growth declined from 5% to 3% from Q2-Q3'25. Overall, it appears that these growth vectors are starting to meaningfully decelerate. This analysis is corroborated by Similarweb analytics which show a -27% decline in web traffic to SnapAV's homepage and generally flat traffic to its order status page since REZI closed its acquisition. Control4 and OVRC, its professional remote management platform for Control4 dealers, are critical exclusive brands acquired through the Snap transaction. Similarweb analytics also show weak trends to each website.

There is another strong clue that ADI's revenue momentum will slow in the coming quarters. From Q3'24 through Q2'25, ADI President Aarnes referenced the number of new product and SKUs launched. However, in the last quarter of Q3'25 he conspicuously stopped referencing new product launches. This factor, along with REZI now signaling that third party services are being used to develop products, suggests to us that any revenue uplift from new product introductions is likely to slow.

Adjacent Category Expansion Hype:

REZI started talking about adjacent category expansion more prominently in 2023 by focusing on Pro and Residential AV, along with Data Communications ("Datacom"). Combined, REZI claimed sales were over $500 million in 2022, up 20% year-over-year. Ever since, REZI has not updated its product segment or combined revenue figures for these growth categories. However, based on recent commentary, it appears that growth has significantly flattened, with Datacom and Pro AV growing at low double digits, while Residential AV seeing flat growth. The Residential AV category performance is even more troubling given that REZI bolstered its capabilities with the Snap acquisition.

We Believe REZI's Non-GAAP Results Are Dubious; Cash Flow Is King And It Is Cratering

5

Ignore REZI's Non-GAAP results; cash flow never lies and we believe it is the ultimate arbiter of REZI's failures:

REZI wants investors to buy that its eight line-item adjusted Non-GAAP EPS results, up 29% YTD'25, are a credible measure of its financial success. We beg to differ and believe cash flow is king and how the Company should be evaluated. There are two key factors which we believe heavily fluff REZI's Non-GAAP results:

1) Since 2018, REZI has reported $220m of cumulative restructuring and impairment charges as recurring add-backs every year except 2021. We don't believe these are ignorable, one-time costs, but rather necessary legacy and on-going optimization costs that management was likely aware of from the onset of the spin-off.
2) Tax reporting is an area of accounting that requires significant judgement. Companies often report cash taxes paid at the bottom of the cash flow statement. There can be year-to-year differences between reported and cash amounts due to timing of audits, investigations, and refunds. We evaluate REZI's income tax expense vs. cash taxes paid, net over the long run and should expect them to be roughly equal. However, since 2021, REZI has been reporting less GAAP income taxes than cash taxes paid. Cumulatively, the amount of taxes under-reported on the income statement relative to cash taxes paid is ~$142m. Therefore, we argue that Net Income has also been cumulatively overstated by the corresponding amount. Bolstering our concerns, we observe that REZI started providing quantitative disclosure of uncertain tax positions in the 2022 10-K. Moreover, we are concerned by the removal of house auditor Deloitte in favor of Grant Thornton at three U.K. entities where REZI has generated combined losses of £84m in 2024 and involved large restructuring and reversal impairment charges related to intercompany entities.

At the 2021 Investor Day, REZI outlined its 2024 operating cash flow ("OCF") goal to be >$600m. However, by our estimate OCF was $425m when adjusted for the fixed costs obligations to service its preferred stock dividends. In the last 12 months, OCF has markedly deteriorated. REZI is now disclosing cash payments to repurchase shares for stock award tax withholding. By classifying these costs as operational, we find that trailing OCF is only $303m. These results should also be put into context that REZI spent over $2bn on acquisitions and said it achieved $30m of First Alert synergies and has reported $17m of synergies from Snap in 2024. Despite these transactions and synergy results, performance has fallen well short of the goals. In fact, in the LTM period we estimate cash flow has collapsed by -37% since the 2018 spin-off. Compounding our concerns, the short-term incentive program for management's bonus removed OCF as a criteria in 2024. REZI stopped providing details of its goodwill testing methodology after 2021 but references cash flows and claims no impairments are required. With cash flow down so much below plan, it is hard for us to accept this conclusion at face value.

We Are Short Resideo Technologies (NYSE: REZI) And See Potential 25% - 50% Downside Risk

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REZI trades at a substantial premium to its sum-of-parts and has few, if any, catalysts remaining after the split-up announcement and removal of the Honeywell obligation:

REZI is an underfollowed "special situation" now being promoted by only two analysts who estimate its average price target to be $45 (25% upside). We deconstruct the promotional case and believe it is easy to refute given the obvious failures by management and the significant financial uncertainties that remain including: 1) Changing end market dynamics and weakening growth opportunities 2) Transparency in ongoing ERP costs, and 3) The structure of the new entity and costs to execute.

Based on our sum-of-the-parts analysis which compares the profile of the ADI business and P&S segments vs. comparable companies, we believe it has both lower projected revenue growth and gross margins. For these reasons, along with our belief that REZI remains an operationally complex company with a track record of disappointment by current management, we value it at a discount to peer multiples. We also factor in $75 – $100m of separation costs. Of note, at least $80m of costs were incurred upon the initial spin-off of REZI from Honeywell in 2018.

REZI currently trades at 1.3x 2026E revenue (double the median long-term multiple of 0.6x) based on our adjustments which considers: 1) The $500m convertible preferred stock as in-the-money equity, and 2) Incorporates environmental, pension and other tax liabilities of $215m. We believe 1.3x revenue is a rich multiple given that REZI is mostly a low-growth hardware manufacturer and distributor that fails to even disclose its true software spend.

LTM leverage has also risen dangerously from 5.5x (up from 3.3x in 2018) with significant financial uncertainties ahead. We see few catalysts left to propel its share price higher after the split-up and Honeywell settlement announcements. Based on our sum-of-the-parts analysis, we believe the share price to be materially overvalued and see 25% – 50% downside risk. We expect shares to underperform the market and its related industries.

Always follow the money: We observe that total insider ownership peaked in 2023 and has been declining. If management is to sell investors on its vision that splitting up the Company has value, then we would prefer to see their ownership increase with more stock compensation or open market purchases. We are troubled to see that ADI President Aarnes sold a large block of stock under a 10b5-1 program on the exact day that REZI's separation announcement was made on July 30, 2025. Moreover, we are concerned by the recent practice of issuing deferred share units to Board members. In our view, this could signal director dissent, retention, or cash flow issues.

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We Believe REZI's Share Price Has Few Catalysts Left To Propel Its Share Price

Spruce Point believes that REZI's share price reflects a fail-forward mentality. Since its spin-off from Honeywell in 2018, our analysis suggests that it has failed to execute on its growth strategy and has further complicated its business with two large and troubled acquisitions of First Alert and Snap One. It has recorded $220m in cumulative restructuring costs since 2018 which have yielded little tangible improvements. Our analysis indicates that Adj. Operating Cash Flow is down -37% between its spin-off and the last 12 months. Complicating matters, REZI's adjusted debt has more than doubled from $2.0 to $4.3bn since 2018. In 2025, REZI announced a split into two public companies and settled its remaining obligations to Honeywell. We now see few, if any, catalysts left as REZI becomes a "trust me" story that it can unlock value as two separate companies after telling investors for seven years that it had the right strategy.

REZI's Long-Term Share Price

Resideo Technologies Is A Serial Disappointment

We believe the promotion behind Resideo Technologies is a series of disappointments. The latest evolution as a split-up story to unlock value becomes an even greater "trust me" story with the current management team that previously failed to hit targets.

Seven Year Spin Cycle of Resideo Technologies

2018 Spinoff From Honeywell

The Pitch: Value to be unlocked through spin-off

Spruce Point Reality:

- Offload motley group of complex and poorly organized businesses
- Onerous obligations due to Honeywell
- Expectations too high, especially in software evolution

REZI: 2018-2026

Pitch: We're executing, Non-GAAP earnings growth

Spruce Point Reality:

- Four CFOs and CAOs
- $220m of restructuring charges as add-backs
- $142m of tax maneuvers to bolster GAAP earnings
- $2bn+ of challenged M&A deals with questionable accounting and reporting
- **Failed 2024 growth + margins objectives set in 2021**
- **Connected customer growth plunge to est <2% in 2025**
- **Adj. FCF -37% since 2018**

2026 - forward

Pitch: Value to be unlocked by separating

Spruce Point Reality:

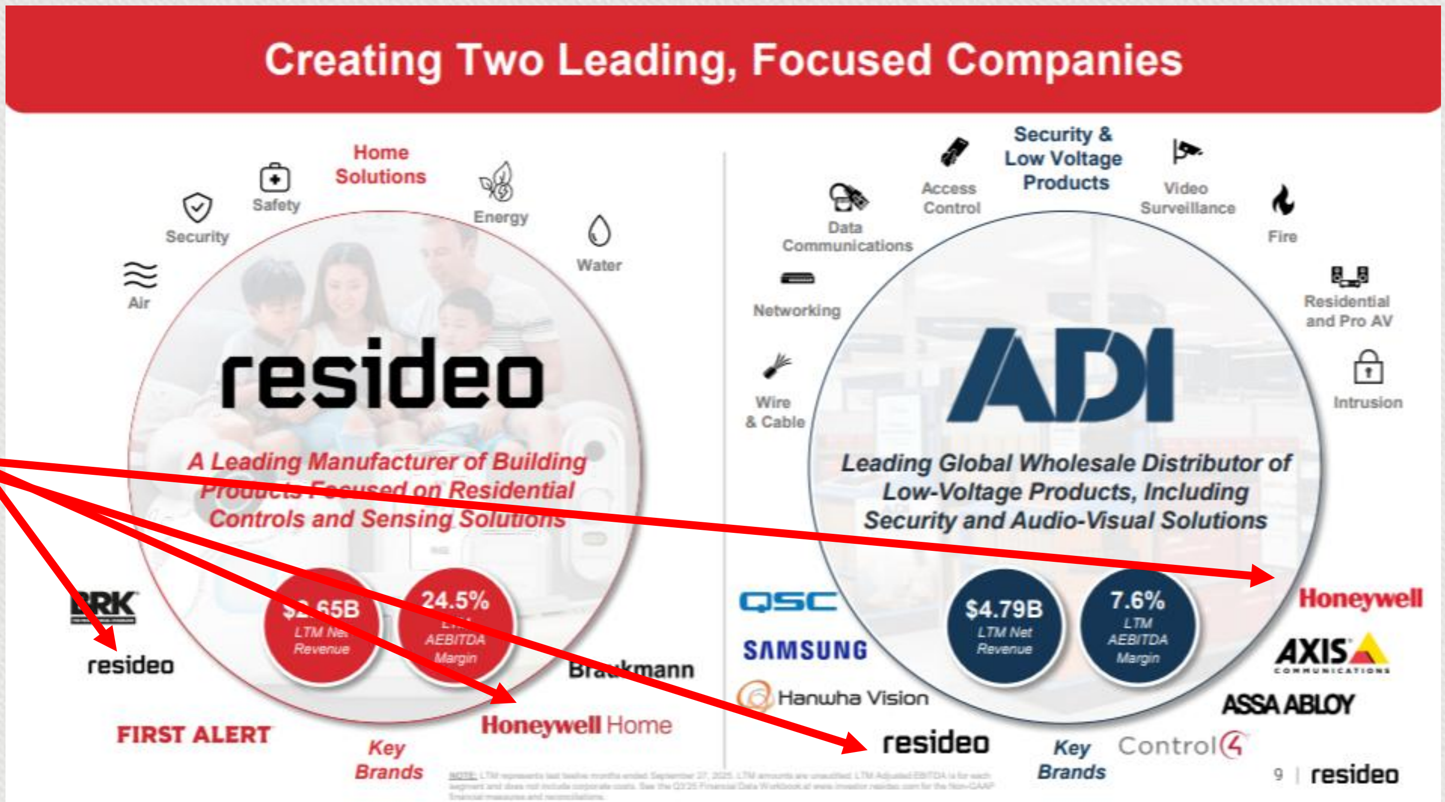
- A bet on the same management team that sold the failed 2018-26 execution story
- No ERP roadmap for time/cost of completion
- Uncertain standalone cost structure
- Uncertain growth and margin outlook; expectations too high

REZI Struggles With Unresolved Legacy Challenges And Failures: A Split Is Likely To Intensify Issues

Latest Corporate Spin At A Glance…

After spinning-off from Honeywell in 2018, REZI was created around ADI Global Distribution, a wholesale distributor of low-voltage products, and the Products and Solutions business which manufacturers a range of building products for residential controls and sensing. The pitch was that the spin-off would “unlock value” for these two businesses. Now after seven years, $220 million of “one-time” restructuring costs, $2bn+ spent on wasteful transformational and tuck-in M&A, and a failure to be completely transparent about its Enterprise Resource Planning (ERP) challenges, management is spinning a 180-degree story that more value can be unlocked through a split-up of the two segments. Our research and analysis suggests that REZI is experiencing growing financial pressures and waning growth opportunities and that buying into the Company’s latest pitch merits skepticism.

Splitting up yet still inter-dependent?



Source: REZI Investor Presentation.

Private Equity And Corporate Investment Has Accelerated Across REZI's Markets

Spruce Point believes that REZI is being pressured by significant capital flows into its core distribution, security, and safety markets. Private equity has been a profound player in the market along with big technology players. Large public companies looking to rationalize their portfolio of businesses (ex: Bosch / Triton, Kidde / Lone Star) have also been divesting assets.

Selected M&A In REZI's End Markets

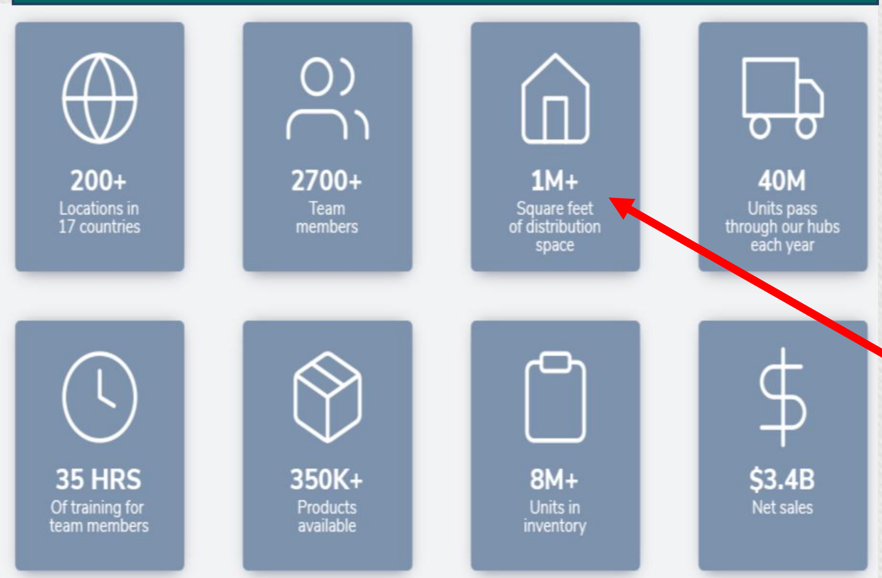
Year	Target	Acquiror/Investor	Value $ mm	Description
2025	Bursma Distribution	Security Equipment Supply	N.A.	Supplier in the security and low-voltage industry
2025	GSA Security, Inc	LaForce	N.A.	Low voltage electrical contractor that provides physical security solutions including voice and data cabling, camera systems
2025	SS&Si Dealer Network	FAST Security Distribution	N.A.	Five decades supporting the success of independent alarm dealers across the country
2025	SimpliSafe	GTCR Private Equity	$2,500	Smart home security systems
2025	Research Products Corp (AprilAire)	Madison Industries	$2,600	Residential and commercial air solutions
2025 (2018)	Tado	Panasonic (Amazon)	€ 30.0	European home energy management solutions
2024	Bosch Security & Communications (Keenfinity)	Triton Partners	Est >$1,000	Intelligent product solutions in the areas of video surveillance, access and intrusion control
2024	Brilliant NextGen	Almeida Strategic Investments	N.A.	Smart home systems and products
2024	Kidde Global Access (Carrier)	Lone Star Funds	$3,000	Sale of its Commercial and Residential Fire business
2024	Athom	LG Electronics	N.A.	Bought 80% stake of a smart home platform company based in Enschede, Netherlands
2022	Vivint Smart Home	NRG	$5,200	Smart home security systems
2021	Wave Electronics	Altamont Capital	N.A.	Value-added distributor of connected home, A/B and residential security products
2021	Ecobee	Generac	$770	Smart home thermostats and security devices
2020	Anixter	WESCO	$4,500	Distributor of network and security solutions, electrical and electronic solutions, and utility power solutions
2020	Qolsys	Johnson Controls	N.A.	Acquired remaining 42% stake in Qolsys, a residential and commercial security and smart-home manufacturer
2020	ADT	Google	$450	Security, automation, and smart home solutions serving consumer and business customers to integrate w/Nest
2018	Ring	Amazon	$1,100	Smart home security systems

ADI's Business Is Under Pressure

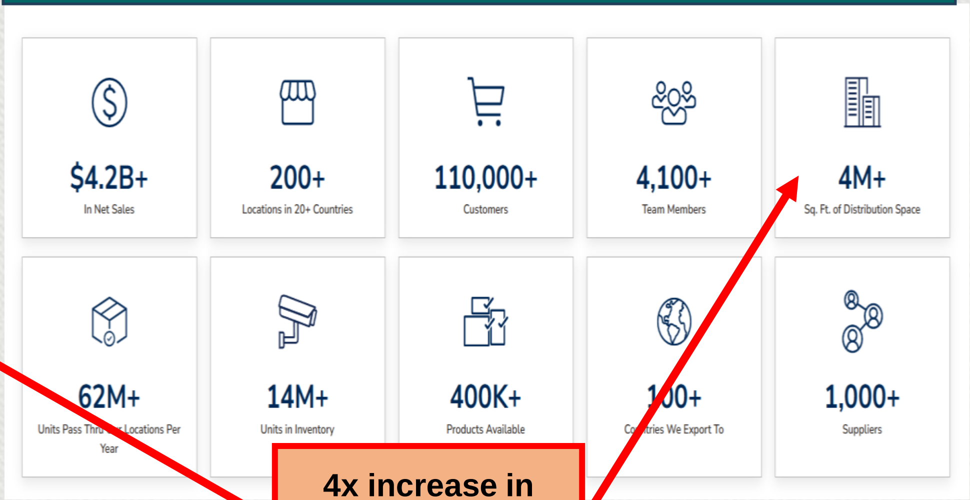
ADI Global Distribution is arguably REZI's best core business, but there are many signs it is under pressure. REZI has left clues about the decline of its ADI performance on its website. Using the Wayback Machine, we see that it updated its team member, net sales, and square feet of distribution space. Based on our analysis, net sales per team member declined by -18%. Distribution space has increased 4x with net sales +24%, products available +14%, and team members +52%. **It appears that ADI has too much overhead and excess capacity at the current time**. More indicators of the segment's stress through the Snap One acquisition are detailed later in the report.

	2023	2026
Net Sales / Team Member	$1.26m	$1.02m -18%

2023



2026



4x increase in distribution space

REZI ADI US website and Wayback Machine

The Core Security Business Is Challenged

REZI's security business has historically been a ~$600m+ business and core competency (~10% of revenues). The business has been anchored by ADT Inc. (NYSE: ADT) which management said was "*a critically important relationship*". Unfortunately, in 2021 Google invested $450m and partnered with ADT and REZI's business has been under severe pressure. REZI is now offering no details on its latest multiyear commercial agreement.

REZI's ADT Commentary	
CFO Investor Day March 2021	*"**With respect to ADT, that's a critically important relationship to us**. They've said the same about the relationship from their side. We've got a contract with them that extends through the end of 2022. And the dialogue, and Jay and Phil can talk about this, the dialogue continues with ADT at a very high level about continuing to have a relationship with them that's substantive and meaningful for both sides beyond that contract."*
CFO May 6, 2021	*"On the P&S side, all 3 of the what I'll call the traditional business lines grew pretty robustly during the quarter. **Security was clearly the strongest. ADT is a terrific and significant customer of that business. They did really well**."*
CEO Aug 4, 2022	*"**Additionally, we have reached an agreement in principle at ADT to amend our current agreement to provide ADT with products through 2023**, continuing our relationship as we work on other products together."*
CFO Feb 13, 2024	*"At the end of December, we executed an amendment to our contract to directly supply ADT hardware for their North American residential security offerings. **Our agreement now runs through early 2025, at which time deliveries of these products will conclude. Based on this agreement, we expect our 2024 security hardware sales to ADT to decline by approximately $100 million compared with 2023 levels with a similar additional reduction in 2025**. The impact of the new agreement is fully reflected in our 2024 outlook and is expected to be immaterial to Products and Solutions' 2025 profitability.*
CFO Feb 20, 2025	*"And relating to Products & Solutions, we communicated on the 2023 fourth quarter call that we expected 2024 North American residential security hardware sales with ADT to decline by approximately $100 million, with a similar additional reduction in 2025. **We saw better results than expected from ADT in 2024, and we also expect a better than previously communicated impact in 2025**. ADT remains an important customer, and we continue to work with them on our long-term relationship.*
President P&S Nov 5, 2025	*"Revenue in the security channel was up year-over-year, primarily due to volume increases with several customers. **This includes ADT with whom we recently signed a new multiyear commercial agreement**."*

Why no details?

Source: REZI Conference Calls

Expert Interview I: Former REZI Executive

Spruce Point interviewed a former Resideo executive with over 25 years experience at the Company, and specialized in their security and safety business, for insights.

Executive Interview	
Question	*"So if you had to look at Resideo's overall product and solutions business, have there been any products that you think have lost competitiveness over time?"*
Response	*"**I think the security business, specifically the residential security business, it is somewhat of a slave to its channel and the channel being ADT is a large player in that space**, but there's probably in the 20 or 30,000 customers nation in the US and Canada that buys something through something of the security business. Maybe you don't want to quote me on that number because it might be bigger, **but so I think that those businesses are consolidating, there's private equity companies moving into kind of roll up smaller local security companies. The joke in the business is that every one of the companies is for sale**, and the advantage of a security company is that you have a ... Basically you're selling product, you're buying products, but what you're really selling out the door is a contract to monitor a certain number of ... Pay a certain amount of money every month to provide monitoring services Those contracts are fungible. You can borrow against them, you can sell them. **So what's happening is there's private equity companies are starting, really the past three or four years have been rolling up smaller regional players, and what that does is that enables them to negotiate better pricing. Suddenly they're an elephant that used to be a bunch of mice and the elephant can negotiate better pricing. So I think that's a trend**."*
Question	*"What do you think the natural organic growth rate should be in the security and safety business that they have?"*
Response	*"So baseline growth is always going to be, and you're tracking population, you're tracking essentially inflation to a certain extent, and the other business is if you're competing effectively, you're taking share from your competitors, so that there's not a whole lot of other ways to grow in this space when it's big and mature like this. So you're looking at probably in the .....the CAGRs are probably in the 5% to 7%."*

Source: Spruce Point research interview

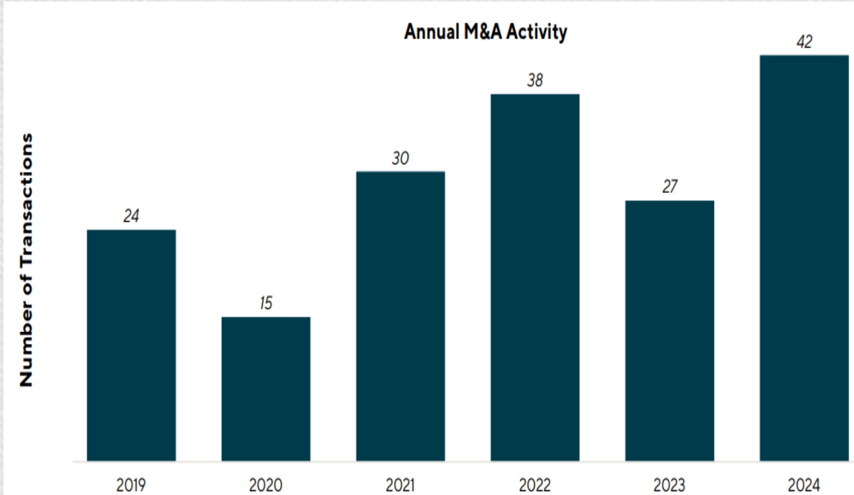
Private Equity Platforms In Security & Access Control Have Proliferated And Consolidation Continues

According to Lincoln International there are ~15 private equity ("PE") platforms in the Security & Access Control Systems industry which completed 42 add-on deals in 2024 and 176 since 2019. Spruce Point believes there is some overlap with the Fire & Life Safety industry given many of those companies offer security solutions alongside fire safety. There are ~ 25 PE platforms in that space with ~130 completed add-on deals in 2024 alone.

Market Analysis

	Security & Access Control Systems	Fire & Life Safety
Market Size	$12B	$30B+
Forecasted Growth	7% - 9%	4% - 6%
Number of PE-Backed Platforms	~15	~25
Add-On Acquisitions (2024)	42	~130
M&A Runway (Years)	25+	20+

Security & Access Control Systems Annual M&A



Security & Access Controls Platforms

Allied Universal, American Alarm, ASD, Convergint, Everon, Guardian Access Solutions, Guardian Alarm, Minuteman, NextGen Security, Paramount Security Solutions, Pavion, Per Mar Security Services, Pye-Barker, Sciens Building Solutions, Securitas, Security 101, Vector Security, Zeus Fire and Security

Source: Spruce Point research and Lincoln International.

REZI Has Lingering ERP Challenges And Organizational Complexity

Spruce Point believes that much of REZI's dysfunction in financial and operations results from its lingering issues with implementing an Enterprise Resource Planning system. REZI has been gingerly talking about consolidation of systems since at least 2021 and is now blaming recent challenges on its ERP and adjusting its outlook.(1) The complications have likely intensified given its recent large acquisitions of First Alert (2022) and Snap One (2024).

Management's Quotes on ERP	
Rob Aarnes ADI President March 2021	*"Lastly, a key enabler to our global technology investments is ERP simplification.* ***We expect to have only 2 ERPs by the end of 2022, down from 8 ERPs in 2018 around the time of our spin****. This is another example of a critical digital enablement investment that is now possible in the post-spin environment."*
Fmr CFO Anthony Trunzo Feb 2023	*"And we are in the position that we're in today because we made those investments.* ***And this year, there's going to be another chunk because we're building out the new ERP system that I think is going to drive sort of the next wave of initiatives and enablement around the business****."*
Rob Aarnes ADI President Nov 2025	*"****In August, we implemented a modern ERP platform in our U.S. business, replacing an over 40-year-old system****. This deployment sets ADI up for future growth and margin expansion versus the market and our peers. Tech stack enhancements and corresponding capability building are expected to deliver even more cross-selling capabilities, optimize pricing management and enhanced digital user experiences."* *"And then the third big piece of not doing it is the amount of dollars that you have to spend, if you're technology focused like we are, understanding* ***that we have to be able to advance the business in a way that our customers expect that you're having to spend -- you're either upgrading your ERP system or you're spending an exorbitant amount of money on middleware, right, trying to get old systems to connect with new systems, which, by the way, is oftentimes not possible, not even possible****."* *"****And so we had all of these kind of platforms****, right, whether they were digital tools, whether they were going to drive further enhancements online, design capabilities, AI applications that we just had to keep on the sideline. Unable to actually deploy and use. So there was, first and foremost, this cost of not doing it to continue to add up, right? So that's one. Second, to actually --* ***I already talked about on the earnings call, a lot of the benefits and this -- how this represents probably the most significant milestone for us in terms of advancing the organization forward and better modernizing and digitizing all of our capabilities going forward****."*

Source: REZI statements. 1) Baird conference, Nov 12, 2025

Expert Interview II: Former REZI Executive

Spruce Point interviewed a former senior executive at REZI who had a high-level strategic view and direct interaction with the top executive team.

Executive Interview	
Question	*"You said they had growing pains and they weren't on good financial footing when you joined. From your perspective, what were the problems?"*
Response	*"Yeah. I think there were a couple of significant issues. **The first one I would flag was really more structural, and I would say structural and cultural, I would say this is something that probably folks outside the company don't have as much of an appreciation for, but you have to keep in mind that a lot of these various pieces that became Resideo from Honeywell were very disparate and distinct organizations with different ERP systems, different IT systems, payrolls. These were almost like different companies. They were packaged together nicely for the Street as a smart home play, but the reality is from a process and operations standpoint, these were pretty distinct businesses and were smushed together in 2017 for the spin**. And as you can imagine, **operationally behind the scenes there were a lot of growing pains in terms of how to harmonize these businesses**. I would say the second sort of issue was really more kind of strategic in nature. If you look at that first management team that was brought on board for the spin, very heavily software oriented team that essentially declared very early on, we're going to give away all this hardware and we're going to monetize it with a software business model. And although I think there's some merit strategically to that, the reality is this is a publicly traded hardware-centric company and the capabilities of that team probably weren't really matched up well for just the blocking and tackling and driving near term growth and driving near term margin accretion. It just wasn't necessarily in the wheelhouse of that first team. That's my personal view. And so I think that led to where you were in the spring of 2020 or even late 2019 where really dramatic misses from an expectation standpoint, public expectation standpoint, stock price down to mid single digits, market cap, a shell of what it was at the spin. And so again, the Board had to make a change. And I think the Board rightly brought on a lot of folks that came more from an industrial tech, hardware centric background, understood manufacturing, understood supply chain management, understood channels to market in that way."*

Source: Spruce Point research interview

Expert Interview II: Former REZI Executive (cont'd)

Executive Interview	
Question (cont'd)	*"You said they had growing pains and they weren't on good financial footing when you joined. From your perspective, what were the problems?"*
Response (cont'd)	*"I think both from the company standpoint, psychologically, legally, financially, but also I think from your standpoint as an investor, **what I saw over and over was the complexity of this business and the complexity by which I mean, you have two very distinct business units that are pretty different in terms of their makeup and their business model**. And then you layer on top of that, this really complex legal agreement with Honeywell and from an investor standpoint, the amount of homework needing to be done to really understand, and you can't get a good comp, right, when you're looking at that holistically. So I also think there was a headwind from a valuation standpoint, just simply because the company was too damn hard to understand with that obligation, not to mention the fact that two separate issues, right? **One, the Honeywell obligation, second, just these two business units being together, created some weird kind of blended financials that were hard to wrap your arms around**."*
Question	*"And so Anixter and Wesco getting together, has that increased competitive intensity for ADI, would you say."*
Response	*"**I think so, yeah. I think so for sure. Yeah. They're just a much bigger, stronger, powerful, more diversified competitor**. And I think it's probably what ADI focuses on first and foremost. I mean, there are other competitors out there, but most of them are in the traditional markets are fairly small. You could look at, again, sort of the non-traditional markets being CD and IT, Ingram and Cenex and some of those guys that are ginormous that are kind of of starting to step in as not traditional competitors as well. But I think head-to-head, Westco is going to be the biggest focus."*

Source: Spruce Point research interview

Expert Interview II: Former REZI Executive (cont'd)

Executive Interview	
Question	*"**I guess this maybe circles back to one of the original things that you said that you didn't think was fully appreciated and that's the ERP** because that topic actually just came up with the company recently and they've discussed some headwinds related to that and need to spend more there, which kind of surprising because company's been public now for six, seven years, and they never really talked about the ERP much and/or given any insights to how much they really have spent. I guess number one, how much they have spent historically on it, but number two, prospectively how much they need to spend in order to consolidate all these systems that they have, legacy systems and different businesses?"*
Response	*"Yeah. And I'm not familiar with the comments that were made around the investments required and sort of how that compared to previous comments or anything of that nature. I can just sort of speak to it more qualitatively and I spoke to it early on, but it was a **bit of a rat nest that spun out in terms of those back office systems**. And again, each of these legal entities in different buildings with different cultures, with different payroll systems, right, all being brought together and trying to be harmonized, right? There's a tremendous amount of...you think of it almost as like a four-way merger of multi hundred million dollar companies, right? That's kind of what it was. And again, based on kind of the individual heritages of those businesses back from the Honeywell days, some of them were kind of organically grown at Honeywell, some of them were via acquisition and I don't think Honeywell really integrated them deeply. They kind of left them in standalone businesses in a lot of ways. **And in some cases these businesses were almost kind of like internal rivals**. And so there's a tremendous amount of process and system integration and harmonization that had to be done. I'm not surprised, I guess, I should say, that that work is ongoing. I think that work will continue to be ongoing. **Bodies are probably still being uncovered from the closet of certain systems or aspects that need to be fixed. So it's an ongoing kind of operational challenge**."*

Source: Spruce Point research interview

REZI Has Not Disclosed ERP Capital Costs But We Estimate It Could Be $100M - $250M

Spruce Point Capital Management

We are concerned because REZI has never quantified how much it has spent on its ERP or the capital required to complete the integrations. As we will illustrate, REZI also shrouds its capex spending on the cash flow statement with four different nomenclatures. This leaves investors with a large financial uncertainty. However, a rule-of-thumb is that ERP implementation costs can range from 3% - 5% of revenues, especially for complex businesses such as REZI with 200 stocking locations in 17 countries (including third-party logistics), and ADI which distributes more than 500,000 products from over 1,000 manufacturers to a customer base of more than 100,000.[1] With $7.4 billion of revenue, this equates to approximately $220 – $370 million of costs. Our back of the envelope estimate, which includes evaluating the gross additions to REZI's intangible accounts referencing technology, patents, and software, suggests that it has spent ~$117m since 2021. However, this is likely too high because the figure includes additions from the First Alert acquisition which added $349m of intangibles, but specific account details have not been provided. We conservatively estimate REZI's incremental ERP costs to be ~$100 - $250 million.

REZI's Estimated Technology Spending 2021 - YTD 2025						
$ in mm	**2021**	**2022**	**2023**	**2024**	**YTD 2025**	**2021-2025**
Gross Software Annual Change (A)	$162	$175 +$13	$193 +$18	$222 +$29	$247 +$25	-- +$85
Gross Patents & Technology Annual Change (B)	$31	$65 +$34	$64 -$1	$170 +$106	$173 +$3	-- +$142
Acquisitions (C)	--	First Alert **??**	--	Snap One ($110)	--	($110)
Total Increase =(A+B+C)	**--**	**$47**	**$17**	**$25**	**$28**	**$117**

Source: REZI SEC financials, Spruce Point analysis

1) Third Stage Consulting Study, 2020

We Believe REZI's Poor Capex Planning Signals Challenges

Spruce Point frequently finds that companies with poor ability to meet capex targets suffer from larger challenges including unstable or worsening end markets or simply poor financial planning by management. In the case of REZI, we see that it frequently misses its capex projections by double digit percentages. Also at its March 2021 Investor Day, REZI said capex would be 2-3% of annual revenue through 2024; it never happened.

Analysis of Resideo's Capex Forecasting[1]

$ in mm	2019[2]	2020	2021	2022	2023	2024	2025[4]
Low Estimate	$49.2	N.M. due to Covid-19	$90.0	$90.0	$90.0	$105.0	$140.0
High Estimate	$50.7		$90.0	$110.0	$100.0	$105.0	$145.0
Midpoint Estimate	$50.0		$90.0	$100.0	$95.0	$105.0	$142.5
Actual Cash Capex Capex in accounts payable **Total Capex:**[3] *% of revenue*	$95.0 $16.0 **$111.0** *2.2%*		$63.0 $14.0 **$77.0** *1.3%*	$85.0 $21.0 **$106.0** *1.7%*	$105.0 $14.0 **$119.0** *1.9%*	$80.0 $22.0 **$102.0** *1.5%*	Ytd: **$79.0** *1.4%*
$ miss from midpoint ***% miss***	**$61** ***+122%***		**($13)** ***-14%***	**$6** ***+6%***	**$24** ***+25%***	**($3)** ***-3%***	**($28)** ***-26%***

Source: REZI SEC filings and 2021 Investor Day presentation

1) Based on beginning of year projections.
2) Based on 2-5% revenue growth estimate from 2018, and 1% of revenue spending on capex guidance.
3) Cash capex is reporting in the cash flow statement for investing. Capex in accounts payable is reported under Supplemental Cash Flow Information at the bottom of the cash flows statement.
4) 2025 YTD miss based on 75% of annual capex requirement of $107m.

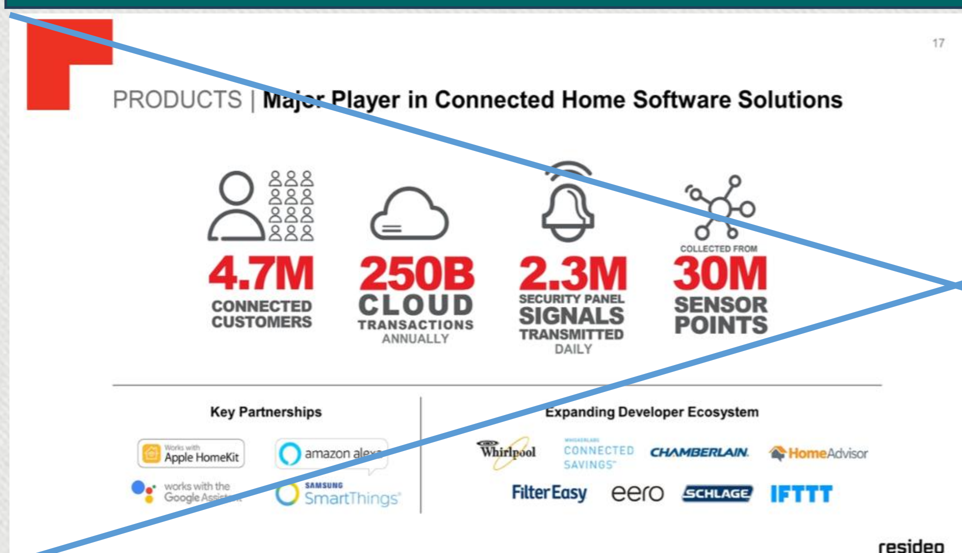
Spruce Point Capital Management

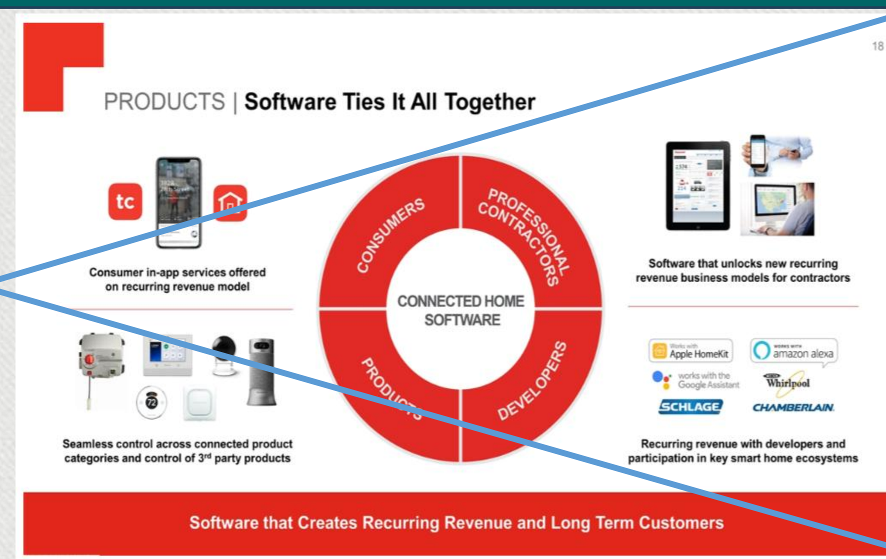
Connected Customer Growth Has Recently Dramatically Slowed

There is more evidence that REZI is losing the technology race where product software solutions are critical to customer wins and retention. REZI no longer promotes connected customers in its investor presentations or claims that its software creates recurring revenue and long-term customers. In a rare mention outside of the 10-K this past November, it disclosed 13 million connected customers which puts it on pace for an anemic growth rate of just 1.6% in 2025. Furthermore, it is not clear how many connected customers were acquired via recent acquisitions which make organic customer growth potentially negative.

Connected Customer Disclosures									
$ in mm	Oct '18	2018	2019	2020	2021	2022	2023	2024	Nov '25(1)
Connected Customers	4.7	5.6	6.7	6.7	9.4	10.9	11.6	12.8	13.0
Customer Additions	--	0.8	1.1	0.0	2.7	1.5	0.7	1.2	**0.2**
YoY growth %	--	--	*19.6%*	*0.0%*	*40.3%*	*16.0%*	*6.4%*	*10.3%*	***1.6%***

2018 Spin-off Presentation Features Connected Customers and "Software That Creates Recurring Revenue"





1) Disclosed on Nov 14, 2025 Jefferies call. We assume zero growth through year end to project annual growth in customers.
Source: Spin-off Presentation, Oct 2018, REZI SEC filings.

SPRUCE POINT
CAPITAL MANAGEMENT

REZI's Engineering Team And Patent Portfolio Is Shrinking

There is clear evidence that REZI has fewer engineers and fewer patents and patent pending applications since the spin-off. We believe this is a troubling development for a Company named Resideo Technologies.

2018 Engineers and Patents At Spinoff

PRODUCTS | **Deep Engineering Capabilities and Strong Intellectual Property**

Global Engineering and Design Footprint

1,300
Engineers
>50% focused on software and firmware

17
Sites Globally
Low cost region capabilities for greater ROI

3
Dedicated Software Centers of Excellence

Robust Patent Portfolio and IP Strategy

3,000
Patents and Pending Applications Worldwide

REZI Today

Research and Development and Intellectual Property

We have major product design centers in the U.S., Europe, Asia, and Latin America and software centers of excellence in Bengaluru, India; Belgrade, Serbia; and Melville, New York. In addition, our laboratories are certified to meet various industry standards, such as Federal Communications Commission and Underwriters Laboratories, enabling us to test and certify products internally. As of December 31, 2024, we employed approximately 1,200 engineers.

Our deep domain expertise, proprietary technology and brands are protected by a combination of patents, trademarks, copyrights, trade secrets, non-disclosure agreements and contractual provisions. We own approximately 2,900 worldwide active patents and pending patent applications to protect our research and development investments in new products and services. We have and will continue to

Source: Spinoff Presentation, Oct 2018

SPRUCE POINT CAPITAL MANAGEMENT

In A Risky Move, R&D Spending Is Being Curtailed

In the past three years, R&D spending has not kept pace with revenue or engineering headcount. R&D margin has modestly declined while R&D expense per average engineer has sharply declined. It appears that REZI materially cut Snap's R&D spending. The acquisition closed mid-year in June 2024 and based on historical annual spending of ~$65m, REZI's R&D expense should have increased by ~$32m. However, the Company reported that R&D increased by only $17m from the acquisition's inclusion. Cutting R&D for a technology-centric business is a risky move that could hamper future competitiveness and revenue.

Last Three Years R&D Analysis

$ in mm	2022	2023	2024
Total Revenue	$6,370	$6,242	$6,761
R&D Expense *% margin*	$111 1.74%	$109 1.75%	$111 1.64%
Average Engineers Employed	933	919	1,049
R&D Expense / Avg. Engineer Employed	$118,971	$118,607	$105,815

REZI's 2024 R&D Disclosure vs. Snap's Historical R&D Spend

REZI 2024	*"Research and development expenses for the year ended December 31, 2024, were $111 million, an increase of $2 million as compared to the same period in 2023. **The increase was primarily driven by $17 million from the acquisition of Snap One**, which was partially offset by $15 million from lower third-party spend and personnel costs. Key drivers of the lower spend relate to optimization efforts and a realignment of IT resources towards maintenance projects within the Products and Solutions segment."*
Snap One Disclosures	*"**Research and development expenses were $66,647, $67,643 and $65,459 for the years ended December 29, 2023, December 30, 2022, and December 31, 2021, respectively**."*
	"Of the 369 employees on our product development team, 198 were software engineers."

Source: REZI and Snap SEC filings and Spruce Point analysis.

Now Having To Outsource R&D….

Since enhancing segment reporting, R&D expense is growing sharply in the ADI distribution segment, primarily from Snap. This begs the question: Should Snap really be reported in ADI if it requires R&D while the legacy business does not? This could suggest they are completely different businesses. On the other hand, REZI is now saying that third party services to develop and introduce new products are driving R&D expense in the product and service segment along with higher headcount. We view this disclosure negatively as it may indicate that newer products are likely to carry lower margin given reliance on outside expertise.

New R&D Disclosure Starting Q2'25	
Q2'25	*"Research and development expenses for the six months ended June 28, 2025 were $76 million, an increase of $30 million, or 65.2%, as compared to the same period in 2024. The increase was driven by $17 million in the ADI Global Distribution segment primarily related to the inclusion of Snap One, **and $13 million in the Product and Solutions segment related to incremental headcount and third party services to develop and introduce new products into the market**."*
Q3'25	*"Research and development expenses for the nine months ended September 27, 2025 were $120 million, an increase of $51 million, or 73.9%, as compared to the same period in 2024. The increase was primarily driven by investments in both segments related to incremental headcount **and third party services to develop and introduce new products into the market**."*

R&D In The ADI Segment Is Suddenly Accelerating From Snap's Inclusion

Segment results of operations for ADI Global Distribution, including significant segment expenses that are regularly reviewed by the CODM, are included in the table below.

	Years Ended December 31,		
(in millions)	2024	2023	2022
Net revenue	$ 4,197	$ 3,570	$ 3,587
Cost of goods sold	3,346	2,902	2,891
Research and development expenses	17	—	—
Selling, general and administrative expenses	566	407	407
Intangible asset amortization	54	11	8
Restructuring and impairment costs	19	12	2
Segment income from operations	$ 195	$ 238	$ 279

	Nine Months Ended	
(in millions)	September 27, 2025	September 28, 2024
Net revenue	$ 3,601	$ 3,008
Cost of goods sold	2,804	2,414
Research and development expenses	28	—
Selling, general and administrative expenses	533	397
Intangible asset amortization	70	31
Restructuring and impairment costs	5	19
Segment income from operations	$ 161	$ 147

Source: SEC filings and Spruce Point analysis.

Fast Growing Rebates And Disconnect Between Revenue And Accounts Receivable Growth

We observe that the accrued customer rebate reserve account, which sits within current liabilities, has sharply risen in the past two quarters. While there is no specific explanation of what is driving its growth, we see that in Q1'24 ADI launched *"ADI Rewards Program"*. We view this program as a negative development with ADI having to be more promotional to stimulate revenue. As a result, we would expect this to weigh on future margins.

Revenue, Accounts Receivable and Customer Rebate Reserve

$ in mm	2022	2023	Q1'24	Q2'24 Snap Close	Q3'24	Q4'24	2024	Q1'25	Q2'25	Q3'25 Spin off Announced
Net Revenue	$6,370	$6,242	$1,486	$1,589	$1,828	$1,858	$6,761	$1,770	$1,943	$1,864
% YoY Growth	*9.0%*	*-2.0%*	*-4.1%*	*-0.8%*	*17.6%*	*20.9%*	*8.3%*	*19.1%*	*22.3%*	*2.0%*
Accounts Receivable, net	$1,002	$973	$933	$1,071	$1,103	$1,023	$1,023	$1,045	$1,135	$1,147
% YoY Growth	*14.4%*	*-2.9%*	*-5.3%*	*2.7%*	*11.6%*	*5.1%*	*5.1%*	*12.0%*	*6.0%*	*4.0%*
Accrued Customer Rebate Reserve	**$98**	**$104**	**$65**	**$88**	**$99**	**$112**	**$112**	**$79**	**$101**	**$112**
% YoY Growth	***4.3%***	***6.1%***	***-13.3%***	***7.3%***	***7.6%***	***7.7%***	***7.7%***	***21.5%***	***14.8%***	***13.1%***
Absolute Value: Difference Between Growth Rates										
Revenue – Acct's Receivable	*5.4%*	*0.9%*	*1.2%*	*3.5%*	*6.0%*	*3.2%*	*3.2%*	*7.1%*	***16.3%***	*2.0%*
Revenue – Rebate Reserve	*4.7%*	*8.1%*	*9.3%*	*8.1%*	*10.0%*	*0.6%*	*0.6%*	*2.4%*	*7.5%*	***11.2%***

Source: REZI SEC filings, ADI Rewards Program Introduction (Wayback Machine), Spruce Point analysis.

Increasing Stress Within Inventory Accounts

We find significant stress in REZI's inventory accounts from the Snap deal. Finished goods now make up almost 87% of inventory and the ratio of inventory to projected revenue is at a multi-period high. We believe this indicates future margin pressure. REZI claims inventory issues started near the end of Q3'25 and are temporary due to HVAC equipment regulatory changes for new refrigerants. However, our analysis suggests inventory stress has been rising for over a year since the Snap deal closed.

REZI Inventory Analysis

$ in mm	2023	Q1'24	Q2'24 Snap Close	Q3'24	Q4'24	2024	Q1'25	Q2'25	Q3'25 Spin off Announced
LTM Revenue	$6,242	$6,179	$6,166	$6,440	$6,761	$6,761	$7,045	$7,399	$7,435
Projected Revenue (midpoint)	--	$6,180	$6,180	$6,720	$6,740	--	$7,385	$7,385	$7,500
Inventory:									
Raw Materials	$221	$212	$191	$176	$171	$171	$157	$167	$162
Work-In-Process	$18	$13	$14	$13	$14	$14	$16	$16	$17
Finished Goods	$702	$704	$983	$1,008	$1,052	$1,052	$1,055	$1,076	$1,149
Total Inventory	**$941**	**$929**	**$1,188**	**$1,197**	**$1,237**	**$1,237**	**$1,228**	**$1,259**	**$1,328**
Raw Materials %	*23.5%*	*22.8%*	*16.1%*	*14.7%*	*13.8%*	*13.8%*	*12.8%*	*13.3%*	*12.2%*
WIP %	*1.9%*	*1.4%*	*1.2%*	*1.1%*	*1.1%*	*1.1%*	*1.3%*	*1.3%*	*1.3%*
Finished Goods %	*74.6%*	*75.8%*	***82.7%***	***84.2%***	***85.0%***	***85.0%***	***85.9%***	***85.5%***	***86.5%***
Inventory / Sales Ratios:									
Total Inventory / Projected Sales	*15.2%*	*15.0%*	*17.7%*	***17.8%***	*16.8%*	*16.8%*	*16.6%*	*16.8%*	***17.8%***
Finished Goods / Projected Sales	*11.4%*	*11.4%*	*14.6%*	***15.0%***	*14.2%*	*14.2%*	*14.3%*	*14.3%*	***15.4%***
Total Inventory / LTM Sales	*15.1%*	*15.0%*	*19.3%*	*18.6%*	*18.3%*	*18.3%*	*17.4%*	*17.0%*	*17.9%*
Finished Goods / LTM Sales	*11.2%*	*11.4%*	*15.9%*	*15.7%*	*15.6%*	*15.6%*	*15.0%*	*14.5%*	*15.5%*
Growth Rates:									
Revenue Growth %	*-2.0%*	*-4.1%*	*-0.8%*	*17.6%*	*20.9%*	*8.3%*	*19.1%*	*22.3%*	*2.0%*
Finished Goods Growth %	*0.4%*	*-1.3%*	*35.2%*	*40.0%*	*49.9%*	*49.9%*	*49.9%*	*9.5%*	*14.0%*

Source: REZI SEC filings and Q3'25 conference call. Spruce Point analysis.

Spruce Point Capital Management

Guidance Retraction Over Time Undermines Confidence In Business Visibility

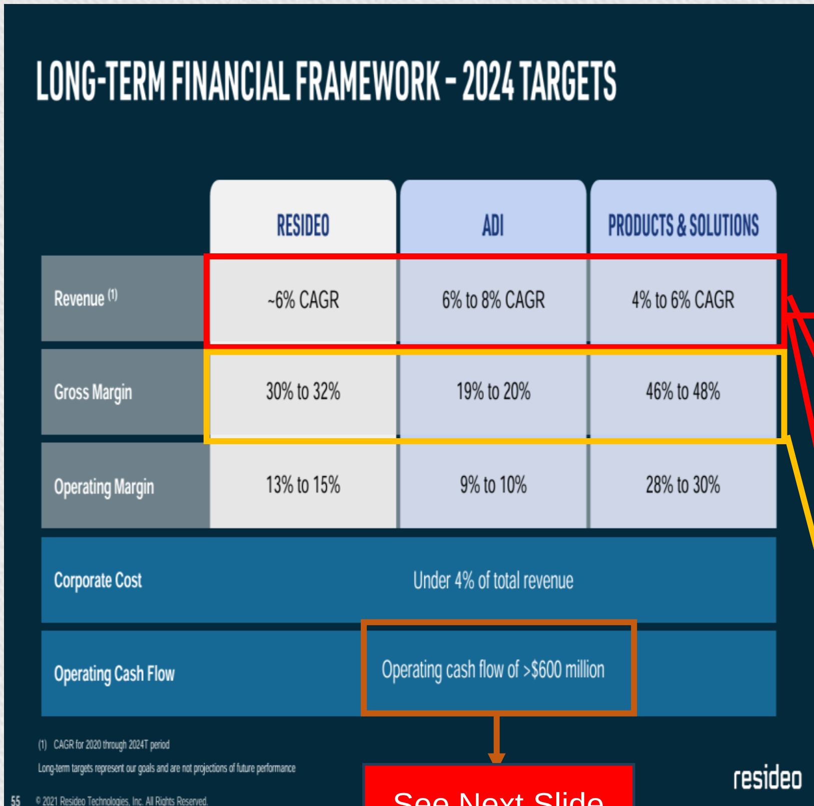
Spruce Point has analyzed REZI's guidance practices since coming public. We find a notable reduction in guidance practices starting in 2024 and accelerating into 2025. We believe this shift undermines confidence in the long-term visibility for the business.

Guidance Metrics Provided To Investors							
	2019	2020 (q4)	2021	2022	2023	2024	2025
ADI Revenue Growth	No	No	No	No	No	Yes	No
P&S Revenue Growth	No	No	No	No	No	Yes	No
Total Revenue	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Gross Margin	No	No	Yes	Yes	Yes	No	No
Corporate Costs	No	No	Yes	Yes	Yes	Yes	No
R&D	Yes	No	No	No	No	No	No
Adj. EBITDA	Yes	Yes	No	No	No	Yes	Yes
Adj. EPS	No	No	No	No	No	Yes	Yes
GAAP EPS	No	No	No	No	Yes	No	No
CFO	No	No	No	No	No	Yes	Yes
Capex	Yes	No	Yes	Yes	Yes	Yes	Yes

Source: REZI press releases and investor presentations. Note: changes to "No" highlighted in red.

Our Analysis Indicates That REZI Has Fallen Meaningfully Short of Long-Term Revenue And Gross Margin Targets

Spruce Point believes that REZI has woefully disappointed in its 2024 targets that were communicated to investors in early 2021. Our analysis, which adjusts for recent acquisitions, FX, and divestitures estimates that total organic growth was 2.9% or 310bps below the target. The underperformance was largely driven by the Product & Solutions segment which we estimate grew 0.8% vs. 4-6% targeted. In 2021, REZI even said the addressable market for products and solutions was growing "mid-to-high single digits" which suggests it may have lost serious market share. Furthermore, gross margins were projected to be 30-32% but came in at 28.1%. Again, the biggest variance was in the P&S segment which was projected to have 46-48% gross margins but produced 41%.



LONG-TERM FINANCIAL FRAMEWORK – 2024 TARGETS

	RESIDEO	ADI	PRODUCTS & SOLUTIONS
Revenue [1]	~6% CAGR	6% to 8% CAGR	4% to 6% CAGR
Gross Margin	30% to 32%	19% to 20%	46% to 48%
Operating Margin	13% to 15%	9% to 10%	28% to 30%
Corporate Cost	Under 4% of total revenue		
Operating Cash Flow	Operating cash flow of >$600 million		

(1) CAGR for 2020 through 2024T period

Long-term targets represent our goals and are not projections of future performance

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resideo

See Next Slide

Estimated Organic Revenue

$ in mm	2020	2021	2022	2023	2024	CAGR
Total Reported Sales	**$5,071**	**$5,846**	**$6,370**	**$6,242**	**$6,761**	**7.5%**
FX Adj.	--	--	$161	$10	$6	--
Add: Genesis / ADI India Divestitures [1]	--	--	--	$48	$136	--
Less: ADI Bolt-ons[2]	--	--	--	($175)	($175)	--
Less: Snap One	--	--	--	--	($553)	--
Less: First Alert	--	--	($341)	($460)	($497)	--
Est. Total Organic Sales	**$5,071**	**$5,846**	**$6,190**	**$5,665**	**$5,678**	**2.9%**
P&S Reported Sales	**$2,121**	**$2,468**	**$2,783**	**$2,672**	**$2,564**	**4.9%**
FX Adj.	--	--	$95	$5	$10	--
Add: Genesis Divestiture	--	--	--	$22	$110	--
Less: First Alert	--	--	($341)	($460)	($497)	--
Est. Organic P&S Sales	**$2,121**	**$2,468**	**$2,537**	**$2,239**	**$2,187**	**0.8%**
Reported ADI Sales	**$2,950**	**$3,378**	**$3,587**	**$3,570**	**$4,197**	**9.2%**
FX Adj.	--	--	$66	$5	($4)	--
Add: ADI India Divestiture[1]	--	--	--	$26	$26	--
Less: ADI Bolt-ons[2]	--	--	--	($175)	($175)	--
Less: Snap One	--	--	--	--	($553)	--
Est. Organic ADI Sales	**$2,950**	**$3,378**	**$3,653**	**$3,426**	**$3,491**	**4.3%**
Gross Margin						
ADI GM%	--	--	19.4%	18.7%	20.3%	--
P&S GM%	--	--	38.7%	38.6%	41.0%	--
Total GM%	25.9%	26.7%	27.8%	27.2%	28.1%	--

Source: Investor Day Presentation (March 2021), REZI SEC filings and Spruce Point analysis. For simplification, we ignore immaterial acquisitions in the organic revenue growth analysis. First Alert 2023 sales were $460m and based on commentary we assume it grew 8% in 2024. 1) ADI India sold Oct 2022. Assumes ADI APAC revenue of $26m is India. 2) Disclosed in Investor Presentation, Slide 24 (Nov 2023). Bolt-ons from 2021-23, but for simplicity we assume full run rate revenue starts in 2023.

REZI's Cash Flow Has Collapsed -37% Since Its Spin-off From Honeywell In 2018

In 2021, REZI outlined its 2024 operating cash flow (OCF) goal to be >$600m. However, by our estimate OCF was $425m when adjusted for the fixed costs obligations to service its preferred stock dividends. In the last 12 months, OCF has markedly deteriorated. REZI is now disclosing cash payments to repurchase shares for stock award tax withholding. By classifying these costs as operational, we find that trailing OCF is only $303m. These results should also be put into context that REZI spent $1.4bn and $593m, respectively on Snap One (2024) and First Alert (2022) and said it would achieve $30m of First Alert synergies by 2023 and produced $17m of synergies from Snap One in 2024. Despite these transactions and synergy results, performance has fallen well short of the goals. In fact, we estimate that cash flow has collapsed by -37% since the 2018 spin-off.

Spruce Point Adjusted Operating Cash Flow

$ in mm	2018 Spin-off	2023	Q4'24	2024	Q1'25	Q2'25	Q3'25	LTM 9/30/25
Operating Cash Flow (OCF)	$462	$440	$203	$444	($65)	$200	($1,571)	($1,233)
Add: Honeywell Termination Costs	--	--	--	--	--	--	$1,590	$1,590
REZI Reported OCF	**$462**	**$440**	**$203**	**$444**	**($65)**	**$200**	**$19**	**$357**
Add: Spin-off / Separation Costs	$23	--	--	--	--	--	$4	$4
Less: Preferred Stock Dividends	--	--	($9)	($19)	($9)	($8)	($9)	($35)
Less: Cash to repurchase stock for employee tax withholding	--	--	?`	?	($15)	($1)	($7)	($23)
Spruce Point Adj. OCF	**$485**	**$440**	**$194**	**$425**	**($89)**	**$191**	**$7**	**$303**

-37% since spin-off

Source: REZI SEC filings and Spruce Point analysis.

Spruce Point Capital Management

We Believe REZI's Recent Cash Flow Discussion Is Troubling With Many First-Time Disclosures

After closely evaluating REZI's recent cash from operations discussion, we are alarmed by its inability to explain what the exact impact has been from the Snap deal. However, we identify numerous new disclosures that indicate changes in business practices and/or previously undisclosed issues. For example, REZI referenced *"supply chain optimization"* which suggests something has not been functioning properly.

Analysis of REZI's Recent Cash From Operations MD&A

Period	Disclosure	Spruce Point Comments
2024	*"Net cash provided by operating activities for the year ended December 31, 2024 was $444 million, an increase of $4 million compared to the prior year. The increase was primarily driven by higher cash earnings partially offset by working capital investments."*	Commentary is limited. Not a single mention of Snap's contribution. Snap was projected to generate $80m of OCF in 2024. With a June 14th close, ~50% ($40m) should have contributed to cash flow.
Q1'25	*"Net cash used for operating activities for the three months ended March 29, 2025 was $65 million. Compared to the three months ended March 30, 2024, net cash provided by operating activities decreased $67 million. The decrease was primarily driven by a $37 million decrease in net income and a $54 million decrease in assets and liabilities, partially offset by a $23 million increase in depreciation expense. Outflows related to changes in assets and liabilities include increased uses of $57 million in accounts payable including **early payments to receive supplier discounts**, an increase of $46 million in payables related to the Indemnification Agreements, an increase of $47 million in accounts receivables due to higher sales, and **a $10 million decrease in inventory related to supply chain optimization**."*	First-time disclosures: 1) REZI made early payments for supplier discounts. Moreover, Snap SEC filings also never disclosed supplier discounts affecting cash flow, 2) First time disclosure that inventory improved from supply chain optimization. In 2019, REZI said it hired experts to optimize its supply chain but never made any reference to improving its cash flow outcomes until now.
Q2'25	*"Net cash provided by operating activities for the six months ended June 28, 2025 was $135 million. Compared to the six months ended June 29, 2024, net cash provided by operating activities increased $41 million. During the six months ended June 28, 2025, we recorded $972 million of expense related to the termination of the Indemnification Agreement which was the primary driver of the net loss of $819 million compared to $73 million of net income in the comparative period. This change of $892 million was partially offset by higher non-cash charges of $42 million primarily due to a $44 million increase in depreciation and amortization, and favorable changes of $891 million in assets and liabilities. These changes in assets and liabilities were primarily due to a $902 million increase in the Indemnification Agreement liability from its termination, and a $73 million **increase in accrued liabilities primarily due to an increase in taxes payable. This was partially offset by an unfavorable change in other assets and liabilities of $62 million primarily due to increases in deferred tax assets** and lease right-of-use assets and $85 million of increased accounts receivable primarily due to higher sales."*	First time referencing account impacts related to taxes.
Q3'25	*"For the nine months ended September 27, 2025, net cash used for operating activities was $1,436 million, a decrease of $1,677 million as compared to the same period in 2024. During the nine months ended September 27, 2025, we recorded $972 million of expense related to the termination of the Indemnification Agreement, $86 million of interest expense and $22 million of other expenses. These expenses, offset by operating profit of $467 million, were the primary drivers of the net loss of $663 million. In addition to the decrease in net income of $756 million, there was a change of $923 million in net assets and liabilities driven primarily by a $753 million decrease in the Indemnification Agreement liability **and a $120 million decrease in accounts payable primarily due to the timing of payments for strategic buys**."*	First-time disclosure that accounts payables were affected by "strategic buys". No discussion or elaboration of why these were strategic or what was purchased. **Still no mention of the effect on cash flow specific to Snap, which was projected to generate ~$90m of cash flow in 2025.**

Source: REZI and Snap SEC Filings

Rising Purchase Obligations

REZI provides disclosure of commitments with suppliers and other obligations regarding purchase of goods and services. We observe a sharp rise in these obligations beginning in 2024 and escalating in 2025. There is no specific explanation for why these obligations increased. However, on the previous slide we pointed out that REZI mentioned *"early payments to receive supplier discounts"* in discussing movements in cash flow. This change in practice could be risky if sales fall below plan or the discount programs don't repeat as it could affect future margins.

Analysis of REZI's Purchase Obligations At Year End

$ in mm	2021	2022	2023	2024
Total Purchase Obligations At Year End	$101	$115	$342	$358
Obligations Over Next 12 Months *% of Total Obligations*	$34 *33.7%*	$51 *44.3%*	$142 *41.5%*	$177 ***49.5%***
Midpoint of Next Year Revenue Estimate	$6,075	$6,375	$6,180	$7,385
Obligations Over Next 12 Months / Next Year Revenue	*0.6%*	*0.8%*	***2.3%***	***2.4%***

Source: REZI SEC filings and Spruce Point analysis.

SPRUCE POINT CAPITAL MANAGEMENT

We Are Troubled By Recent Changes To Short-Term Incentive Goals

Our concerns about REZI's growing rebate reserve are magnified by the fact that for the first time, the definition of net revenue affecting management's short-term bonus accounts for "*rebates*" and "*other customer incentive programs*". Moreover, net revenue now accounts for 50% of the short-term bonus which gives management greater incentive to accelerate revenues with incentive programs. We are also alarmed that operating cash flow is no longer factored into the incentive structure.

Management's Short-Term Incentive Targets

Targets	2020	2021	2022	2023	2024
Net Revenue	35% net of discounts and returns from continuing operations	33% net of discounts and returns from continuing operations	40% net of discounts and returns from continuing operations	20% net of discounts and returns from continuing operations	**50%** net of discounts, **rebates, other customer incentive programs**, and gross customer returns. For purposes of this financial metric, net revenue is determined on a constant currency basis to remove the impact of foreign currency fluctuations.
Adj. EBITDA	25%	--	--	--	--
Operating Cash Flow	**15%**[1]	**33%**	**20%**	**30%**	**Why no longer important?**
Operating Income	--	33%	--	--	--
Operating Income Margin	--	--	40%	50%	50%
Gross Margin	25%	--	--	--	--

Source: Proxy statements

1) Adjusted EBITDA plus changes in working capital less adjusted capital expenditures during the year. Subsequently changed to just cash flow from operating activities.

Are No Goodwill Impairments Really Necessary?

REZI no longer provides details about its goodwill testing methodology but references that cash flows are part of the analysis. We previously showed that its cash flow projections made in 2021 did not materialize in 2024. **We find it difficult to accept REZI's conclusion that no impairment expenses are necessary even as the Company determines a spit-up is required**.

Goodwill Testing Discussion	
2021	**2024**
"Goodwill — We perform goodwill impairment testing annually on the first day of the fourth quarter of each year or more frequently if indicators of potential impairment exist. The goodwill impairment test is performed at the reporting unit level. We have two reporting units, Products & Solutions and ADI Global Distribution. In determining if goodwill is impaired, we compare the fair value of a reporting unit with its' carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value provided the loss recognized does not exceed the total amount of goodwill allocated to that reporting unit. ***As of December 31, 2021, the Products & Solutions and ADI Global Distribution reporting units had estimated fair values in excess of carrying value of at least 90% and 20%, respectively, and we concluded that our goodwill was not impaired as of the 2021 annual impairment test***. ***For the 2021 annual impairment test, we determined the fair value of each reporting unit using a weighting of fair values derived from the income approach and the market approach****. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections are based on management's estimates of operating results, taking into consideration industry and market conditions. The discount rate used is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the business's ability to execute on the projected cash flows. The terminal value is estimated using a constant growth method which requires an assumption about the expected long-term growth rate. The estimates are based on historical data and experience, industry projections, economic conditions, and management's expectations. Under the market approach, we estimate the fair value based on market multiples of cash flow and earnings derived from comparable publicly traded companies with similar operating and investment characteristics as the reporting unit and considering a reasonable control premium. The weight assigned to the multiples requires judgement in qualitatively and quantitatively evaluating the size, profitability, and the nature of the business activities of the reporting units as compared to the comparable publicly traded companies. Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates.* *We believe the estimates and assumptions used in the calculations are reasonable."*	*"We test, at least annually, the carrying value of goodwill for impairment, as discussed in Note 2. Summary of Significant Accounting Policies to Consolidated Financial Statements. We review other intangible assets and long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable.* ***The estimates and assumptions about future results of operations and cash flows made in connection with the impairment testing could differ from future actual results****. If the assumptions used in our analysis are not realized or if there was an adverse change in facts and circumstances, it is possible that an impairment expense may need to be recorded in the future. If the fair value of our reporting units falls below their carrying amounts because of reduced operating performance, market declines, changes in the discount rate, or other conditions, expenses for impairment may be necessary. Any such expenses may have a material negative impact on our results of operations.* ***There were no material impairment expenses taken during the years ended December 31, 2024, 2023, and 2022."***

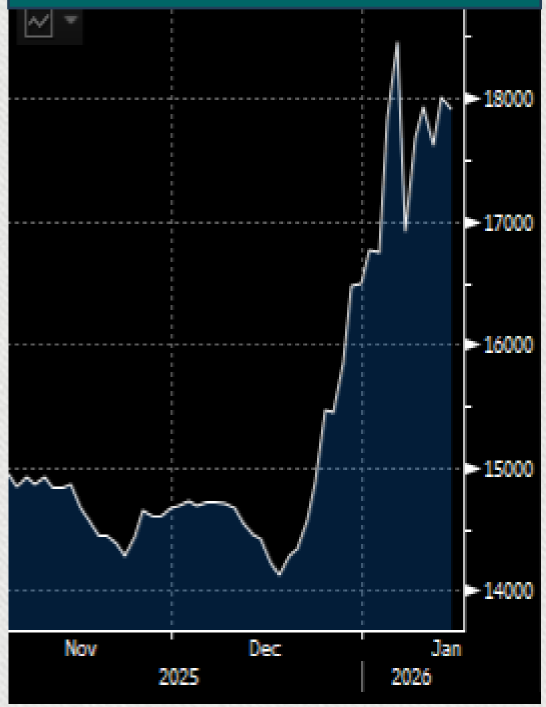
Source: REZI SEC filings.

Underappreciated Commodity Risk

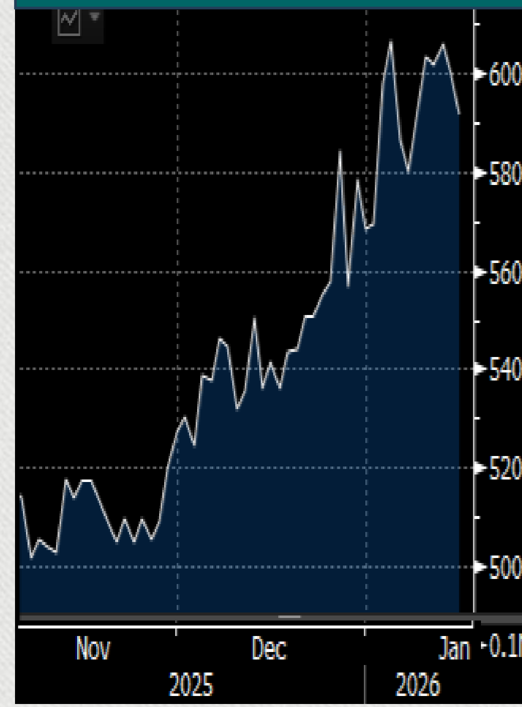
We believe that REZI has underappreciated commodity risks. In the last quarter, the Company expanded its risk disclosure to specify, that in certain situations, it is exposed to risk from rising commodity prices. Many commodity prices have risen sharply, notably copper and nickel. As a result, we believe this adds to the risk that REZI's margins fall below plan.

REZI's Commodity Price Risk	
Q1'25	*"We are exposed to price risk for commodities used in manufacturing including steel, aluminum, copper, nickel, and semiconductors. Current macroeconomic and geopolitical factors, such as commodity-based tariffs, may increase the risk of price volatility. We attempt to pass through significant changes in component and raw material costs to our customers."*
Q3'25	*"We are exposed to price risk for commodities used in manufacturing including steel, aluminum, copper, nickel, and semiconductors. Current macroeconomic and geopolitical factors, including commodity-based tariffs and export restrictions on critical materials such as rare earth minerals, may increase the risk of price volatility. We attempt to pass through significant changes in component and raw material costs to our customers based on the contractual terms of our arrangements.* ***In limited situations, we may not be fully compensated for such changes in costs.****"*

Nickel



Copper



Must be material enough to disclose the new risk

REZI SEC filings and Bloomberg.

We Believe REZI's $2.0bn+ Spent On Acquisitions Are Troubled And Mask Underlying Financial Issues

Summary of REZI's Acquisitions And About Face In Capital Priorities….

At the 2018 spin-off, REZI listed its capital priorities in the following order: A) organic growth, B) Deleveraging, C) Return of Capital and 4) Acquisitions. As it turns out, it appears the last priority of acquisitions became the top priority and REZI has levered up while failing to return capital. The Company has spent >$2.0bn on acquisitions and we believe its 4%+ organic growth objective was not achieved.

REZI's M&A Activity: Key Deals Snap One and First Alert

$ in mm	2019	2020	2021	2022	2023	2024	2025
Cash for acquisitions, net	$17.0	$35.0	$11.0	$665.0	$16.0	$1,337.0	--
Buys (segment)	<u>All P&S segment</u> Buoy Labs Whisker Labs LifeWhere	Herman ProAV (ADI)	<u>Both in ADI</u> Norfolk Wire Shoreview AV	**First Alert (P&S)** Teknique (ADI) Electronic Custom (ADI) Arrow Wire & Cable (ADI)	Sfty (P&S) BTX Tech (ADI)	**Snap One (ADI)**	--
Sells (segment)				ADI India (ADI)	Genesis Cable (P&S)		Grid Services (likely P&S)
Synergy Targets				**First Alert: $30m**		**Snap: $75m**	

2019: REZI's "Capital Allocation Priorities"

A – Organic Growth
- ✓ 4%+ organic growth by investing in connected solutions, R&D and commercial excellence[1]

B – Deleveraging
- ✓ Long-term target Debt / PF Adjusted EBITDA[2] ~2.0 x
- ✓ Near-term focus to delever through strong free cash flow

C – Return on Capital
- ✓ Expect to declare modest dividend in 2019, subject to Board approval

D – Acquisitions
- ✓ Select disciplined tuck-in acquisitions to access new technologies, new intellectual property, new product categories and new geographies

Source: REZI SEC filings, including Oct 2018 Investor Presentation

Spruce Point Capital Management

First Alert: Previously Owned By Sunbeam During A Massive Accounting Fraud Scandal

First Alert has a sordid past. The business was at the center of a massive accounting fraud scheme back in the late 1990s. In 2002, the SEC charged Al "Chainsaw" Dunlap at Sunbeam Corporation with accounting fraud which involved using discounts and inducements to sell products immediately that would have been sold in later periods (i.e. "channel stuffing") along with serious accounting violations regarding use of restructuring reserves. At the very end of the scheme, Sunbeam used the acquisition of First Alert and two other companies to conceal its accounting irregularities and record restructuring charges. Perhaps purely coincidental, REZI implemented multiple restructuring programs after buying First Alert despite the business performing ahead of plan.(1)

Excerpt: SEC Case vs. Sunbeam Corp.

In the First Quarter of 1998, Sunbeam Adopted Additional Expedients to Forestall an Earnings Shortfall.

As Sunbeam entered 1998, channel stuffing though price discounting and contingent and bill and hold sales had borrowed heavily against futures sales revenue and left the Company with no options to satisfy that debt. Reports to senior management showed customers holding as much as 80 weeks of inventory of specific products. Senior management was also repeatedly informed of projected earnings shortfalls for the quarter. In brief, the Company was experiencing the results of a short-term approach to earnings management that had outlived its efficacy.

Against this background, Sunbeam negotiated to purchase three other companies, Coleman, First Alert, and Signature Brands, which would allow the Company to conceal its accounting irregularities in another restructuring charge. To conclude these acquisitions, however, Sunbeam needed to raise $700 million through a Zero Coupon Bond offering and arrange a $1.7 billion revolving credit line. Indications of problems with Sunbeam's financial condition would have jeopardized these transactions.

To avoid reporting a sales decline in the first quarter of 1998, Sunbeam again used bill and hold sales. The $35 million in such sales booked in the first quarter of 1998 again resulted from a program of inducing customers, already overloaded with Sunbeam inventory, to sign purchase orders well in advance of their actual need for product by offering discounts, extended payment terms and storage. Hence, they did not comply with GAAP requirements for revenue recognition.

In addition, in late January, former Chief Financial Officer Russell Kersh ordered the deletion of all return authorizations from the Company's computer system.[27] Although Sunbeam had little option but to accept authorized returns,[28] deleting the authorization file delayed acceptance of some quantity of pending returns long enough so that they did not count against net sales for the first quarter. As a result, Sunbeam's return reserve remained inadequate. At year-end 1997, that reserve was reduced from $6.5 million to $2.5 million, without reasonable justification, improving 1997 income. As of February 8, 1998, Sunbeam had approximately $18 million in pending returns, requiring at least $4.5 million in reserves under its established approach to setting reserves. Sunbeam nevertheless reduced its sales return reserve by another $1 million at the end of February.

Pure Coincidence:
REZI Announced Multiple Restructuring Programs Shortly After Buying First Alert

"In the fourth quarter of 2022, we executed multiple restructuring programs to lower costs, increase margins and position us for growth resulting in restructuring and impairment expenses of $35 million. We expect to fully execute our restructuring initiatives and programs over the next 12-24 months."

Source: SEC Litigation release, REZI 2022 10-K, *"Ex-Sunbeam Executives to Pay $15M to Settle Lawsuit"*, NyTimes.com

1) Q2'22 outlook includes $325m of First Alert revenue. In 2022, it reported $341m of revenue from First Alert.

SPRUCE POINT
CAPITAL MANAGEMENT

First Alert Passed To Newell Brands, Which Settled With The SEC For $12.5M

Our First Alert observations are more alarming considering the history of Newell Brands. Both Newell and Michael Polk - President, CEO and Board member - were charged in 2023 with misleading investors in its accounting practices that were inconsistent with GAAP, while overriding its internal accounting controls. Mr. Polk served in these capacities from 2009-2011 through his departure in 2019. At the time of REZI's acquisition of the Connected Home & Security business in 2022, Newell had disclosed the existence of an SEC investigation, but no formal charges had been announced until 2023. Newell also had a CFO, COO, and leadership change at the Connected Home & Security business before its sale to REZI. Given the nature of the SEC's allegations which relate to misleading core / organic sales and premature revenue recognition, we believe REZI shareholders should be concerned by who it acquired the business from.

U.S. Securities and Exchange Commission

MENU

More in this Section

HARMED INVESTOR

In the Matter of Newell Brands Inc. and Michael B. Polk

Admin. Proc. File No. 3-21766

On September 29, 2023, the Commission instituted and simultaneously settled cease-and-desist proceedings (the "Order") against Newell Brands Inc. ("Newell") and Michael B. Polk ("Polk") (collectively, the "Respondents"). In the Order, the Commission found that Newell made misleading statements regarding non-GAAP financial measures, "core sales growth" and "core sales," which Newell described in its earnings releases as giving investors "a more complete understanding of underlying sales trends." From the third quarter of 2016 through the second quarter of 2017 (the "Relevant Period"), Newell announced publicly core sales growth rates that were higher than its actual underlying sales trends. The core sales growth rates were higher because of undisclosed actions taken by Newell and approved by Polk that were unrelated to its actual sales. Newell's statements to investors were misleading and violated Securities Act Sections 17(a)(2) and 17(a)(3); Exchange Act Sections 13(a) and 13(b) and various rules thereunder, and Rule 100(b) of Regulation G. The Commission ordered Newell and Polk to pay $12,500,000 and $110,000 as civil money penalties, respectively, for a total of 12,610,000 to the Commission. The Commission also created a Fair Fund, pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002 so that the penalties paid can be distributed to harmed investors (the "Fair Fund"). See the Commission's Order: Release No. 33-11251.

Newell made misleading statements related to "core sales growth" and "core sales"

Newell engaged in a scheme to prematurely recognize revenue called "Pick and Holds"

C. <u>Premature Revenue Recognition as a Result of "Pick and Holds"</u>

31. Newell also recognized revenue prematurely during the Relevant Period, as a result of employees involved in shipping and transportation in certain divisions sending shipments early to customers without their approval in a practice referred to as "pick and holds." So that these shipments would not arrive to customers earlier than scheduled, Newell employees arranged for third parties to pick up shipments from Newell and then store them for days or weeks until they could be delivered on the dates in the next quarter that had been requested by the customers. Newell prematurely recognized revenue for those shipments during the quarters in which they were picked up by carriers, before the revenue recognition criteria of ASC 605 (Revenue Recognition) were satisfied. These criteria required, among other things, that a shipment be made pursuant to an arrangement with the customer, and that the customer take title and assume the risks and rewards of ownership for delivery to occur. In its Forms 10-Q and 10-K for these periods, Newell reported in its financial statements net sales and income that reflected this revenue, which had been recognized earlier than permitted by GAAP but in amounts that were less than 0.1% of net sales in each quarter during the Relevant Period.

Source: SEC Litigation release and press release, CFO transition, Nov 18, 2018, COO transition Feb 19, 2019, CEO Transition, March 2019.

Expert Interview on First Alert Deal

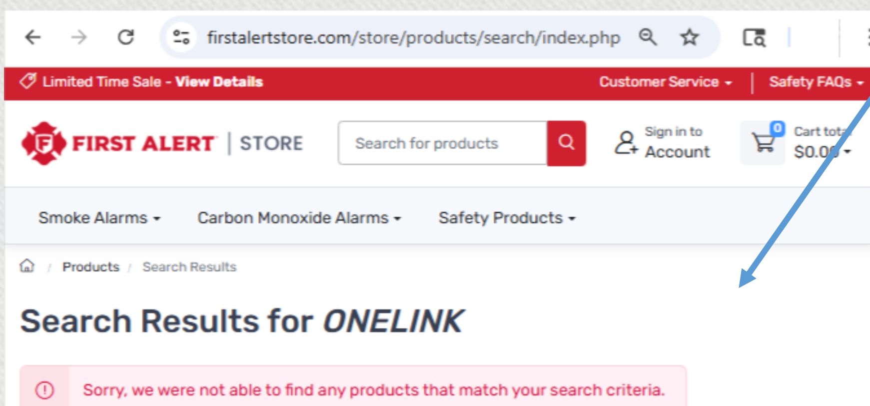
An interview of a former Newell manager who worked in the Connected Home & Security (CH&S) business sold to Resideo revealed a strong opinion that the acquisition was troubled with lots of talk from management, but little substance of how the transaction would increase value.

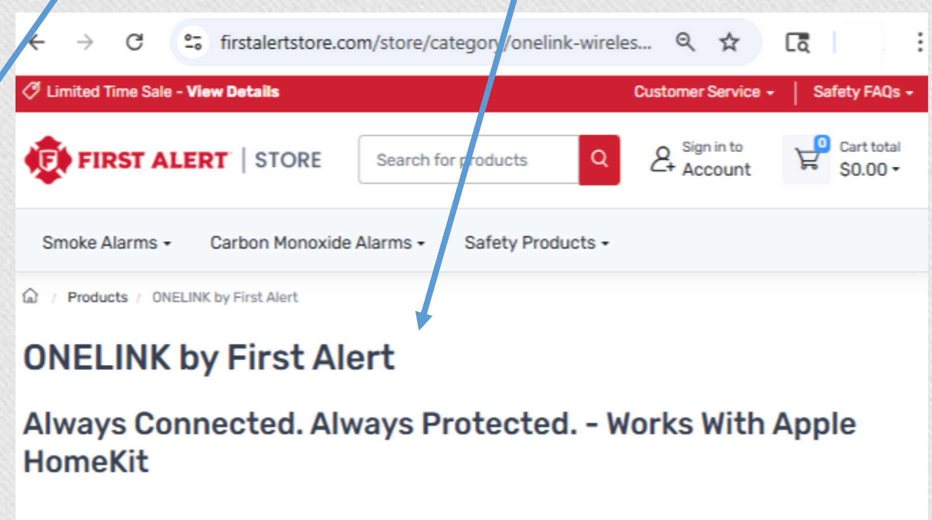
Interview of Former Employee	
Question	**Response**
"How would you compare and contrast the effectiveness of the company overall before acquisition by Resideo and after?"	*"**I would say Resideo was a disaster. It was operational efficiency. From an operational standpoint, it was absolutely horrific. I will tell you, after the acquisition, a significant part of leadership left.** The VP who hired me left. I left shortly after that. One of my reports, I connected with her about a year later, and she'd had six different managers in the time since I left. Everything was just very disorganized. I don't know that I was there long enough for things to change, enough to say we were doing so much better because of the synergies. I can just say, from an operational standpoint, nobody could get anything done. **It was meetings all day long, the same meeting over and over again. Nothing was ever accomplished. It was just disorganized, and you have people calling you from all angles, asking the same questions**. I understand, it's an acquisition, it's going to be messy. You're merging platforms, you're merging leadership, you're merging all kinds of stuff and cultures, but this was particularly disastrous. This lasted for several years, you know what I mean? The beginning was probably better. It continually was getting worse, I would say."*
"Why was that? What's going on that was getting worse? How could it get worse? It sounds pretty bad."	*"**It was just operational. It was just very inefficient, very disorganized. I don't even know how to describe it. There was so much going on, but nothing going on. It was a lot of talk and presentation and pumping-up**. I'll give you an example. My first job out of school, I worked for {redacted}, and I was in the sales training program. We went through these training programs, and then every day, we go to these auditoriums where we'd have them doing these really big, pump-up speeches. **It was drink-the-Gatorade type of thing, but no content was really there. That was what it felt like at Resideo, where they would talk about this great thing that was moving forward, but there wasn't a lot of detail or content behind what they were saying. That's just how I would describe it, just very disorganized, not a lot of content, a lot of high-level ideas without the means to get there**."*

Source: AlphaSense interview, Nov 10, 2025

REZI Has Quietly Discontinued First Alert's "Premium" Brand…

REZI has been completely quiet in talking about First Alert's premium brand called Onelink. We think we know the likely reason why: It appears that its premium brand has been discontinued.





Source: REZI Q4'21 Earnings Presentation, First Alert website pages (1,2)

First Alert Revenue May Face Difficult Comps, Come Under Pressure In 2026

Our analysis indicates that First Alert revenue may be challenged in the near term by abnormal retail performance and reliance on one product introduction, which may create difficult comparisons. REZI previously said there was seasonality with Q1 typically the slowest. However, in Q1'25 REZI called out high single digit growth. In Q2 and Q3'25 REZI did not quantify any performance, but rather only called out one product SKU as strong which was the First Alert SC5 developed with Google Nest and that the source of strength was the retail channel. Recent commentary from retail channel partners Home Depot and Lowes has reflected caution with the housing market.(1) Recent product reviews have also been mixed with some sources giving it 2 or 3-star ratings and the NYTimes/WireCutter recommending the Kidde Smart alarm over the First Alert SC5. Lastly, we are concerned that First Alert's margins on this new product may be lower given the necessity to partner with Google on development and distribution. As we previously pointed out, REZI is now disclosing higher R&D costs related to third party services.

REZI's Recent First Alert Commentary

Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3-Q4 2024	Q1 2025	Q2-Q3 2025
*"So there's a couple of things about the First Alert business. **It is a little bit seasonal. So Q1 is typically the lowest quarter**. And we did have some softness in retail and particularly early in the quarter."*	"Solid, up sequentially YoY"	"Product revenue flat YoY"	Nothing quantified, "strong quarter, new construction"	Nothing quantified on First Alert or the whole portfolio, but called out BRK: *"strong quarter driven by BRK which has posted 3 consecutive quarters of YoY double digit growth"*	First Alert portfolio +20% YoY, 3rd straight quarter of double digit growth	Nothing quantified "broad-based" "retail" strength	"**Revenue for the First Safety products grew high single digits YoY**" Called out retail point-of-sale (PoS)	Nothing quantified but in Q2 said retail had a record quarter of revenue growth, mostly called out one single product First Alert SC5 developed with Google Nest through retail. Tempered language to 'strong' retail in Q3.

Source: REZI earnings conference calls

1) Lowes Q3 results (Nov 2025) and Home Depot Establishes Preliminary FY 2026 outlook (Dec 2025).

First Alert Is Exposed To Retail And Competitive Price Wars

REZI's First Alert acquisition exposed it significantly to the retail channel, including Home Depot, Lowe's, WalMart and Costco. At Home Depot and Lowe's there is a war for professional contractors ("Pro"). In 2024, Home Depot spent $18bn to acquire SRS Distribution and $5.5bn to acquire GMS to significantly expand its reach in the Pro market. **Competition is so intense that when you search "First Alert Smoke Detector" online at Home Depot, Kidde is heavily promoted**. This channel may also explain why REZI's accrued customer rebate liabilities are rapidly growing.

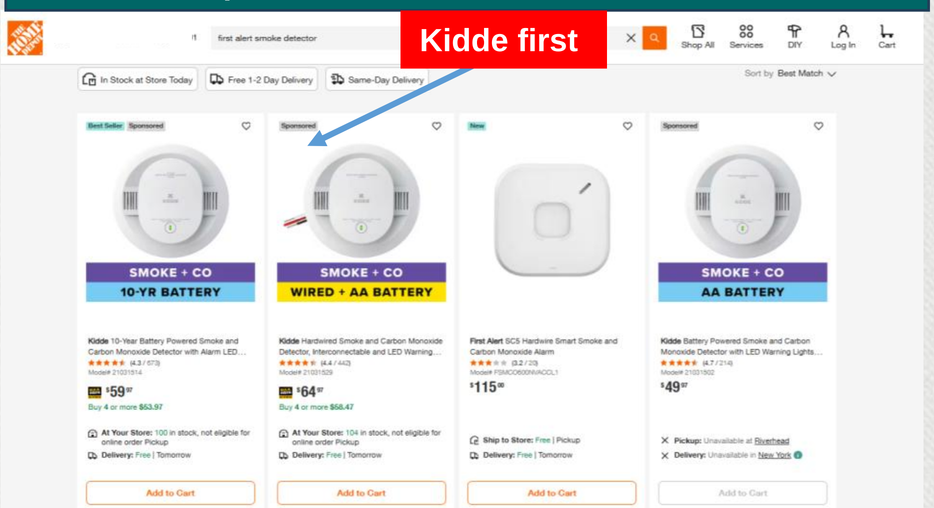
REZI Comment on First Alert, BofA Conference, November 2023

*"**About 20% of the products business does go through retail. This is predominantly still serving the professional contractor**.[(1)] So this is the pro going into a Home Depot or Lowe's to pick up our products as well as First Alert. And so First Alert is probably the one piece of the business that does predominantly go direct to the consumer or service the DIY market."*

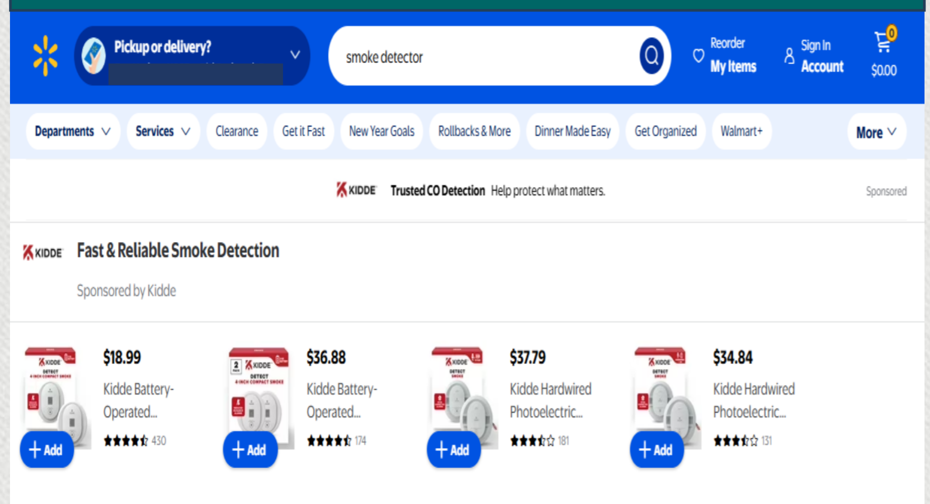
Former Resideo Manager, November 2025

"Lowe's was the biggest on the retail side. That was the main customer on the retail side… On the retail, it was Lowe's, Costco. … think Walmart was in it."

Home Depot Search "First Alert Smoke Detectors"



WalMart Search "Smoke Detector"



First Alert's Home Builder Channel Is Less Financially Attractive

REZI has been talking up its growing relationship with home builders for the First Alert smoke detector business. However, based on our research interview of a former executive familiar with the business, it is a narrower product opportunity which depends on larger volumes and carries less margin than the retail channel.

CEO Q4 2023, Feb 2024	Spruce Point Interview, Former Executive Familiar With Resideo's Security Business And First Alert Acquisition
*"**We have spoken previously about our progress building content with home builders. This work is led by our First Alert and BRK professional brands**. We have expanded content with existing builders and increased the number of partners we are selling to, adding over 20 new builder partners in 2023. **We believe we are well-positioned to drive growth in this channel as the new construction market recovers**."*	*"I think on the kind of the commercial, when I say commercial, I mean the builder side, **it's always price skinny, a lot of price competition there**."* *"**Yeah, they're getting volume discounts. It's a volume business**. The product itself is pretty inexpensive and pretty basic and they just buy a crap ton of them."* Question: *"Would it be fair to say the margins are better on the retail side?"* Answer: *"**Yeah, and also the product mix on the builder side is very limited**. They're buying what they need to get the thing on the wall as opposed to something, because as you say, nobody's going to walk into the home and say, "Oh, they have the fancy talking smoke detectors here. I'm going to pay more for the house." Nobody says that, so it is just a bare minimum."* *"**I think they overpaid for First Alert**."*

Source: REZI Conference Call and Spruce Point research interview.

Revenue Reporting Issues During The Critical First Alert Deal

We cannot reconcile REZI's acquired revenue from 2022 during the critical acquisition of First Alert. REZI also closed three other small acquisitions during this period and generally reported the revenue contribution from acquisitions to total and segment revenue. REZI implemented multiple restructuring programs in Q4'22 despite First Alert performing ahead of plan.(1)

Revenue From Acquisitions Analysis In 2022

$ mm **Acquisition**	**Segment**	**Date Closed**	**Q1 2022**	**Q2 2022**	**Q3 2022**	**Q4 2022 (Implied from Full Yr – 9m)**	**FY 2022**
First Alert	Product & Solutions	3/31/2022	--	$113	$112	$116	$341
Arrow Wire & Cable (A)	ADI	2/14/2022	Not Material	$15 (2)	$23	$48 (2)	$86
Electronic Custom Distributors	ADI	7/5/2022	--	--			
Teknique (3)	Product & Solutions	12/23/2022	--	--	--	Not Material	Not Material
Total Acquired Revenue			**--**	**$128**	**$135**	**$164**	**$427**
ADI Acquired Revenue (B)			Not Material	Assume $15 from above	$49 (4)	$22	$86
Difference (A-B)				--	**($26)**	**$26**	--
Restructuring						**Implemented multiple programs**	

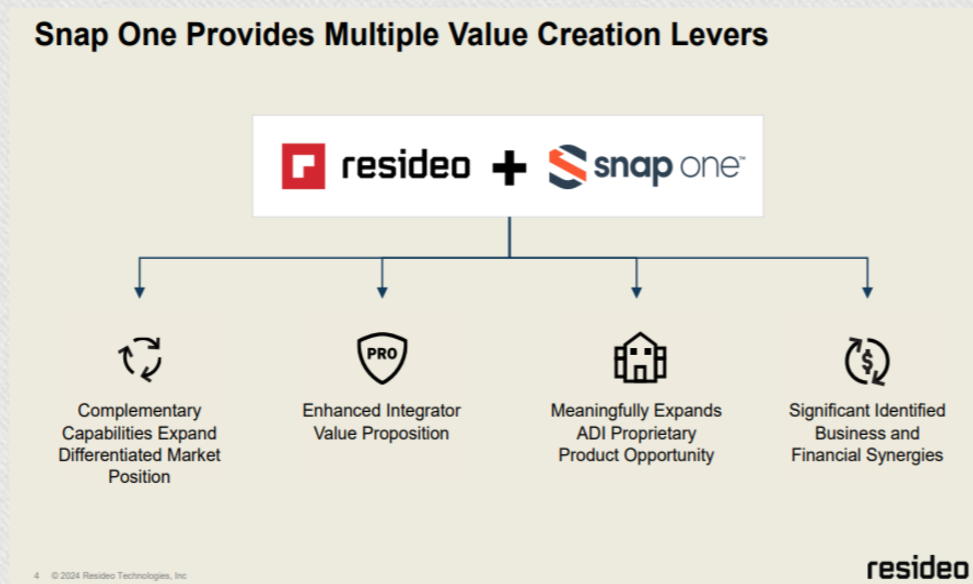
Source: REZI SEC filings, 10-Q and 10-K's
1) Q2'22 outlook includes $325m of First Alert revenues. REZI reported $341m of revenue from First Alert in 2022.
2) Implied from the difference between total acquired revenue and First Alert reported revenue.
3) Inconsequential acquisition of $5m estimated from cash paid for acquisitions in Q4'22.
4) Reported in segment discussion. Q3'22 is implied by the 9m – 6m reported revenues of $64m - $15m =$49m.

Snap One Acquisition

In early 2024, REZI announced its largest acquisition which was Snap One Holdings (Nasdaq: SNPO) for $1.4bn. The Company itself was an amalgamation of acquisitions, notably Control4 (Nasdaq: CTRL) in 2019. The CEO touted each company's *"strong culture of innovation"* and the attractive profile of the transaction. As the following slides will show, former Snap executives tell a different story about Snap's innovation culture. Furthermore, our analysis will question the attractive characteristics of the deal.

CEO Deal Call April 2024	*"**Both Resideo and Snap One share a strong culture of innovation** and employee bases dedicated to supporting their integrators and driving value in the markets where they operate. We see significant benefits for integrators in the combined businesses with a wider selection of third-party and proprietary products, access and enhancements to support services and rapid product fulfillment through a comprehensive branch footprint and strong digital capabilities. **All of this creates an attractive financial profile that we expect to be accretive to revenue growth, margins and non-GAAP EPS for Resideo**."*

Snap One Promotion Slides



Source: REZI Q1'24 Presentation, Deal Presentation and Deal Conf Call.

Spruce Point Capital Management

Interview 1: Former Snap Employee

AlphaSense interviewed a former Director who worked at Snap / Control4 for over 10 years (pre-Control4 acquisition in 2019, 7.5 years, and post merger, 2.5 years) who offered their views on the business.

On Comcast Reliance	*"Snap had some large commercial customers as well that literally just buy wires. **Comcast was a big customer. I don't know how much business Comcast still does through them, but Comcast was actually a customer from Snap One and they literally just purchased RG6 cable. That's all that they would buy, but they would buy it in such insane quantities that it was significant dollars to the business**. There's a couple other customers that are like that as well. For the most part, for the average dealer, I would say about 50% is the commoditized product and then 50% is more you're purchasing those products because you're buying into the Snap One ecosystem and the platforms."*
On Sonos Disruption, Culture Issues and Innovation Challenges	*"**To be honest with you, one of the other problems with the industry is that the dealers have had to start embracing Sonos a lot more**. They've had to start saying, "Okay, you really want Sonos in your home. We're going to lose money on what we could have given you with Control4 and the speakers from there, but we'll still sell you the lighting from Control4. We'll try to sell the actual Sonos as well. They make a tiny margin off Sonos, but at least they're making something off that, and they'll charge a little bit of labor to set it up and all that. They'll try to bundle that with a much larger system so they're still making money and then install the Sonos because that's what the customer wants, essentially. Keep in mind, I've been gone for a year, so I don't know where the product sits at the moment. **To be completely frank and honest with you, the products in general are very, very behind when it comes to innovation**. DIY hasn't taken off yet. Again, this is where maybe I'm jaded. I don't feel like I am. I feel like I'm reading this from a rational perspective. **I think that Snap is so far behind that they're never going to be able to truly catch up, especially once Matter takes off**."* *"We had about 700-ish employees. They had about 400-500-ish employees during the merger. A lot of the legacy Control4 employees, **we were all frustrated with the cultural changes that occurred after**. Obviously, it's a huge company merger that happens. No one expected things to stay the same. Control4, we considered ourselves to be a tech culture, a tech company. We aspired to innovate. We aspired to make really cool products that eventually could be in every single person's home. That was our goal. **We viewed ourselves as that tech company first with our distribution arm being second. Snap was the opposite. Snap cared only about the distribution arm. They wanted to become the Amazon to dealers within the CI channel. The focus was much more on, "Let's sacrifice innovation in the interest of better margins and speed and just get something out there so that we can distribute it quicker**." Quite frankly, over the course of my two and a half years after the acquisition, **I saw the innovation on the Control4 side of things, it decelerated, it didn't accelerate. That was one of the things that concerned me, as well, and frankly, a big reason why I left because I was worried about the long-term future for the company**."*
On DIY	*"Again, this is my opinion. **I do believe that the DIY market is way closer to spreading upstream quicker than Control4 is and SnapOne are to be able to come downstream a lot quicker. Frankly, Control4 and Snap move incredibly slowly when it comes to time to innovate and do something different. It takes years, literally multiple years**, like 18-24 months, at a minimum, is the fastest we've ever moved from the time where we say, "This is a product that we have to develop, let's go do it," until that product's launching. That's a minimum time frame. The DIY industry has moved much, much quicker. They're just already behind. Do you know what mesh networking is? Have you heard that term before? Do you know anything about that? Snap still doesn't have a mesh networking solution. They should have had a solution out for that three years ago and there's still not a mesh networking solution."*

Source: AlphaSense Interview, March 15, 2023.

Quote Emphasis On Matter Technology

It appears that a major risk identified by a former Snap employee related to Matter technology adoption is starting to materialize. IKEA, the largest global home furnishing company, recently launched 21 new smart home products for lighting, sensors, and control which we do not believe are Resideo products. The broad adoption of Matter eliminates the need for brand-specific hardware and makes smart home devices simpler and cheaper for mass adoption.

Former Snap Employee (2023)

*"**To be completely frank and honest with you, the products in general are very, very behind when it comes to innovation**. DIY hasn't taken off yet. Again, this is where maybe I'm jaded. I don't feel like I am. I feel like I'm reading this from a rational perspective. **I think that Snap is so far behind that they're never going to be able to truly catch up, especially once Matter takes off**."*

IKEA

IKEA is launching 21 new smart home products focusing on lighting, sensors, and control — all built to work with Matter, the universal smart home standard. The launch marks a significant step in making smart home technology easier to use, more affordable, and better adapted to real-life needs in the home. With this launch, IKEA is rebuilding its smart home system and product range from the ground up. The new launch reflects years of development and testing in real homes, and a growing understanding of how people want smart products to work in their daily life. The launch includes both new products and updates to existing categories – now built to work with Matter. This means IKEA smart products can connect with a wider range of devices and platforms, making it easier for customers to build a smart home across different brands. "Until now, smart home technology hasn't been easy enough to use for most people — or affordable enough for many to consider. This launch brings us closer to helping everyone feel ready and confident to get started," says David Granath, Range Manager at IKEA of Sweden.

The updated range focuses on three key segments*, that provide the building blocks of a smart home that's flexible, intuitive, and easy to expand over time.

Lighting – The new smart bulb range from IKEA. Comes in a variety of shapes, sizes, lumen levels and styles, including colour and white spectrum options, and dimmable features.

Sensors – motion, air quality, humidity and water leakage sensors designed to support wellbeing and prevent damage.

Control – Remotes that make it easy to control devices from a distance, and a smart plug that can turn any product into a smart product.

Source: IKEA press release, Nov 6, 2025, AlphaSense Interview, March 15, 2023.

Interview 2: Former Snap Employee

AlphaSense interviewed a former SVP of Marketing at SnapAV who worked there through the acquisition of Control4.

On DIY Disruption	*"**I think the DIY products have gotten better**. We tried to sit and talk about the value of everything working together and how amazing that is, but the disparate apps is not that challenging of a consumer experience. **I have to think that that's impacting our dealer's business**. By the way, I still want to buy amazing speakers, and I really want beautiful lights, and I want automated shades, but **I can get that from my dealer, and I don't have to have a Control4 system to manage it**."*
On Product Roadmap	*"From my point of view, Charlie is a blue-chip engineer, product management strategic guy who culturally was too big, I think, for Snap. There's a lesser person owning that that's less disruptive within the company, and so there's going to be less innovation coming out of the company. **I would imagine that that has radically impacted the product roadmap that Control4 was working against, fixing problems, coming out with lower cost products to make them more competitive. I think that has an impact. The product roadmap prioritization, problematic**."*
On Dealer Relations	*"**The other big thing that was very unwieldy was the integration of our dealer programs. We had ambition. They brought [inaudible] in to be able to combine our dealer programs in a manner that we treat our dealers as one. I think that was always elusive and we couldn't make that happen. There was weird Snap programs and Control4 programs, and I don't know if that got resolved. Three years after the fact, they definitely weren't. That messes with your channel in some way, shape, or form, and messes with your ability to drive loyalty and retain your dealer base. I think that was a problem**. As I mentioned on the sales side, the old-school Control4 sales guys just fighting against the dictates of the MBA-driven, consulting-driven management structure of Snap. **They lost some really great relationship salespeople**".*
On Growth Into Commercial Markets	*"**On the commercial side, they've been trying for a long time**. I know that they spoke to one of my companies It's an automation company for commercial. **That didn't pan out. The Control4 platform cannot work effectively in huge installs, and automation is an important component for commercial**."*

Source: AlphaSense Interview, March 28, 2022.

Control4 Growth Appears Stagnant

Control4 was a major part of Snap, accounting for ~30% of its revenue when it was merged in 2019. A review of Control4's website indicates that its growth has severely moderated. The number of homes with installed systems appears to have grown from 475k to 500k, or just 5% since 2021. Moreover the dealer and integrator partners has not grown at all since COVID-19 and comments from dealers about the integration increase the risk of churn. An industry blog details the controversy and angst among some of the dealers with the Snap/Control4 acquisition with a major concern being their relationship with the end client is being diminished and some vowing to shift away from Control4.(1)

Also, there's a growing trend towards rolling-up and consolidating smart home integrators which is backed with institutional capital. For example, Daisy, led by a former Goldman and McKinsey executive, raised $35m and has already expanded across the U.S. We view integrator consolidation as a negative as it could provide greater leverage against the Company.

Control4 Key Metrics On Website

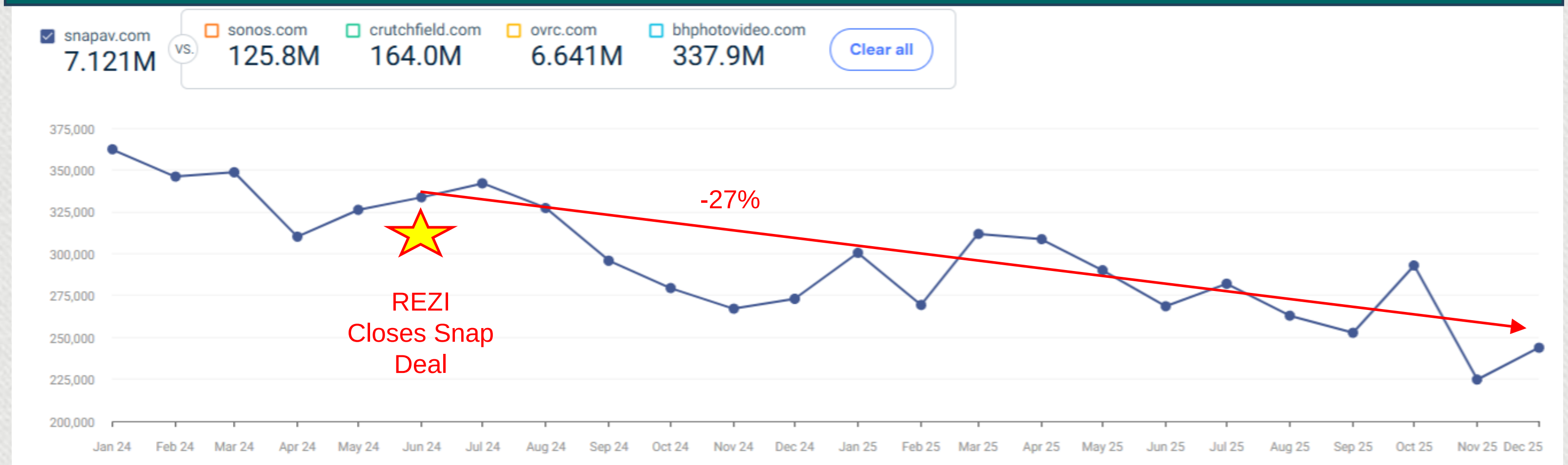
	2018	2019	2020	2021	2022	2023	2024	2025	Current
Interoperable 3rd party devices	11,000	12,000	14.000	"tens of thousands"	"tens of thousands"	"tens of thousands"	"tens of thousands"	"tens of thousands"	25,000+
Homes	--	--	400,000	**475,000**	**475,000**	**475,000**	**475,000**	**475,000**	**500,000**
Distributor/Dealer Integrators	5,500	5,700	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**
Countries	100	100	>100	>100	>100	>100	>100	>100	>100
Connected Devices	--	--	15M	15M	15M	15M	15M	15M	15M

1) Strate-gee.com blog
Source: Control4 and Wayback analysis.

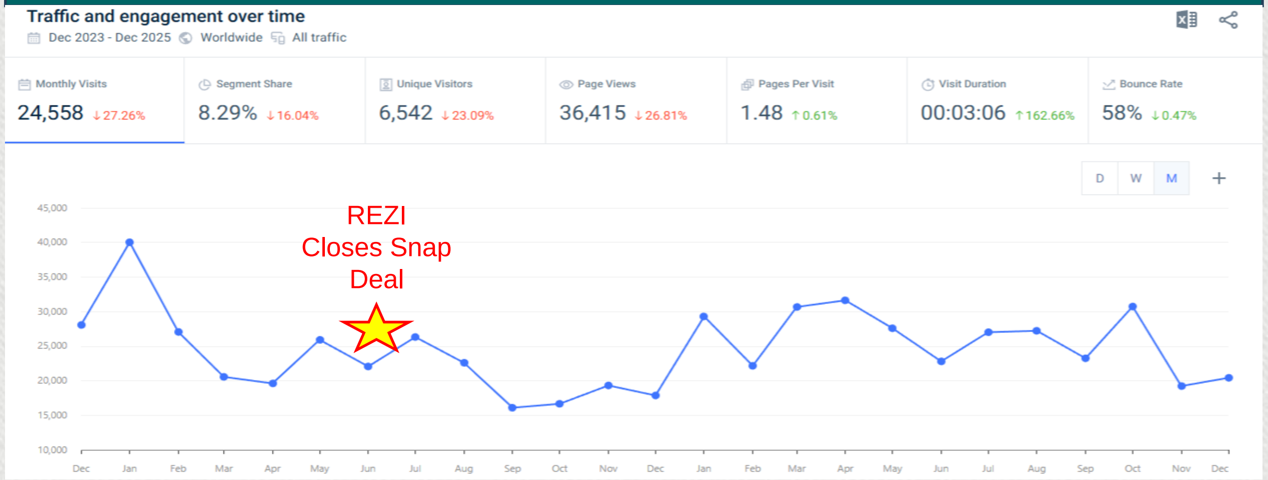
Snapav.com Web-Traffic Has Been Declining

Similarweb analytics shows a -27% decline in web-traffic to SnapAV's homepage and generally flat traffic to its order status page since REZI closed its acquisition.

Snapav.com



Snapone.trackorderstatus Sub-Link

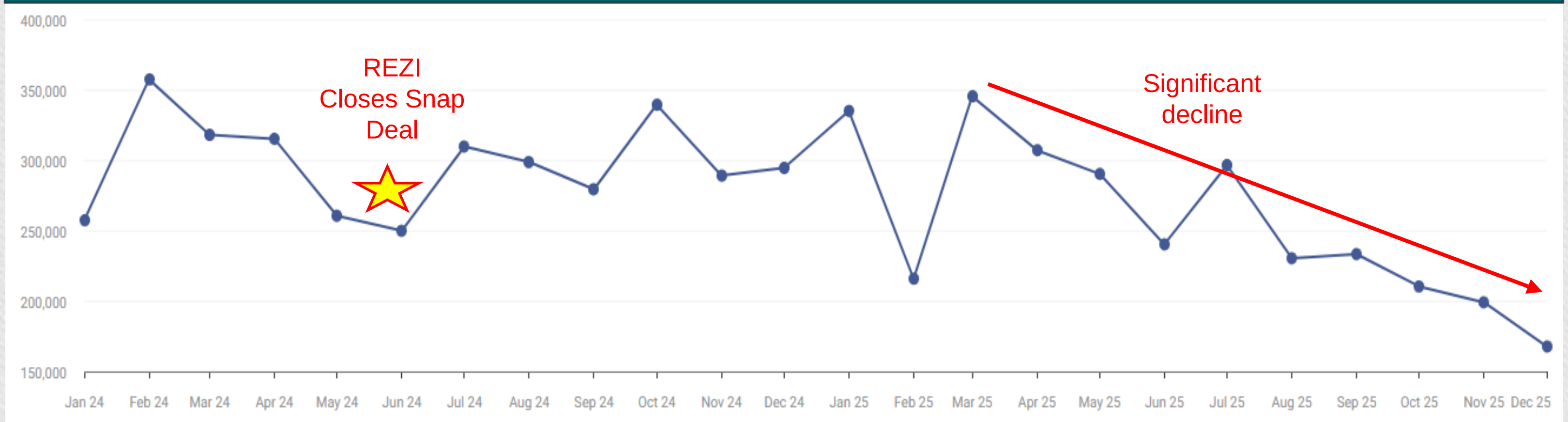


Source: Similarweb.com

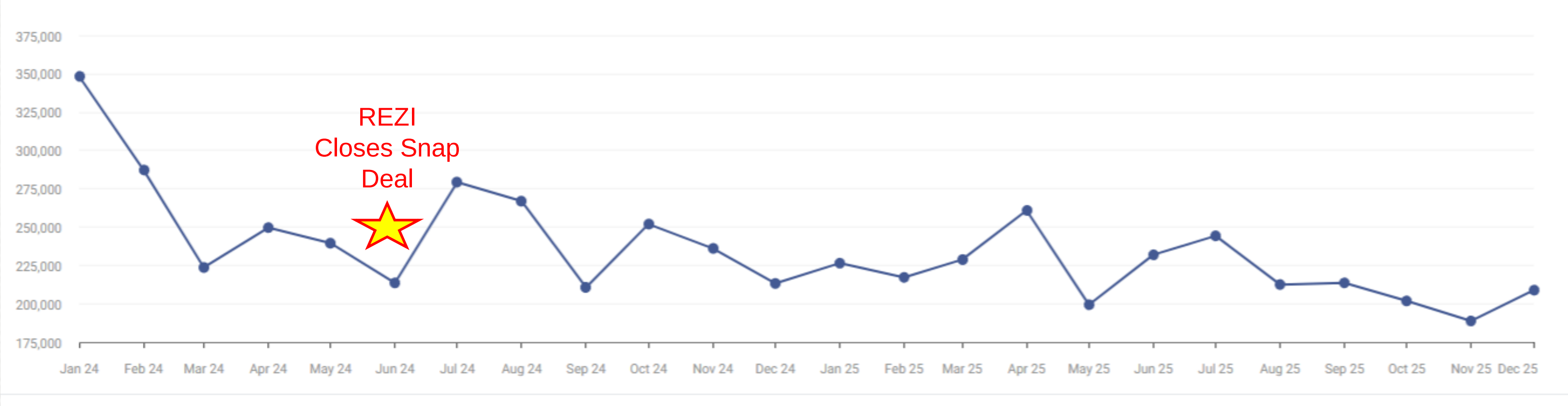
Other Snap Web-Traffic Site Have Been Declining

Control4 and OVRC, its professional remote management platform for Control4 dealers, are critical exclusive brands acquired through the Snap transaction. Similarweb analytics also show weak trends to each website.

Ovrc.com



Control4.com



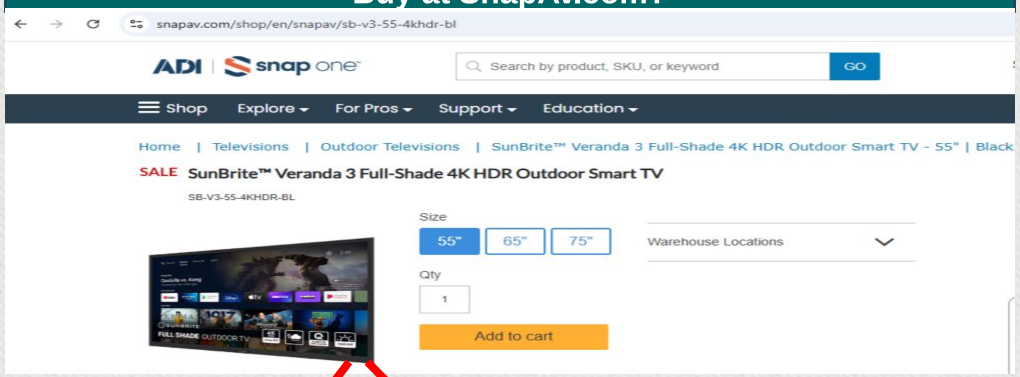
Source: Similarweb.com

SPRUCE POINT
CAPITAL MANAGEMENT

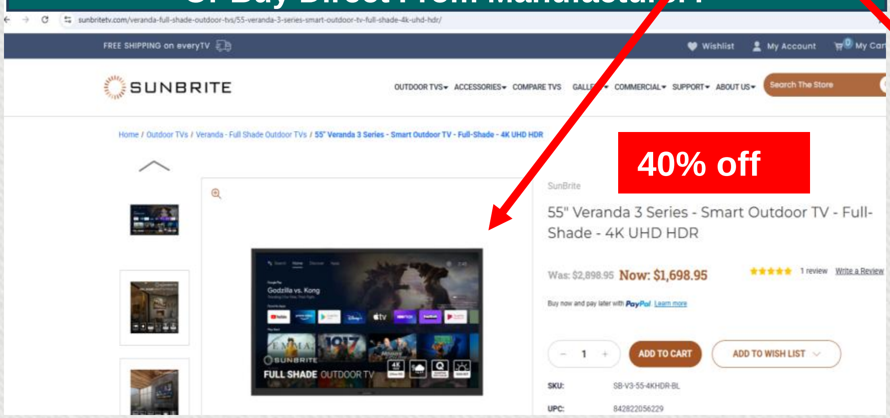
What Edge Does SnapAV (Part of ADI) Really Have?

REZI's "Exclusive Brands" growth story is not by accident. We believe it is because it has little edge in many brands it sells. As an example, why would a customer go through a middleman like SnapAV to purchase a TV when it can be purchased directly from the manufacturer at 40% off list price? Moreover, many products are also available through Amazon. At a minimum, it is easy for their customers to price compare Snap's products in categories such as cables, speakers, wires, cameras, wall mounts, etc.

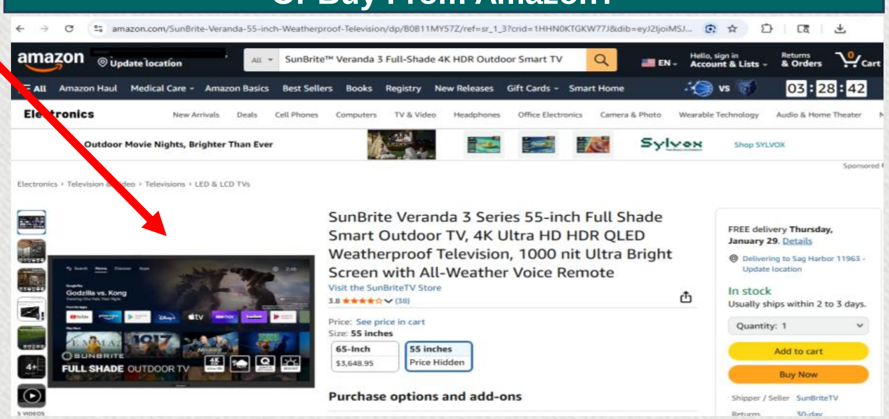
Sunbrite TV
Buy at SnapAv.com?



Sunbrite TV
Or Buy Direct From Manufacturer?



Sunbrite TV
Or Buy From Amazon?

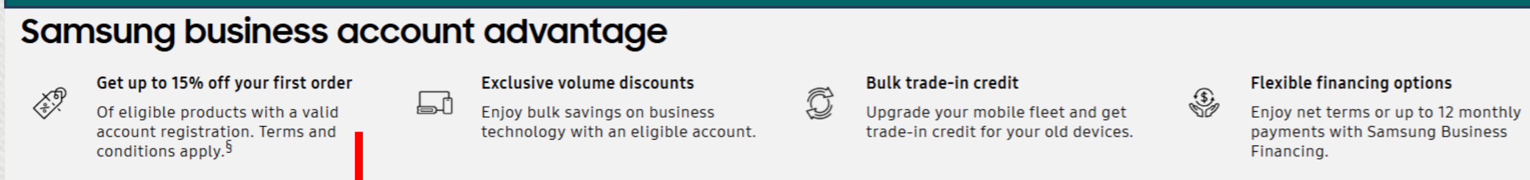


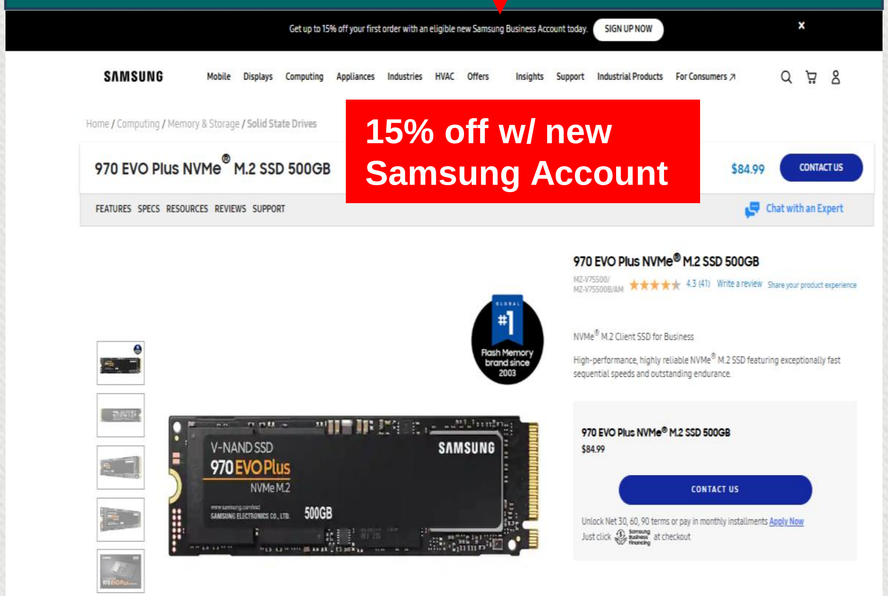
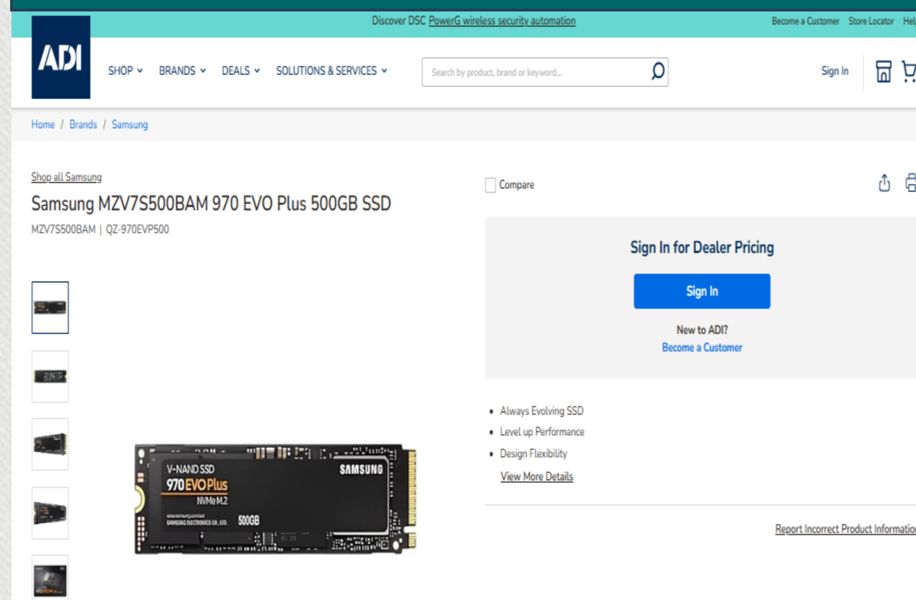
Source: SnapAv.com, Amazon, SunbriteTV

More Evidence That ADI Has A Weakening Edge

We believe the issues at SnapAV are just a microcosm of ADI's overall problem. For example, one of the growing issues can be seen with Samsung, which ADI lists as a "Featured Brand". Samsung also offers products direct and is actively promoting its "Business Account" program that offers volume discounts and financing options.

Targeted Benefits From Buying Direct At Samsung



Buy Direct From Samsung	Buy At ADI
	

Source: ADI and Samsung product and Business Account websites

Integrator Consolidation Is Accelerating

We see growing evidence that both ADI's supplier brands and its customers are gaining leverage and may be starting to squeeze it as a middleman distributor. There is now consolidation occurring among smart home design and integrators which is being backed by institutional capital. The biggest news has been the launch of Daisy in 2024 which is estimated to have acquired at least 10 companies already. We expect larger integrators to be able to extract larger price concessions and discounts in their purchasing and procurement from distributors like ADI.

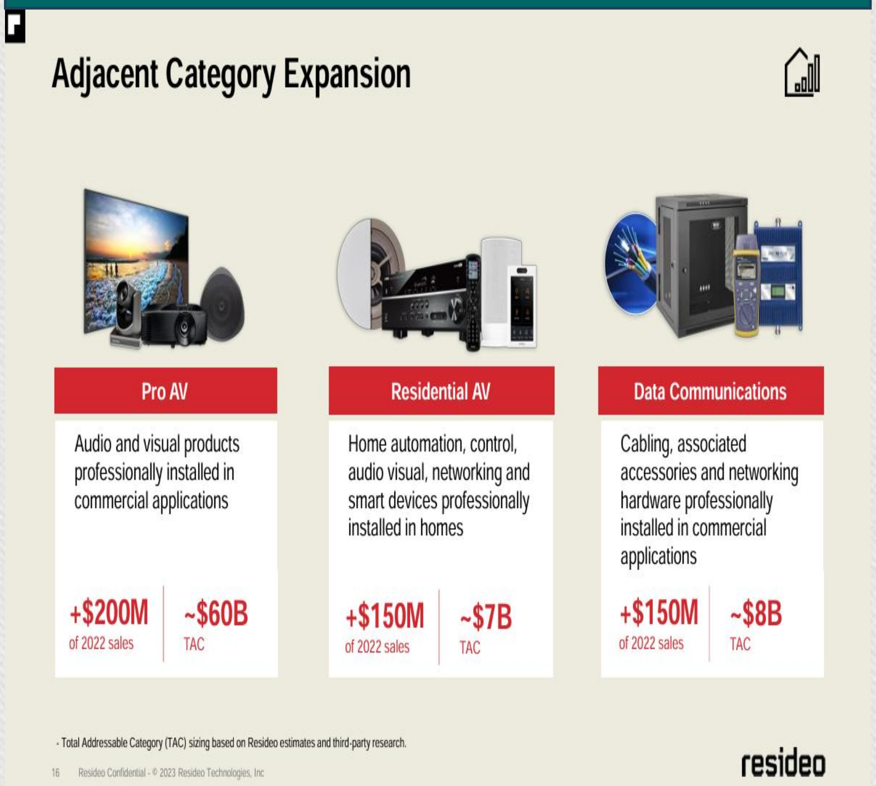
Recent Consolidators In Smart Home Integration				
Year	**Consolidator**	**Investors**	**Capital Raised $ mm**	**Description**
2019	Bravas LLC	Presidio Investors	$75	Merges 15 independent smart home design-build firms across the United States.
2024 2025	Daisy	Fifth Down Capital Goldcrest Bungalow Bullish Burst Capital	$35	Daisy is a roll-up of national home and small business technology installation and services company. Daisy partners with builders, architects, designers, and homeowners to create, install, and service optimal audio visual, lighting, shades, and security designs. Within roughly 12 months of launching, Daisy acquired at least 10 companies, expanding its footprint to 20+ locations across states including California, Florida, Connecticut, Colorado, Virginia, Arizona, and Massachusetts.

REZI's Growth Opportunities Appear To Be Sputtering

Category Expansion Goals Likely Disappointing

REZI started talking about adjacent category expansion more prominently in 2023 by focusing on Pro and Residential AV, along with Data Communications. Combined, REZI claimed sales were over $500 million in 2022, up 20% year-over-year. Ever since, REZI has not updated its product segment or combined revenue for these categories. However, based on recent commentary, it appears that growth has significantly flattened, with Datacom and Pro AV growing at low double digits, while Residential AV has seen flat growth. The Residential AV category performance is even more troubling given that REZI bolstered its capabilities with the Snap acquisition.

Adjacent Category Expansion
Last Shown Nov 2023



Commentary on Adjacent Category Expansion	
Q3'22 Nov 22	*"We continue to look at opportunities to expand ADI's presence in adjacent categories of audiovisual and data communications."*
Q4'22 Feb 23	*"We launched over 250 new SKUs and 3 new brands during 2022. Capture Advance, which includes NDAA-compliant video of wire for AV and datacom equipment and ADI Pro for wire access control and accessories. We will continue to build upon these offerings in 2023 and see meaningful revenue expansion opportunity for new SKUs and sales initiatives. ADI continues to execute on the strategy to expand into adjacent AV and datacom markets. **These categories accounted for over $500 million of revenue in 2022, up 20% year-over-year**."*
April 2024	*"**For the last number of years, we've been growing and building out our presence in the residential AV market**, and Snap One has been investing in the security market."*
Q2'24 Aug 2024	*"**The majority of the Snap products is in pretty much one area, right, residential AV**."*
Q4'24 Feb 2025	*"We continue to achieve healthy expansion into our strategic growth verticals of professional audiovisual and datacom."*
Q3'25 Nov 2025	*"**Both the datacom and Pro AV businesses each grew revenue by low double-digit percentage points year-over-year**."* *"**Growth in residential AV was flat year-over-year amidst continued softness in the market**."*

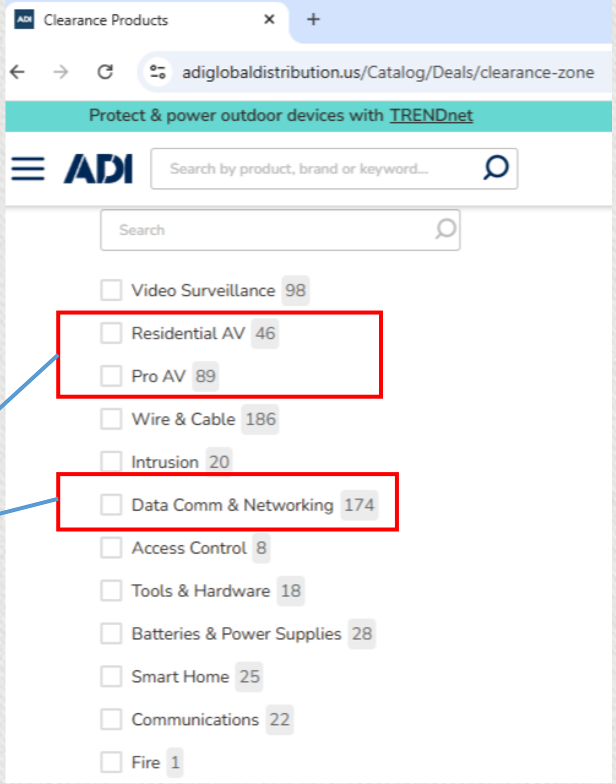
Source: Investor Presentation (Nov 2023) and Conference call statements.

Spruce Point Capital Management

Evidence of ADI And Adjacent Category Inventory Bloat

Rising inventory levels can also be seen directly on ADI’s website. Notably, the Company has a “Clearance Zone” under its deal tab. By using the Wayback Machine, we see that the total number of clearance items has been steadily rising. Furthermore, by clicking on product categories, we see that most of the products are in Data Comm & Networking and Pro AV, which are two of the adjacent growth categories that management has been touting.

Clearance Zone Items at ADI Global						
	Dec 2021	Nov 2022	Oct 2023	Aug 2024	July 2025	Jan 2026
Number of Clearance Items	412	211	338	607	728	699



Growth areas also have elevated level of clearance products

Source: ADI Global website and Wayback Machine

Ecommerce And Exclusive Brands Are Heavily Touted Growth Areas By Management

REZI has pointed investors to opportunities with its ecommerce sales and exclusive brands which it has said are faster growing and have higher margins. Management also recently claimed that its goals are to have touchless revenue at 60-65% of revenue and that exclusive brands can be a $1bn business. However, to have faith in these goals, REZI should provide reliable and consistent metrics for investors to track its progress. On the next slide, we detail our concerns with these growth opportunities.

CFO Trunzo Q4'23 Feb 2023	*"And we see that probably as maybe better than some of the other news in the distribution space largely because of the levers that we can pull still around price optimization and as importantly,* ***around our exclusive brands. Those products have dramatically higher margins than our average and they continue to grow at a much, much faster rate than the overall business****."*
Aarnes Nov 18, 2024	*"And then we've invested in a couple of software platforms that basically convert inbound e-mails to sales orders, which sales order automation is what it's called. That's another 10%, 12% of the business. If you throw all that together, in the next 5 years,* ***I want to have total touchless revenue somewhere north of 60%, 65%. All right?****"*
Aarnes Q1'25 May 2025	*"****E-commerce continues to be structurally accretive to the total ADI gross margin*** *and was a bigger contributor to first quarter's total gross profit dollars than last quarter. We continue to invest in providing a leading omnichannel experience that makes the buying experience easier and more streamlined for our customers."*
CEO July 30, 2025	*"Omnichannel capabilities, digitization, AI and automation have never been more important. ADI will continue to invest in these critical areas to further enhance e-commerce capabilities, expand our product offerings and grow our sales team with even greater effectiveness.* ***ADI will also focus on growing its portfolio of exclusive brands with the goal of building this to be a $1 billion business within ADI****."*

Source: REZI conference calls

Spruce Point Capital Management

Supposedly Faster Growing And Higher Margin Areas Are Weaking….

Despite claiming it can get ADI revenue to be 60-65% touchless, REZI stopped disclosing the percentage at the end of FY23. Moreover, reported organic ecommerce revenue appears to have received a big uplift during the first year of the Snap One transaction. However, in Q3'25 the growth rate declined dramatically back to just 3%. ADI (ex-Snap) exclusive brands organic revenue growth collapsed from 32% to 3% from Q2-Q3'25. If we include Snap exclusive products, organic revenue growth declined from 5% to 3% from Q2-Q3'25. **Overall, it appears that REZI's growth vectors are starting to meaningfully decelerate**.

Key Performance Metrics

	2023					2024					2025		
$ in mm	**Q1**	**Q2**	**Q3**	**Q4**	**FY**	**Q1**	**Q2 Snap closed**	**Q3**	**Q4**	**FY**	**Q1**	**Q2 Snap 1yr later**	**Q3**
Organic ecommerce	17%	9%	5%	1%	8%	1%	6%	18%	22%	N.A.	15%	19%	3%
% of ADI Revenue That Are Touchless (1)	39%		38%		38%	**No Longer Disclosed**							
% of Total ADI Revenue			19%			21%				20%			
Organic Exclusive Brands Revenue Growth						7%	18%	32%	34%(2)		26%	32%	**3%(2)**
Total ADI Exclusive Brands Revenue Growth (inc. Snap)												**5%**	**3%**

Sharp deceleration

Source: REZI SEC financials, Spruce Point analysis.
1) Touchless includes ecommerce, EDI and email-automation.
2) Not referenced as organic.

We View It As A Negative Signal That REZI No Longer Quantifies New Product Launches

Spruce Point Capital Management

There is a strong clue that ADI's revenue momentum will slow in the coming quarters. From Q3'24 through Q2'25, ADI President Aarnes referenced the number of new product and SKUs launched. However, in Q3'25 he conspicuously stopped referencing new product launches. This factor, along with REZI now signaling that third party services are being used to develop products, suggests to us that any revenue uplift from new product introductions is likely to slow.

New Product Quotes By ADI President Robert Aarnes	
Q3'24 Nov 7, 2024	*"And we're now to the point where if you take Snap out of the equation, look at our exclusive brands line. **We're launching over 200 new products a year across all of our categories**. That's driving a lot of that growth. That's part one."*
Q4'24 Feb 4, 2025	*"We are really excited about our exclusive brands. Net revenue increased 34% year-over-year, and **we launched almost 80 new products in the quarter**."*
Q1'25 May 6, 2025	*"The strategic benefit of the Snap One acquisition is evident as **the combined team launched almost 100 new products in the quarter**."*
Q2'25 Aug 5, 2025	*"**In the quarter, we added nearly 200 SKUs**. We also continue to be recognized for the value we deliver to the customer, notably being named the #1 top industry distributor in the CE Pro 100 brand analysis. With the inclusion of Snap One, total ADI Exclusive Brands revenue grew 5% year-over-year."*
Q3'25 Nov 5, 2025	**NOTHING……**

Source: REZI Earnings Conference Calls

Spruce Point Capital Management

Other Growth Opportunities Haven't Panned Out

The former CFO talked up REZI's water and air business in 2021 by saying it had identified attractive areas for growth. Fast forward to today, it's now obvious the growth never materialized.

CFO Promoting Water and Air Growth Opportunities

*"**Our recently completed P&S strategic planning process identified several attractive categories for growth, including water, indoor air quality and cross-platform solutions**."*

Water and Air Revenue

$ in mm	2021	2022	2023	2024	YTD'25
Water Revenue	$349	$322	$320	$309	$230
YoY growth	*18.7%*	*-7.7%*	*-0.6%*	*-3.4%*	*0.9%*
Air Revenue	$858	$953	$862	$858	$630
YoY growth	*12.7%*	*11.1%*	*-9.5%*	*-0.5%*	*-0.6%*

Source: REZI SEC filings

Troubling Financial Reporting And Accounting Tactics Undermine Confidence In REZI's Glowing Non-GAAP Results

Instability In The CFO And CAO Role

In REZI's short public life since late 2018 of just seven years, the Company's CFO and CAO roles have been a virtual revolving door with turnover in the function approximately every two years. We believe this is troubling given our observations about financial reporting and accounting anomalies and inconsistencies.

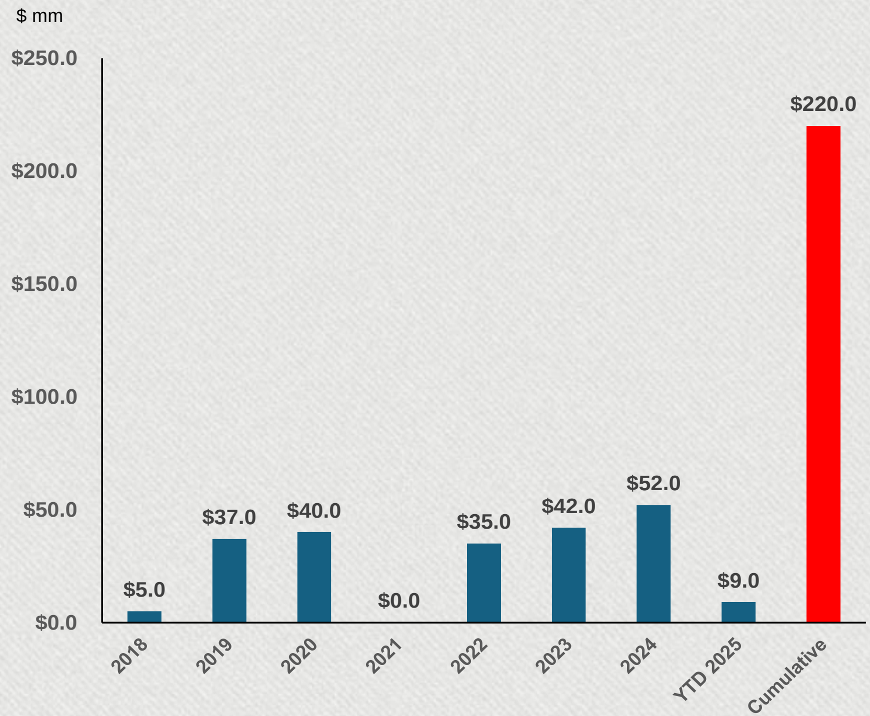
Role	Executive	Period
Chief Accounting Officers	Joe Ragan III	Pre Nov 2019
	AnneMarie Geddes	Oct 2019 – Nov 2021
	Tina Beskid	Through March 2025
	Michael Carlet (also CFO)	March 2025 – July 2025
	Jeff Kutz	July 21, 2025 – Current
Chief Financial Officers	Joe Ragan III	Nov 2019
	Bob Ryder (interim)	Oct 2019 – June 2020
	Tony Trunzo	June 2020 – Aug 2024
	Michael Carlet	Aug 2024 – Current

Source: REZI SEC filings

We Believe REZI's Non-GAAP Financials Are Inflated By Necessary And Recurring Costs

We question the legitimacy of REZI's Adj. EPS and Adj. EBITDA presentation. We do not believe these are simply one-off items to be excluded from financial results. Rather, we see these as on-going and recurring costs which are necessary to fix REZI's complex and ailing operations. Since its spin-off, REZI has reported a total of $220m of charges. The restructuring add-backs are material to its Non-GAAP financial results at ~10% in the past two years. According to a former executive we spoke with, these were legacy issues which were not likely to have been completely unknown by the management team from the 2018 spin-off.

Restructuring Costs Since 2018 Spin-off



Restructuring Add-Backs To Recent Results Eight Line-Time Adjustments

	Twelve Months Ended	
	December 31, 2024	December 31, 2023
GAAP Net income per diluted common share	$ 0.61	$ 1.42
Intangible asset amortization	0.54	0.26
Reimbursement Agreement accrual increase, non-cash component(1)	0.48	0.26
Stock-based compensation expense	0.40	0.30
Restructuring, impairment and extinguishment costs, net	0.35	0.28
Acquisition and integration costs	0.30	—
Undistributed income allocated to preferred stockholders	0.04	—
Other(2)	0.13	(0.07)
Tax effect of applicable non-GAAP adjustments(3)	(0.56)	(0.26)
Non-GAAP Adjusted net income per diluted common share	$ 2.29	$ 2.19

Materiality		
Restructuring charges As % of Non-GAAP EPS (1)	**11.5%**	**9.6%**

1) Charges are taxed at 25% per REZI's disclosure.
Source: REZI SEC filings and Spruce Point analysis.

Spruce Point Capital Management

We Estimate That Net Income Has Been Cumulatively Overstated By $142m By Income Tax Reporting

Tax reporting is an area of accounting that requires significant judgement. Companies often report cash taxes paid at the bottom of the cash flow statement. There can be year-to-year differences between reported and cash amounts due to timing of audits, investigations and refunds. We evaluate REZI's income tax expense vs. cash taxes paid, net over the long run and should expect them to be roughly equal. However, since 2021 REZI has been reporting less GAAP income taxes than cash taxes paid. Cumulatively, the amount of taxes under-reported on the income statement relative to cash taxes paid is ~$142m. Therefore, we argue that Net Income has also been cumulatively overstated by the corresponding amount.

REZI Tax Analysis

$ in mm	Location	2019	2020	2021	2022	2023	2024	YTD 2025	Cumulative
Cash Taxes, Net of Refunds	Bottom of Cash Flow St. or Note 17	$86	$32	$107	$159	$123	$162	$76	$745
Provision for Income Taxes	Income Statement	$35	$64	$111	$135	$103	$105	$50	$604
Difference		**$51**	**($32)**	**($4)**	**$24**	**$20**	**$57**	**$26**	**$142**

New Disclosure Starting In 2022

Uncertain tax positions

The table below sets forth the changes to our gross unrecognized tax benefit as a result of uncertain tax positions, excluding interest and penalties for the years ended December 31, 2022, 2021 and 2020. We do not anticipate that the total unrecognized tax benefits will change significantly within the next twelve months.

	Years Ended December 31,		
(in millions)	2022	2021	2020
Unrecognized tax benefits at beginning of year	$ 16	$ 10	$ 6
Additions based on tax positions related to the respective year	6	6	4
Unrecognized tax benefits at end of year	$ 22	$ 16	$ 10

Source: REZI SEC filings, Spruce Point analysis.

Auditor Changes At Large Loss-Making Entities

While we understand the need for cost rationalization at REZI, we don't believe it should come at the expense of the audit fees given multiple reporting anomalies identified. Despite acquiring over $1.5bn in revenue, the audit fee has barely increased. **We also have concerns around recent multiple auditor changes at three Ademco U.K. entities from Deloitte to Grant Thornton. These three entities generated combined losses of £84m in 2024 and involved large restructuring and reversal impairment charges related to intercompany entities.** One U.K. entity is being audited by Azets. In unrelated news, the U.K. Financial Reporting Council is investigating audits by both firms related to Stenn, the UK invoice-financing firm that collapsed.

REZI Audit Fee Analysis

$ in mm	2022	2023	2024
REZI Audit Fees to Deloitte	$6.0	$5.6	$6.2
Snap One Audit Fee (2024, $1bn revenue)	$2.1	$2.2	N.A.
First Alert + bolt-ons (2022-24, $570m+ revenue)	N.A.	N.A.	N.A.

Change of Auditor From Deloitte To Grant Thornton At Three U.K. Entities Controlled By REZI

GrantThornton

Independent auditor's report to the members of Ademco 1 Limited

Other matter

The financial statements of Ademco 1 Limited for the year ended 31 December 2022 were audited by Deloitte LLP who expressed an unmodified opinion on those statements on 13 September 2023.

Other matter

The financial statements of Ademco 2 Limited for the year ended 31 December 2021 were audited by Deloitte LLP who expressed an unmodified opinion on those statements on 14 December 2022.

Other matter

The financial statements of Ademco 4 Limited for the year ended 31 December 2021 were audited by Deloitte LLP who expressed an unmodified opinion on those statements on 16 March 2023.

REZI Subsidiary Audited By Azets

SNAP ONE EMEA LIMITED

COMPANY INFORMATION

Auditor	Azets Audit Services Limited Statutory Auditor Triune Court York YO32 9GZ

Source: Companies House U.K. FTC.org.uk, REZI and SNPO proxy statements.

Multiple Changes To Snap's Inventory & Customer Relationship Valuation Post Closing

Snap's inventory was marked down twice by a total of $23 million. This is more than the reserve that was carried on Snap One's balance sheet which was historically ~$15 million. **<u>This suggests that Snap's earnings may have been inflated by under-reserving for obsolete inventory</u>**. Also, we observe that REZI has given sporadic disclosure about the assumption of its intangible asset amortization assumptions. Notably, it increased the most value to customer relationships and increased the amortization period from 10 to 12 years. On the next slides, we'll illustrate why we believe this is an aggressive assumption that inflates reported results.

	Snap One Financials	Resideo Financial Reporting					
$ in mm	Standalone Q1 3/31/24	Preliminary Closing 6/14/24	Q2 2024	Q3 2024	10-K 2024	Q1 2025	Q2 2025
Cash	$41.3	--	$47.0	$47.0	$47.0	$47.0	$47.0
Accounts Receivable	$45.3	$45.0	$49.0	$49.0	$49.0	$49.0	$49.0
Inventory	$249.2	**$263.0**	**$250.0**	**$240.0**	$240.0	$240.0	$240.0
Goodwill	$592.2	--	$393.0	$405.0	$405.0	$396.0	$396.0
Intangibles (A)	$492.7	$690.0	$770.0	$770.0	$770.0	$770.0	$770.0
Accounts Payable	$59.2	$59.0	$48.0	$48.0	$48.0	$48.0	$48.0
Accrued Liabilities	$58.5	$90.0	$73.0	$70.0	$70.0	$69.0	$69.0
(A) Assumptions							
Customer Relationships		**$530.0 10 years**	**No Disclosure**		**$590.0 12 years**	**No Disclosure**	
Technology		$100.0 5-10 years			$110.0 7 years		
Trade names		$60.0 10 years			$70.0 10 years		

Source: Preliminary 8-K, Note 4, Snap One Q1'24 10-Q, and REZI SEC filings

Our Analysis Suggests That REZI's Customer Relationship Assumption May Be Inflated

Based on peer data and an expert interview, we believe that Resideo's average customer life assumption of 12 years in the Snap One transaction to be extremely aggressive and well beyond the 7 – 8 years supported by our analysis. Snap One disclosed competitors Alarm.com, Alphabet, Amazon, Apple, Crestron, Lutron, Savant, Sonos, and Ubiquiti. Snap One's largest public acquisition in 2019 prior to its IPO was Control4 (Nasdaq: CTRL) which was ~30% of its revenue. Based on public company disclosures, we observe the average customer relationship amortization period to be ~7 years. Based on a recent interview of an executive at a major security company (similar home services) that moved away from Alarm.com and Resideo, the average customer life is 7 – 8 years.

VP, Large Public Security Company	*"You churn through every seven or eight years is how long customer lasts on average. We decided to move away from both Alarm.com and Resideo, not primarily for price reasons, although the equipment and the software is cheaper than those, but because we wanted control of what our product offering was so we could differentiate ourselves."*

Amortization Period Assumptions

$ in mm	Alarm.com	Sonos	Control 4 (pre-merger)	Peer Average	Snap One IPO	REZI Assumption
Customer Relationships	5.3	--	8.4	**6.9**	5 – 25	**12**
Technology	4.0	4.5	6.9	**5.1**	5 – 15	**7**
Trade names / marks	3.0	3.5	12.0	**6.2**	2 – 10	**10**

Source: AlphaSense expert interview, November 17, 2025. Snap One IPO Prospectus, Alarm.com, Sonos, Control4

Spruce Point Capital Management

Sensitivity Analysis of Customer Relationships Shows Material Impact On Pre-Tax Income

We believe that REZI's pre-tax income in the YTD 2025 period is inflated by 8-12% by making overly aggressive assumptions about the average customer life from the Snap One transaction.

Sensitivity Analysis of Customer Life Assumption To YTD 2025 Pre-Tax Earnings

$ in mm	As Reported	7-Year Life	8-Year Life
Customer Relationship Intangibles	$590	$590	$590
Years Assumed	12	7	8
Annual Amortization Expense	$49.2	$84.3	$73.8
Incremental Annual Expense	--	$35.1	$24.6
Pre-Tax Adjusted Earnings (1)	$224.0	$224.0	$224.0
Less: Incremental Amortization Expense For 9 Months	--	($26.3)	($18.4)
Spruce Pt. Adj. Pre-Tax Earnings	**$224.0**	**$197.7**	**$205.6**
% Decline	**--**	***-12%***	***-8%***

1) Adjusted for incremental expense of the Honeywell Indemnification Agreement termination of $837m.
Source: REZI SEC filings and Spruce Point analysis.

We Find Something Seriously Wrong With REZI's Financial Reporting And Revenue Explanations

Spruce Point has identified a glaring issue with REZI's revenue and EBIT disclosure in 2023. The Company divested Genesis Cable on October 16, 2023 which was included in the Products and Solutions segment. When discussing the factors driving the segment's decline in revenue and EBIT, the Company failed to account at all for the divestiture. Based on 2024 disclosures, we estimate that Genesis had ~$126m of revenue or ~$22m of impact to the 2023 revenue decline. **Complicating matters, REZI reported that segment EBIT declined by -$32m, but gave explanatory figures that indicated the total decline was -$114m.**

2023 Product and Solutions Segment Discussion		
$ in mm	**Disclosure**	**Spruce Point Analysis**
2023 Revenue	*"**Products and Solutions revenue decreased $111 million**, or 4%, mainly due to lower sales volume of $307 million and unfavorable foreign exchange fluctuations of $5 million, partially offset by price increases of $102 million and $99 million of revenue from First Alert, Inc."*	**Management did not specify that the Genesis divestiture was a likely cause of this decline**. We estimate $22m of the decline was from the sale which closed on 10/16/23. The total figures explained sum to $111m. REZI called out acquisition revenue, but not divestiture revenue. If they ignored the lost sales from Genesis than the numbers are not accurate. **Genesis Divestiture: ??** Lower sales volume: ($307) Unfavorable FX: ($5) Price increase: $102 First Alert acquisition: $99 **Total Effect: ($111)**
2023 EBIT	"***Income from operations decreased $32 million**, or 6.1%, from the same period in 2022, primarily due to lower sales volume of $166 million, restructuring expense of $27 million, and unfavorable price/mix of $38 million from mix shifts to lower priced products. Partially offsetting the unfavorable impacts to income from operations were $97 million of lower manufacturing input costs, primarily material and freight, due to the inflationary environment stabilizing and $20 million from the First Alert, Inc. acquisition.*"	Income from operations did decline from $527m to $495m or -$32m However, the explanatory factors do not reconcile: **Genesis Divestiture: ??** Lower sales volume: ($166) Higher restructuring: ($27) Price / Mix shift: ($38) Favorable Mfct'g costs: $97 First Alert acquisition: $20 **Total Effects: ($114)**

Source: REZI SEC filings, "*Resideo Completes Sale of Genesis Cable Business,*" Oct 16, 2023, press release. For 2024, Resideo said, "*The increase was partially offset by $105 million of lower sales from the divestiture of the Genesis business in 2023.*"

Why Does REZI Keep Shifting How It Describes Its Capex?

Recall, previously we pointed out REZI's frequent capex misforcasting. We see a major red flag that REZI has made four separate revisions to its capex nomenclature on the Consolidated Statement of Cash Flow. The revisions make it appear as if REZI is trying to obscure its technology spending which we view as enormously important given its recent disclosure of ERP challenges and the importance of technology in its product and service offerings.

Clear And Separate Disclosure

	Years Ended December 31,		
	2018	2017	2016
	(Dollars in millions)		
Cash flows used for investing activities:			
Expenditures for property, plant and equipment	(64)	(49)	(60)
Expenditures for software	(17)	(2)	(11)
Payments related to amounts due from related parties	-	(13)	(12)
Cash paid for acquisitions, net of cash acquired	-	-	(120)
Proceeds received related to amounts due from related parties	7	13	12
Net cash used for investing activities	(74)	(51)	(191)

"And Software"

	Years Ended December 31,		
	2019	2018	2017
Cash flows used for investing activities:			
Expenditures for property, plant, equipment and software	(95)	(81)	(51)
Cash paid for acquisitions, net of cash acquired	(17)	-	-
Other	-	7	-
Net cash used for investing activities	(112)	(74)	(51)

"Other Intangibles"

	Years Ended December 31,		
	2020	2019	2018
Cash flows (used for) provided by for investing activities:			
Expenditures for property, plant, equipment and other intangibles	(70)	(95)	(81)
Cash paid for acquisitions, net of cash acquired	(35)	(17)	-
Other	2	-	7
Net cash used for investing activities	(103)	(112)	(74)

"Capital Expenditures"

	Years Ended December 31,		
(in millions)	2022	2021	2020
Cash Flows From Investing Activities:			
Capital expenditures	(85)	(63)	(70)
Acquisitions, net of cash acquired	(665)	(11)	(35)
Other investing activities, net	(14)	9	2
Net cash used in investing activities	(764)	(65)	(103)

Source: REZI SEC filings and Spruce Point analysis.

Property Reallocation May Flatter Segment Margins

Spruce Point observes unusual and unexplained changes to REZI's property disclosures between 2023 and 2024. Our suspicion is that REZI used its discretion to allocate greater overhead costs to the P&S segment to flatter ADI segment margins.

REZI's Item 2. Properties Disclosure In The 10-K Annual Report				
	2021	**2022**	**2023**	**2024**
Manufacturing	16	20	20	17
Distribution Centers	5	4	3	4
Branches	--	--	--	--
Other	--	--	--	37
Total P&S Segment (A)	**21**	**24**	**23**	**58**
Manufacturing	--	--	--	--
Distribution Centers	2	5	5	24
Branches	188	175	169	198
Other	--	--	--	27
Total ADI Segment (B)	**190**	**180**	**174**	**249**
Jointly Operated (C)	49	48	56	**??**
Corporate (D)	3	3	3	3
Total = A to D	**263**	**255**	**256**	**310**
Snap One Acquisition				
Executive HQ	--	--	--	2
Distribution	--	--	--	6
Branches	--	--	--	45
Total Snap Properties	**--**	**--**	**--**	**53**

After claiming there were 56 properties owned or leased jointly by both segments in 2023, REZI appears to now allocate them as "Other" properties to each segment. The allocation method is not explained but more were put in P&S than ADI.

REZI may have reclassified certain Snap One locations. For example, distribution centers increased from 5 to 24 (+19) despite Snap One only reporting 6 centers. Also branches rose +29 despite Snap One contributing 45 from the acquisition.

Source: REZI and SNPO SEC Filings.

Shifty R&D Expense Reporting

REZI has shifted its reporting of R&D three times. First, it reported these costs within Cost of Goods Sold, then within SG&A and now provides separate line-item disclosure. The obvious effect of this reclassification is to improve Gross Margins which was a promoted long-term goal in 2021 that subsequently fell short.

R&D Reporting Disclosure	
2019	*"Research and Development—The Company conducts research and development activities, which consist primarily of the development of new products as well as product applications support to existing customers with installed base and enhancements and improvements to existing products. Research and development costs primarily relate to employee compensation and consulting fees which are charged to expense as incurred.* ***Such costs are included in Cost of goods sold and amount to $139 million, $105 million and $120 million for the years ended December 31, 2019, 2018 and 2017, respectively****."*
2020	*"On January 1, 2020, we changed our classification of research and development expenses from Cost of goods sold to Selling, general and administrative expenses, such that research and development expenses are excluded from the calculation of Gross profit. This change had no impact on Net income (loss) and earnings (loss) per share or the Consolidated Balance Sheet, Consolidated and Combined Statements of Cash Flow or Equity. The Company determined the impact on previously issued consolidated and combined annual and interim financial statements was not material. The impact for the years ended December 31, 2019 and 2018,* ***was a decrease in Cost of goods sold and an increase in Gross profit and in Selling, general and administrative expenses of $87 million and $59 million, respectively****. The impact of the reclassification for the year ended December 31, 2019 is also reflected in Note 7. Restructuring Charges of Notes to Consolidated and Combined Financial Statements."*
2021	*"* ***The prior year Consolidated Statements of Operations were reclassified to present Research and development expenses as a separate line item within the statements****. Research and development expenses were formerly included within Selling, general and administrative expenses."*

Source: 2019, 2020, 2021 10-K

Intersegment Revenue Disappeared; CFO May Have Understated Its Significance

We are troubled by the recent omission of intersegment revenue reporting without an explanation that we can identify and by the CFO's recent insistence it was "single digits". Intersegment revenue is important for accessing a company's internal functioning and efficiency and how much segments rely on each other to allocate resources. Moreover, it creates the potential for manipulation of results or hiding underlying problems in one or both segments. While REZI may have a legitimate reason for this change, the lack of transparency and change without explanation, we believe to be a major red flag. We also believe intersegment revenue may have implications for the corporate split since the terms of the intersegment revenue have the potential to be at off-market terms and may carry artificially high margins for reporting purposes.

2021 Segment Results

	Years Ended December 31, 2021	2020	2019
Revenue			
Total Products & Solutions revenue	$ 2,841	$ 2,488	$ 2,487
Less: Intersegment revenue	373	367	312
External Products & Solutions revenue	2,468	2,121	2,175
External ADI Global Distribution revenue	3,378	2,950	2,813
Total revenue	$ 5,846	$ 5,071	$ 4,988

2022 Segment Results

(in millions)	Years Ended December 31, 2022	2021	2020
Net revenue			
Products and Solutions	$ 2,783	$ 2,468	$ 2,121
ADI Global Distribution	3,587	3,378	2,950
Total net revenue	$ 6,370	$ 5,846	$ 5,071

??

CFO: July 30, 2025

*"**It's single digits**, the amount of volume that goes back and forth on each side, the amount of revenue for ADI and P&S that is intercompany is in a single digit. So, it's a significant, but it's not huge."*

Source: REZI SEC filings

Less Transparency In Segment Reporting (cont'd)

We are troubled by REZI's recent reporting omission of segment and corporate depreciation and amortization expense. The Company recently included a statement that assets by segment are not used to allocate resources. If so, then how can it reliably allocate capex by segment and why should it even be reported? Management reports segment income but apparently does not consider a metric like return on assets by segment a useful metric for evaluating its performance.

New Disclosure 2024 10-K

"Disaggregated assets by segment are not used to allocate resources or to assess performance of the segments and therefore, segment assets have not been disclosed."

2023 Segment Reporting

No Longer Disclosed

(in millions)	Years Ended December 31, 2023	2022	2021
Depreciation and amortization			
Products and Solutions	$ 71	$ 69	$ 65
ADI Global Distribution	18	14	11
Corporate	9	11	12
Total depreciation and amortization	$ 98	$ 94	$ 88

(in millions)	Years Ended December 31, 2023	2022	2021
Capital expenditures			
Products and Solutions	$ 77	$ 55	$ 37
ADI Global Distribution	26	29	24
Corporate	2	1	2
Total capital expenditures	$ 105	$ 85	$ 63

Source: REZI SEC filings

Concerns With Restructuring Reporting

REZI appears to be retroactively moving restructuring charges to suit their purpose or making careless reporting errors. For example, by H1 2023 the Company reported a total of $4m of charges in the Product & Solutions segment. In Q3, they reported $10m of charges in the ADI segment but said $12m of charges had been reported in the nine-month period. This implied that $2m of charges were in ADI in H1 2023. Based on all the disclosures, this does not appear to be correct.

2023 Restructuring Charge Discussion	
Q1'23	*"In the fourth quarter of 2022, we executed multiple restructuring programs to lower costs, increase margins and position us for growth.* ***For the three months ended April 1, 2023, our Products and Solutions segment incurred additional restructuring expenses of $2 million primarily related to employee termination cost****."*
Q2'23	*"In the fourth quarter of 2022, we executed multiple restructuring programs to lower costs, increase margins and position us for long-term growth.* ***For the three and six months ended July 1, 2023, our Products and Solutions segment incurred additional restructuring expenses of $2 million and $4 million****, respectively, primarily related to employee termination costs."* **Spruce Point Note**: **No charges reported in ADI Global or Corporate.**
Q3'23	*"During the third quarter of 2023, we initiated additional restructuring programs ("2023 Plan") in order to align our cost structure with market conditions. For the three and nine months ended September 30, 2023, we recognized restructuring and impairment expenses of $38 million and $42 million, respectively. These expenses primarily related to workforce reductions."* *"Restructuring and impairment expenses recognized were $25 million in the Product and Solutions segment,* ***$10 million in the ADI Global Distribution segment*** *and $3 million in the Corporate segment, respectively,* ***for the three months ended September 30, 2023****, and $27 million in the Product and Solutions segment,* ***$12 million in the ADI Global Distribution segment*** *and $3 million in the Corporate segment, respectively,* ***for the nine months ended September 30, 2023.*** *No restructuring and impairment expenses were recognized for the three and nine months ended October 1, 2022."* **Spruce Point Note**: This implies that $2m of ADI charges were in H1. But that's not possible based on the disclosures above.

Source: REZI SEC filings

Sum-of-The Parts Analysis Suggests 25% - 50% Downside Risk Potential To REZI's Share Price

Spruce Point Capital Management

Insider Ownership Trends Are Concerning

In the context of all our documented concerns, we observe that total insider ownership peaked in 2023 and has since been declining. If management is to sell investors on its vision that splitting up the Company has value, then we would prefer to see their ownership increase with more stock compensation or open market purchases. We are also concerned by the recent practice of issuing deferred share units to Board members. In our view, this could signal director dissent, retention or cash flow issues.

Beneficial Ownership of Insiders						
	2020	2021	2022	2023	2024	2025
Shares controlled	402,526	568,723	1,952,316	2,159,305	1,353,668	1,511,241
Right to acquire common stock	251,134	386,679	527,727	1,250,842	869,941	739,819
Total Ownership	**653,660**	**955,402**	**2,480,043**	**3,410,147**	**2,223,609**	**2,251,060**
Deferred Share Units (1)	**--**	**--**	**--**	**--**	**180,118**	**216,591**
All Insiders	**	**	**1.7%**	**2.3%**	**1.5%**	**1.5%**

Ownership in decline

May signal director dissent, retention or cash flow issues

Source: Proxy statements

1) Seven months after a director's termination of service on the Board, the non-employee director will be paid the balance in his or her deferred stock account through the issuance of common shares.

Key Insider Sold At Separation Announcement

We are troubled to see that ADI President Aarnes sold a large block of stock under a 10b5-1 program on the exact day that REZI's separation announcement was made on July 30, 2025. The program was disclosed on December 3, 2024 but had a feature which appears to have delayed its implementation until March 4, 2025 through December 31, 2025.

Aarnes Form 4 Stock Sale

1. Name and Address of Reporting Person*
Aarnes Robert B
(Last) (First) (Middle)
16100 N 71ST STREET
SUITE 550
(Street)
SCOTTSDALE AZ 85254
(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
RESIDEO TECHNOLOGIES, INC. [REZI]

3. Date of Earliest Transaction (Month/Day/Year)
07/30/2025

4. If Amendment, Date of Original Filed (Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer (Check all applicable)
Director
10% Owner
X Officer (give title below)
Other (specify below)
President, ADI

6. Individual or Joint/Group Filing (Check Applicable Line)
X Form filed by One Reporting Person
Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed Of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	07/30/2025		M(1)		47,000	A	$10.27	550,692	D	
Common Stock	07/30/2025		S(1)		47,000	D	$28	503,692	D	

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Securities Underlying Derivative Security (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Number of derivative Securities Beneficially Owned Following Reported Transaction(s) (Instr. 4)	10. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares				
Stock Option (right to buy)	$10.27	07/30/2025		M(1)			47,000	(2)	02/19/2027	Common Stock	47,000	$0	107,989	D	

Explanation of Responses:
1. Stock option exercise and sales effected pursuant to a Rule 10b5-1 trading plan adopted by the reporting person on December 3, 2024.
2. Fully vested.

Shares Sold On The Day of Separation Announcement

Resideo Announces Intention To Separate ADI Business, Creating Two Independent Public Companies

July 30, 2025

Separation Designed To Unlock Value and Enhance Operational Performance and Strategic Flexibility with Focused Business Models; Both Companies To Offer Distinct and Compelling Investment Profiles

Tax-Free Spin-Off Expected To Be Completed in Second Half of 2026

Expects Second Quarter 2025 Financial Results Will Be Above the High-End of its Second Quarter 2025 Outlook

Company To Host Conference Call Today at 8:30 a.m. ET

All 47,000 Shares Were Sold Under The Program

*"On December 3, 2024, Robert Aarnes, our President, ADI, adopted a Rule 10b5-1 trading agreement, **pursuant to which he may sell up to 47,000 shares** of the Company's common stock. The trading agreements is intended to satisfy the affirmative defense of Rule 10b5-1(c) under the Exchange Act. **The duration of the trading agreement is from March 4, 2025 to December 31, 2025**."*

Source: Form 4, 2024 10-K, Separation Announcement, Spruce Point red emphasis.

Leverage Is Ballooning As Performance Declines

Spruce Point observes that REZI's leverage has materially increased while cash flow available for debt reduction has decreased. We believe the increased leverage comes at the wrong time as REZI now faces extreme operational challenges to separate the Company while dealing with headwinds across its businesses.

Evolution of REZI's Financial Leverage

	Spin-off 12/31/18	Today 9/30/25	Change $ | %
Short and Long-term Debt (inc. leases)	$1,355	$3,587	$2,232 +164%
Honeywell Indemnity Obligation	$616	--	($616) -100%
7% Convertible Preferred Stock	--	$500	$500 --
Pension, Environmental, Tax Matters	$108	$215	$107 99%
Adjusted Debt	**$2,079**	**$4,302**	**$2,223** +107%
Spruce Point Adjusted LTM EBITDA (1)	$634	$776	+$142 +22%
Adjusted Debt / EBITDA	**3.3x**	**5.5x**	**+2.2x**
Cash and Equivalents	$265	$345	$80 +30%
Spruce Point Cash From Operations (2)	$485	$303	($182) -37%
Less: LTM Capital Expenditures	**($71)**	**($101)**	$30 +42%
Free Cash Flow For Debt Reduction	**$414**	**$202**	**($212) -51%**

1) Removes recurring restructuring costs and 2018 and 2025 separation costs.
2) See our analysis on the earlier slide

Source: REZI SEC filings and Spruce Point analysis

We See No Justification For REZI's Multiple Expansion

Given all the evidence we've presented of REZI's struggles, we argue that its multiple expansion is unwarranted. We believe management should not be given the benefit of the doubt that it can engineer a remarkable improvement by splitting up a complex entity that it previously failed to rationalize.

REZI's EV / NTM Revenue Multiple

Source: Bloomberg

Spruce Point Capital Management

Pro Forma Adjusted Capital Structure

We believe the market's current evaluation of REZI's capital structure is incorrect as it fails to treat the convertible preferred as in-the-money equity.

REZI's Current Capital Structure And Enterprise Value			
US$ in mm, except shares and per share figures (may not sum due to rounding)	Street	Adjusted	Spruce Point Adjusted
Stock Price	**$35.27**	--	**$35.27**
Common Stock, 10/24/25	149.7	--	149.7
Dilutive Options, PSU and RSUs	--	5.0	5.0
Currently Convertible Preferred Stock @ $26.92/share	**--**	**18.6**	**18.6**
Total Diluted Shares	**149.7**	**23.6**	**173.3**
Market Capitalization	**$5,280**	**$831**	**$6,112**
Current Leases	$55	--	$55
Current Portion of Short-Term Debt	$20	--	$20
Total Short-Term Debt	**$75**	**--**	**$75**
Long-Term Leases	$295	--	$295
4.0% Senior Notes due 2029	$300	--	$300
6.5% Senior Notes due 2032	$600	--	$600
6.35% Term B due 2028-2032	$2,337	--	$2,337
Pension, Tax Matters and Environmental Liabilities(1)	--	$215	$215
Total Long-Term Debt	**$3,532**	**$195(2)**	**$3,727**
Adjusted Total Debt	**$3,607**	**$195**	**$3,802**
Plus: 7% Convertible Preferred	$500	($500)	--
Less: Cash and Equivalents	($345)	--	($345)
Adjusted Enterprise Value	**$9,042**	**$526**	**$9,569**

Source: Company filings and Spruce Point analysis.

1) Note: 2024 10-K Note 7, Pension Plans discloses $102m of liabilities, 2025 10-Q Note 16 discloses $22m of environmental liabilities and $91m Tax Matters Agreement obligations.

2) Current portion of long-term debt reclassified to short-term debt of $20m.

We Believe REZI Trades At An Irrational Premium To Peers Given Inferior Growth And Margins

We compare REZI with a group of distribution and home technology product and services companies.

Peer Trading Multiples

US$ in mm, ex: share price

Name (Ticker)	Stock Price 1/26/2026	Adj Ent. Value	2025E EBITDA Margin	2025E Gross Margin	2025E OCF Margin	2025E Capex Margin	25-26E Revenue Growth	Ent / Value Revenue 2026E	Ent / Value Revenue 2027E	Total Debt / 2025E EBITDA
Distribution										
Wesco International (WCC)	$286.79	$20,132	6.6%	21.2%	2.5%	0.4%	6.6%	0.8x	0.8x	4.2x
Rexel (RXP FP)	$41.53	$17,492	7.9%	25.0%	3.6%	0.8%	3.0%	0.8x	0.7x	3.5x
Arrow Electronics (ARW)	$117.74	$9,130	3.5%	11.2%	0.4%	0.3%	4.2%	0.3x	0.3x	3.0x
ScanSource (SCSC)	$41.05	$940	4.3%	13.8%	3.3%	0.3%	2.7%	0.3x	0.3x	1.0x
		Median	5.4%	17.5%	2.9%	0.4%	3.6%	0.5x	0.5x	3.2x
		Average	5.6%	17.8%	2.4%	0.5%	4.1%	0.5x	0.5x	2.9x
Products and Solutions										
Allegion (ALLE)	$166.94	$16,397	24.9%	45.3%	17.9%	2.1%	6.3%	3.8x	3.6x	2.2x
ADT Inc. (ADT)	$8.07	$14,967	52.2%	81.0%	18.8%	3.3%	3.6%	2.8x	2.7x	2.9x
Generac (GNRC)	$167.11	$11,006	17.0%	38.7%	11.4%	3.5%	10.1%	2.3x	2.1x	2.0x
Fortune Brands (FBIN)	$56.81	$9,456	20.2%	45.1%	11.9%	2.8%	2.1%	2.0x	2.0x	3.1x
Alarm.com (ALRM)	$49.82	$2,969	19.9%	66.4%	18.8%	1.9%	4.1%	2.9x	2.7x	5.4x
Sonos Inc. (SONO)	$15.01	$1,636	4.9%	44.3%	NA	NA	6.7%	1.1x	1.2x	0.4x
Arlo Technologies (ARLO)	$13.33	$1,303	13.1%	44.5%	13.3%	2.7%	7.6%	2.3x	2.1x	0.1x
		Median	19.9%	45.1%	15.6%	2.8%	6.3%	2.3x	2.1x	2.2x
		Average	21.7%	52.2%	15.4%	2.7%	5.8%	2.5x	2.3x	2.3x
Resideo Technologies (REZI)	**$35.27**	**$9,042**	**11.0%**	**29.2%**	**-10.9%**	**1.9%**	**4.0%**	**1.2x**	**1.1x**	**4.4x**
Spruce Point Adjusted	**$35.27**	**$9,569**	**11.0%**	**29.2%**	**-10.9%**	**1.9%**	**3.0%**	**1.3x**	**1.2x**	**4.7x**

Source: Company filings, Bloomberg and Spruce Point estimates.

How REZI's Pro Forma Multiple Is Likely To Measure Against Peers

To more easily evaluate the newly separated REZI, we show what its gross margins, revenue growth, and revenue multiple look like relative to industry peers. We believe margin and revenue growth are two important factors for its multiple. Based on our analysis and estimates, while its ADI margins are above average, everything else is below industry average. For this reason, along with our forensic analysis detailing multiple reporting concerns, we believe REZI should be valued at a discount to industry peers.

	Distribution				Products and Services		
Company	**'26E Gross Margin**	**'26E Revenue Growth**	**EV / '26E Revenues**	**Company**	**'26E Gross Margin**	**'26E Revenue Growth**	**EV / '26E Revenue**
Arrow Electronics	11.2%	4.2%	0.3x	Generac	38.7%	10.1%	2.3x
ScanSource	13.8%	2.7%	0.3x	Sonos	44.3%	6.7%	1.1x
Wesco	21.2%	6.6%	0.8x	**Resideo: Products & Solutions**	**42.5%**	**3.0%**	**??**
Resideo: ADI	**22.1%**	**3.5%**	**??**	Arlo Tech.	44.5%	7.6%	2.3x
Rexel	25.0%	3.0%	0.8x	Fortune Brands	45.1%	2.1%	2.0x
				Allegion	45.3%	6.3%	3.8x
				Alarm.com	66.4%	4.1%	2.9x
				ADT	81.0%	3.6%	2.8x
Average	**18.7%**	**4.0%**	**0.5x**		**51.0%**	**5.4%**	**2.5x**

Source: Company filings, Bloomberg Consensus estimates, and Spruce Point analysis.

Spruce Point Capital Management

Spruce Point's Valuation Analysis Suggests 25% - 50% Downside Risk

We value REZI as if it were two separate business using the valuation multiple implied by the trading comps on the previous slide. We believe that the businesses should trade at a discount to peers given lingering legacy operational and financial reporting issues, along with growing complexity from recent M&A. We see 25% - 50% downside risk and expect REZI to underperform the technology and home services sectors.

$ in mm, ex: per share		Low Multiple	High Multiple
ADI Global	**2026E Revenue** *% growth*	**$4,880** *2.0%*	**$4,951** *3.5%*
	Multiple	**0.5x**	**0.6x**
	Enterprise Value	**$2,440**	**$2,971**
P&S	**2026E Revenue** *% growth*	**$2,698** *2.0%*	**$2,746** *3.8%*
	Multiple	**1.5x**	**1.9x**
	Enterprise Value	**$4,047**	**$5,216**
Combined	**Total Enterprise Value**	**$6,487**	**$8,187**
	Less: Adjusted Debt	$3,802	$3,802
	Plus: Pro Forma Cash[1]	($270)	($245)
	Equity Value	**$2,955**	**$4,630**
	Diluted Shares	173.3	173.3
	Share Price Target ***% Downside***	**$17.05** ***-52%***	**$26.72** ***-24%***

Factors Favoring Multiple Compression

- Possible disruption of intersegment revenue that P&S gets from ADI (last disclosed 2021, ~$373m). These revenues could be on off-market terms and being used to improve segment margins.
- REZI suffers from legacy operational complexity dating back to its ownership from Honeywell that does not appear to have been rectified with continuing restructuring expenses.
- REZI may still be digesting the recent acquisition of Snap One and dealing with other organizational changes such as the divesture of Grid Services Demand Response business. These overhangs may weigh on employee morale and cause turnover.
- Credibility concerns with management which heavily promoted the benefits of the combined company and is now selling the vision that each business is better managed separately.
- Potentially large continuing ERP costs that have only recently surfaced, but have apparently lingered for a long-time.
- Financial restatement risk from difficult to reconcile reporting.
- Declining insider ownership trends.
- Unknown leadership and management structure of the new entities.
- Uncertain outcome from Nebraska Attorney General suing Resideo for *"deceptive and unfair practices"* related to security products.

Note: Diluted share count includes 18.6m shares from convertible preferred stock.

1) We assume $75-$100m of transaction costs with the spin-off. In 2019, REZI disclose $80m of costs from the spin-off. See note 5 of the 2019 Adj. EBITDA bridge.