

2015 Was the Year of the Mega Deals

2015 will go down as the year of the "Mega Deals" in the manned guarding and the security electronics industries.

We'll get to the exciting news about what happened in the merger and acquisition arena for the mega companies a little later in this report, but first let's look at the security industry by the numbers.

Overall, the total electronics security and manned guarding industries grew at about the same rate as in prior years.

The Electronics Industry by the Numbers:

Michael Barnes, President of Barnes Associates, a well-known and respected M&A firm specializing in the electronic security industry, indicated the following in his popular Industry Overview Report at the Barnes-Buchanan conference (now in its 21st year) in Palm Beach in February 2016:

- Total U.S. revenues for the alarm monitoring/service and systems integration companies are now \$52 Billion - UP 5%
- Total U.S. installation revenue is now \$27 Billion - UP 4%
- Total U.S. alarm monitoring/service revenue is now \$25 Billion - UP 8%
- Some of the increase in the alarm monitoring comes from the MSO's (Multiple Service Offerings such as the cablecoms and telecoms) entering the market. The MSO's now account for about 5% of the total electronics security market share - up from 4% in 2014.

The Manned Guarding Industry by the Numbers:

Sourcing the Security Letter, Freedonia, IBIS World Reports and private files of Robert H. Perry & Associates, Incorporated, the following is information on the size, market share, and growth for the U.S. Manned Guarding industry:

- Total revenues for the Outsourced Manned Guarding market are \$22 Billion.
- Total revenues for the 4 industry leaders (each having revenues exceeding \$2 Billion) are now \$10.8 Billion - approximately 50% of the \$22 Billion market.
- Total revenues for the 3 foreign owned industry leaders are now \$8.3 billion - approximately 38% of the \$22 Billion market.
- The average organic growth for the 4 industry leaders is 7%
- The average growth for the industry is 4%

The Significant Mergers and Acquisitions in the Electronics Security and Manned Guarding Industries for 2015:

Electronics Security Industry:

- May 2015 - [Apollo Global Management buys Protection 1 and ASG](#); then merges the two companies under the Protection 1 brand. Apollo boasts \$163 Billion under management, making it one of the largest investment firms in the world. The combined revenues for Protection 1 and ASG are approximately \$650 million, with approximately \$40 million of RMR. See the February 2016 announcement below where Apollo is buying ADT, which will be combined with Protection 1.
- October 2015 - [Securitas acquires Diebold's North American Electronics Business](#). Diebold's revenue for this division was approximately \$330 million. The purchase price was approximately \$350 million, excluding debt, but including normal working capital. The multiple was about 11 times EBITDA. This acquisition is consistent with Securitas' worldwide strategy of increasing its technology as part of its total security offerings.

And there have been negotiations announced in 2016 for two mega deals; that, when/if completed, will have a significant impact on the direction of the electronics (and probably manned guarding) industries - especially the [Apollo/ADT proposed transaction](#):

- January 2016 - [Johnson Controls in advanced talks to acquire Tyco](#). This is more about a merger of manufacturers of security products than security services, but nonetheless has significant implications to the entire security industry, if completed.

THE BREAKING NEWS, AND CAUSING A LOT OF BUZZ IN THE INDUSTRY, IS THE ADT/APOLLO TRANSACTION - MANY PROFESSIONALS ARE CALLING IT A "GAME CHANGER"!!...

- February 2016 - [ADT to be acquired by Apollo Global Management](#) (see Apollo's purchase of Protection 1 and ASG above). When the deal closes, ADT will be merged with Protection 1. The combined companies will boast revenues of over \$4.2 billion with Recurring Monthly Revenue of \$318 million. The Wall Street Journal reports that this will be one of the biggest leveraged buyouts - takeover of a company using debt - in recent years.

Manned Guarding Industry:

- July 2015 - [Warburg Pincus, with over \\$35 Billion in assets under management, buys controlling interest in Universal Protection from Partners Group](#). A July 7th Moody's investor report indicated a \$1.21 Billion debt instrument. This along with rollover equity from the existing partners is to be used to buy controlling interest in Universal and buy Guardsmark.
- July 2015 - [Universal Protection buys Guardsmark](#). Guardsmark, with revenues of approximately \$500 million and a customer following of mostly Fortune 500 companies, was one of the most respected companies in the manned guarding industry. This acquisition put Universal past the \$2 Billion in revenues mark.
- October 2015 - [Universal buys ABM's manned guarding business](#). The ABM manned guarding security business is a division of ABM (NYSE:ABM), a multi service, facilities management company with combined revenues of approximately \$5 Billion. The manned guarding division had revenues of approximately \$400 million and was sold to Universal for \$131 million - pretax.
- December 2015 - [The Wendel Group buys AlliedBarton \(\\$2.2 Billion in run rate revenues\) from the Blackstone Group](#). The deal was first announced in

June and was finalized in December. Wendel paid 11.67 times EBITDA - most say a premium for a manned guarding company in today's market environment. The Wendel Group is a different type of buyer than most Private Equity Groups that have made investments in this space in the past. Wendel, a leading European listed investment firm established in France in the early 1700's, does not have a time line for holding its investments. Most private equity groups (such as Blackstone) have an investment window of 5 - 7 years; after which, they usually sell the business and return the profits to the investors in the fund.

Overview of Worldwide Announced Completed Transactions

There were 81 ANNOUNCED worldwide transactions for security companies in 2015, compared to 89 in 2014 and 93 in 2013. The international companies, who were the active buyers three years ago, were again mostly on the sidelines for guarding company transactions. We didn't find any traditional guarding company acquisitions by Securitas, G4S, or Prosegur in 2015 - the worldwide active buyers in past years. As for the guarding industry in the United States, [Universal Protection](#) was, once again, very active and accounted for most of the 20 total guard company transactions.

How We Find the Completed Transactions

As a way of staying abreast of what's happening in the buying and selling of security companies throughout the world, our firm is constantly searching the internet, reviewing security publications and pouring over annual reports looking for announcements relating to completed sale transactions. We also subscribe to several news release services that e-mail us when a transaction has occurred or is about to close; and we are constantly talking with owners of companies who have their pulse on what's happening in the industry. This year, as in the past, we found hundreds of transactions for security related companies, however, we only tracked (and posted to our website) the ANNOUNCED activity in the contract security (guarding), central station alarm, "plain vanilla" systems integration and certain other sectors such as armored car company sale transactions. Also, we recognize that there are many smaller "silent" transactions that were not revealed to us because they were not announced or announced on some obscure reporting service, therefore will not be included in the charts that follow.

(2011 - 2015 Industry Acquisition Overview by Sectors)

<i>Announced</i>					
<i>Worldwide Transactions</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
Guarding	25	38	22	24	33
Alarm Monitoring	31	52	43	46	24
Systems Integration	13	15	19	13	21
Other - Investigative, Armored Car, etc.	5	8	9	6	3
Total Announced Transactions	74	113	93	89	81

(2015 Industry Acquisitions by Country)

<i>Country</i>	<i>Guard</i>	<i>Alarm Monitoring</i>	<i>Systems Integration</i>	<i>Other</i>	<i>TOTAL</i>
<i>Africa</i>	1	0	0	0	1
<i>Australia</i>	2	1	1	0	4
<i>Canada</i>	1	1	2	0	4
<i>Finland</i>	0	1	0	0	1
<i>Middle East</i>	1	0	0	0	1
<i>Singapore</i>	1	0	0	0	1
<i>United Kingdom</i>	7	1	1	1	10
<i>United States</i>	20	20	17	2	59
TOTALS	33	24	21	3	81

(2011 - 2015 Guard Transactions Only - Comparing U.S. to Worldwide Totals)

<i>History of Announced</i>		
<i>Guard Transactions</i>	<i>US</i>	<i>Worldwide</i>
2011	8	25
2012	22	38
2013	15	22
2014	16	24
2015	20	33

Predictions for 2016:

What Will 2016 Bring to the Merger and Acquisition Marketplace - Will it be More of the Same?

As for the large, public international security companies (Securitas, G4S, Prosegur, etc.), we still don't see much activity in buying plain vanilla guarding companies from these mega conglomerates in 2016 anywhere in the world. They will continue to curtail their buying activities and redirect the monies, previously set aside for acquisitions, to building the technology offerings for their company.

We see continued growth pressures from the guarding companies partnered with Private Equity Groups (PEG's). As mentioned previously, two mega companies, Universal and AlliedBarton changed equity partners this year and both new partners have very aggressive growth plans for their manned guarding investments. The security companies owned by all the Private Equity Groups will continue to be proactive for acquisitions, but we don't see the prices they are paying, as a multiple of cash flow, increasing this year or any time in the near future. In fact, the multiples may start a downward trend. The LIBOR rate, the benchmark for the rate the active buyers have to pay for acquisition money, for the past few years has been at a record low (near zero in most cases). This low rate means a reduced acquisition cost to the

buyers, which they have passed on to the sellers in the form of higher multiples. The LIBOR rate has been in a state of flux recently - sometimes raised slightly, then followed by a reduction. Although the present rate is still very low, this unstable rate position sends a message to the buyers that the rate may, and probably will, increase to levels that require a downward adjustment in the multiples.

What are the Owners of the Smaller, Closely-Held Companies Saying about the Consolidating at the Top?

Some of the owners we talked with see all this consolidating as an opportunity. They are telling us that as the large companies get larger, the level of service to the customer will diminish, thus driving the customers to their smaller, service oriented security company.

However, most of the owners we talked with were concerned over the flurry of consolidation at the top. These owners are already starting to feel the competitive pressures from the large companies, which they think will only get stronger as the consolidation continues and these mega companies have even more resources available to them. Most of these closely-held companies do not offer electronics - video monitoring or other integrated guarding services - and, so far, are not experiencing customer attrition because of not being able to provide these type of services.

However, in talking with the executives at the mega companies we're learning that their customers, which tend to be the large national and international conglomerates, are in fact interested in the bundling of security services (manned guarding with electronics) to enhance the effectiveness of the security function and, in many cases, at a reduced overall cost.

What is yet to be determined is when the customers of the smaller companies will start asking for manned guarding enhanced by technology; forcing these smaller companies to invest in technology or partner with a technology company in order to keep their customers and stay competitive.

Stay tuned for how this all plays out . . . and be sure to look for the transactions as they get announced on our website at www.roberthperry.com!

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We initiate and manage transactions for sellers of security guard companies. Established in 1977, we have represented over 200 sellers located in the United States, Canada, Western Europe, South America, the Caribbean, and the Middle East.

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