U.S. CONTRACT SECURITY INDUSTRY

White Paper

July 2019

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& Associates, Incorporated

ABOUT THIS EDITION

This annual White Paper marks our 11th year of reporting on the status and direction of the U.S. Contract Security Industry. Although the topic headlines remain relatively unchanged from year to year, the information within the headings are updated to reflect the current status of the industry. As with all annual white papers, some information is inherent to the ongoing activities of the industry, therefore will not change, or will have insignificant changes from year to year. Some information will be duplicated if it applies to multiple topics

Our Qualification to Publish this White Paper on the U.S. Contract Security Industry

- We have completed over 250 sell-side engagements for publicly and privately-held sellers located in 8 countries, and having revenues ranging from $2m - $200m.
- We have consulted on sales for several companies with revenues exceeding $2bn.
- We constantly search the internet and news sources for information on global acquisitions, mergers, and joint ventures.
- We have proprietary files on over 3,000 mostly privately-held security companies, not available in public lists or files.

Primary Sources of Information for this Report

- Annual Reports on the public security companies.
- Discussions with the large consulting firms doing research on the manned guarding industry.
- Global news releases
- Federal government reporting agencies
- Our private, confidential files on over 3,000 manned guarding companies operating primarily in North America.
- Interviews with the owners of many of the U.S. and international manned guarding companies.

Important Take-Aways from this White Paper

OPPORTUNITIES

- Artificial intelligence is gaining recognition in the security sector. The security companies, that have the financial backing to develop it, stand to enjoy revenue gains from existing, as well as new customers. (More on page 65)
- Municipalities are looking for ways to upgrade the protection in the communities and they are doing it through “outsourced” security; gaining better technology and sometimes officers better qualified and trained than their own police force. (More on page 60)
- The cannabis industry now has a large presence in the North American marketplace- with huge projections over the next five years; it also offers a very attractive revenue and profit growth opportunity for companies qualified to handle the security for this specialized industry. (More on page 108)
- The recent dramatic increase in crime in our public venues, schools and places of worship has drawn attention to the need for better security in these places and the owners of the properties are looking to “outsourced” security, and not the public police force, as the solution. (More on pages 59 and 60)

CHALLENGES

- The Predictive Scheduling law (passed in Chicago in July 2019 – and likely to quickly spread to other areas of the country) is now a reality to owners of manned guarding companies. This law will change the way the security company schedules its officers and will likely result in a dramatic increase in the cost of providing labor. (More on page 105)
- Many of the candidates running for office in the 2020 election have platforms that accelerate the move to a federally mandated $15 minimum wage, restores the higher taxes on Corporate income and brings the capital gains rates back to the 30% range. (More on page 106)
- Sick pay and personal time off mandates are gaining traction in more and more localities across our nation. (More on page 104). Also, the “employee break rules” are still concerning in California, which cost companies operating there several hundred million dollars in penalties – and counting.
- Traditional residential alarm companies have now developed a commercial technology platform aimed at the manned guarding company customers. Will this serve to merely enhance the protection, or possibly replace the need for on-site security officers? (More on pages 66 and 67)

BY THE NUMBERS

OUTSOURCED AND IN-HOUSE SECURITY INDUSTRY

$44bn

OUTSOURCED CONTRACT SECURITY INDUSTRY

$27.0bn

REVENUES FOR THE 5 INDUSTRY LEADERS

$15.6bn

REVENUES FOR THE 2 MAJORITY FOREIGN-OWNED INDUSTRY LEADERS (1)

$7.5bn

OUTSOURCED SECURITY OFFICERS	COMPANIES IN THE UNITED STATES	TOTAL REVENUE GROWTH FOR THE U.S. MARKET	ORGANIC GROWTH FOR THE U.S. MARKET
820k	8k	6%	5.6%

(1) Headquarters outside of North America

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MARKET

Defining the U.S. Contract Security Market

TREND: Security companies continue to move away from being branded as a guard company or even a contract security company; rather the companies are using broader terms to describe what they do and the services they offer as a result of an expanding menu of services.

Over the past several years, there's been a move to get away from using the term "Security Guard" as a way to describe the standing security officer function. Rather, today most companies are using the term "Security Officer" or "Manned Guarding" - originally coined by the European security companies. We will use both terms interchangeably throughout this report to describe basically the same function being performed.

The definition of "Contract Security" would logically include the normal services provided by a manned guarding company as well as other types of outsourced security being offered under a verbal or written contract; such as, alarm and remote video monitoring, armored transport, investigations and executive protection.

Although included under the definition of "Contract Security", this white paper covers the armored transport, alarm and remote video monitoring services ONLY to the extent these services may be included in the "integrated Security" offerings of traditional manned guarding companies detailed on page 63 of this report.

The large companies today continue to emphasize and expand the "Integrated Security" function as a one-stop solution to all facets of security required by the discriminating customers of today that have an even greater need to protect its property, employees, and systems given the worldwide increase in physical (as well as cyber) security attacks and threats. As pointed out later in this white paper, the five world leaders (four of which have significant operations in the U.S.) have been investing heavily in technology that enhances the security service delivery and are greatly expanding these services being offered to the customer.

This white paper, which mainly covers the U.S. contract security market (except where otherwise noted), will report on companies that derive at least 75% of revenue from traditional manned guarding services with additional offerings, such as:

- Integrated Security to ***usually*** include manned guarding and:
  - Remote Video Monitoring
  - Mobile Patrol
  - Systems Integration
  - Artificial Intelligence
  - Cyber Security
- Special Event Security
- Risk Analysis
- Loss Prevention
- Investigators
- Background Screening
- Facility Design
- Concierge Services
- Canine Security

HIGHLIGHTING THE WORLD LEADERS

These companies have at least $1bn in revenues from manned guarding services globally, with a significant portion of their revenues coming from the U.S. market (except Prosegur).

The five world leaders are large enough and have sufficient financial resources to lead the charge in changing the way the next generation of security companies will meet the ever increasing demands of its customers and general public. As indicated in the section on the world leaders, each is expanding its menu of services to incorporate the use of technology. They have been pouring huge amounts of capital in developing this technology over the past few years and are now using it as a way to meet this ramped up demand and move farther away from some of their smaller manned guarding competitors - ones without the resources for the large investment in the technology needed to compete in today's marketplace.

5 World Leaders

The World Leaders in Manned Guarding Security

Company	Country Headquarters	Revenues (1) Globally Local Currency	in U.S. $ (2)	N. America Revenue
SECURITAS	Sweden	101,467 MSEK	$11.6bn	$4.8bn (5)
G4S	United Kingdom	£7.5n	$9.8bn	$2.7bn (2) (5)
AlliedUniversal Security Services	United States	$7.4bn	$7.4bn	$7.4bn (1) (5)
PROSEGUR	Spain	€3.9bn	$4.6bn	None (3)
GARDAWORLD	Canada	CN$3.0bn	$2.3bn	$0.7bn (4)

(1) All revenues are for the 2018 year, except Allied Universal; which is the run rate revenue
(2) Local currency to U.S. dollar conversion rates (based on average rates for the 2018 year)

MSEK	= million Swedish Krona	8.75 SEK = $1
£	= British Pound	£ 1 = $1.30
€	= Euro	€ 1 = $1.18
CN	= Canadian Dollar	CN1 = $0.7692

(2) Over the past 4 years G4S has divested non-core businesses generating revenues of approximately $1.7bn.

(3) Prosegur entered the U.S. market in early 2019 and presently has approximately $200M in revenue from U.S. operations.

(4) Est. $500M in cash services

(5) Represents total revenues for North America; with significant amount coming from U.S. sources, and an insignificant international portion

PERTINENT STATISTICS ON THE FIVE WORLD LEADERS

1. Most are enjoying growth rates higher than their smaller competitors in the security markets in which they operate.

2. Most are growing more rapidly in the “emerging markets” where there’s lower capital and labor costs (the gross profit in these areas exceed 20% compared to around 13% in the U.S. market)

3. Manned guarding still represents the largest part of their service offerings, but is becoming a lesser percentage of their gross revenues

4. Some are developing artificial intelligence technology that supposedly predicts security breaches before it occurs

5. All are improving customer retention (now in the low 90% range)

Important note to reader: *The information on the five leaders presented on pages 13 to 51 was gathered from market sources and primarily the annual reports (in the case of Securitas, G4S, and Prosegur - the three publicly-owned companies). The companies do not follow a uniform format (from one company to the other) in reporting their revenues, market statistics, identifying services offered, etc. Therefore, the information presented on these pages should not be used to compare one company’s performance against any of the other companies, but should only be used to evaluate the performance of the individual company. It is suggested that the reader visit the company’s website to obtain further information on the company’s performance, especially in conjunction with the footnotes accompanying the information being presented.*

Financial statement footnote reference to IAS (#) - International Accounting Standards replaced in 2001 by International Financial Reporting Standards (IFRS).

Key Performance Indicators

345,000	55	US$11.6bn
Employees in 2017	Countries in 2017	

Securitas is a public company listed on the NASDAQ Stockholm Stock Exchange.

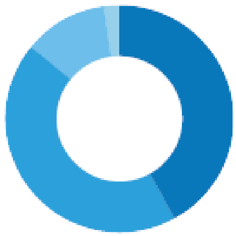
See conversion rate to U.S. dollars on page 11.

Source: Securitas Annual and Sustainability Report 2018

Securitas Around the Globe

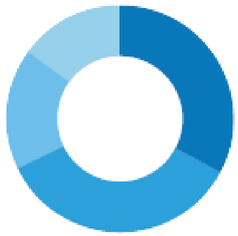
Securitas operates in 58 countries through its 3 business segments: Security Services North America, Security Services Europe, and Security Services Ibero-America. It also has operations in Africa, the Middle East and Asia, which forms the AMEA division.

SALES PER SEGMENT
of Group total



- Security Services North America 42%
- Security Services Europe 44%
- Security Services Ibero-America 12%
- Other (incl. AMEA) 2%

EMPLOYEES PER SEGMENT
of Group total

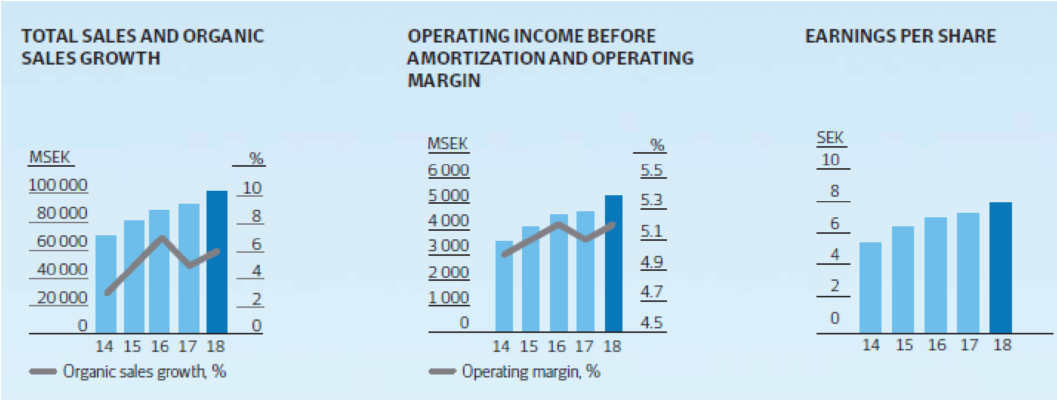


- Security Services North America 33%
- Security Services Europe 35%
- Security Services Ibero-America 17%
- Other (incl. AMEA) 15%

Source: Securitas Annual and Sustainability Report 2018

Securitas Around the Globe

Past Five Years Significant Annual Financial Benchmarks



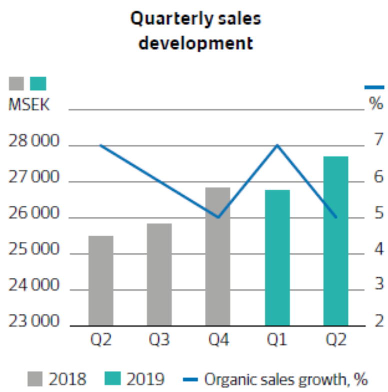
In 2018:

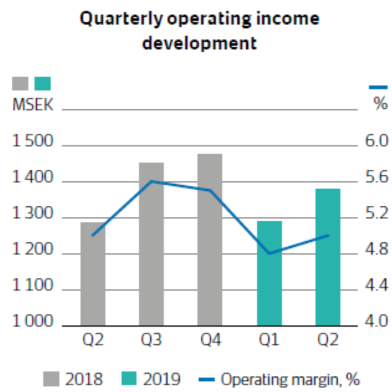
- **Reached milestone sales exceeding MSEK 100000 ($11.6 bn) for the first time**
- **Total sales increased 10%; organic sales growth 6% in 2018 and 5% in 2017**
- **Operating margin increased to 5.2% from 5.1% in 2017**
- **Earnings per share increased to 8.26 SEK from 7.53 SEK in 2017**
- **Proposed dividend increased to 4.40 SEK from 4.00 SEK in 2017**

Source: Securitas Annual and Sustainability Report 2018

Securitas Around the Globe

Past Five Quarters Sales, Operating Income, and Operating Margin Development





January - June 2019

Sales Development:

- Sales amounted to MSEK 54 428 (vs. 48 822 H1 2018) and organic sales growth was 6% (vs. 7% in H1 2018)

Operating Income Development:

- Operating income before amortization was MSEK 2 667 (vs. MSEK 2 377 in H1 2018), which adjusted for changes in exchange rates, represents a real change of 7% (vs. 9% in H1 2018)

Operating Margin Development:

- The Group's operating margin was 4.9% (same for H1 2018)

Source: Interim Report Jan - Jun 2019

Securitas - North America

Full Year 2018 Compared to 2017

Security Services North America

SALES AND INCOME

	1) $4.8bn	1) $4.5bn
MSEK	2018	2017
Total sales	**42 366**	**38 108**
Organic sales growth, %	*6*	*5*
Share of Group sales, %	*42*	*41*
Operating income before amortization	**2 589**	**2 254**
Operating margin, %	*6.1*	*5.9*
Share of Group operating income, %	*49*	*48*

Organic sales growth was 6 percent (5), with a good portfolio development throughout the year in the five geographical regions and the critical infrastructure services business unit. The client retention rate remained solid at 91 percent (91).

Security solutions and electronic security sales represented MSEK 7 365 (5 665) or 17 percent (15) of total sales in the business segment in 2018.

The operating margin was 6.1 percent (5.9), supported mainly by leverage from the strong organic sales growth and a good performance within the risk management business.

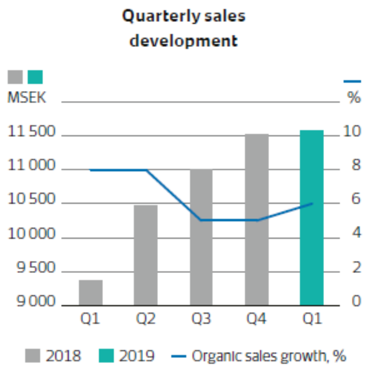
The Swedish krona exchange rate weakened against the US dollar, which had a positive effect on operating income in Swedish kronor. The real change was 11 percent in 2018.

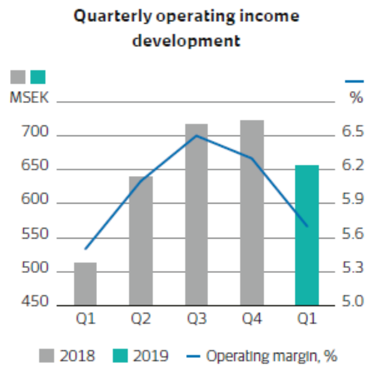
1) **Based on 8.75 and 8.49 conversion rates in 2018 and 2017, respectively**

Source: Securitas Annual and Sustainability Report 2018

Securitas - North America

Past Five Quarters Sales, Operating Income, and Operating Margin Development





January - June 2019

Sales Development:

- Sales amounted to MSEK 23 619 (vs. 19 483 H1 2018) and organic sales growth was 5% (vs. 8% in H1 2018)

Operating Income Development:

- Operating income was 6% (vs. 5.8% in H1 2018), supported mainly by the risk management business and Securitas Electronic Security.

Source: Interim Report Jan - Jun 2019

Securitas - North America

Revenue by Service Offering - Full Year 2018 Compared to 2017

	Security Services North America		Securitas Group	
	2018	2017	2018	2017
(in MSEK)				
Guarding Services	33 541	31 182	79 567	74 239
Security Solutions and Electronic Security	7 365	5 665	20 440	16 697
Other	1 460	1 261	1 460	1 261
Total Sales	**42 366**	**38 108**		
Other Income			29	24
Total Revenue	**42 366**	**38 108**	**101 496**	**92 221**
Security Solutions and Electronic Security as a % of Total Revenue	17.4%	14.9%	20.1%	18.1%

Source: Securitas Annual and Sustainability Report 2018

Securitas - North America

Revenue by Service Offering - First Half 2019 Compared to First Half 2018

	Security Services North America		Securitas Group	
	H1 2019	H1 2018	H1 2019	H1 2018
(in MSEK)				
Guarding Services	18 466	15 874	42 256	38 557
Security Solutions and Electronic Security	4 277	3 292	11 296	9 588
Other	876	677	876	677
Total Sales	**23619**	**19 843**		
Other Income			17	15
Total Revenue	**23 619**	**19 843**	**54 445**	**48 837**
Security Solutions and Electronic Security as a % of Total Revenue	18.1%	16.6%	20.7%	19.6%

Source: Interim Report Jan - Jun 2019

Securitas Acquisitions in North America

Securitas continues to follow its plan of curtailing its acquisitions of traditional manned guarding companies. Instead, Securitas continues making investments in acquisitions more strategic to its plan of expanding its electronics and high-end specialized offerings. Accordingly, Securitas made the following "strategic" acquisitions in the U.S. market on the dates indicated:

June 2018—Securitas completes the purchase of the systems integration division of Kratos Defense & Security Solutions for approximately $70 million. This division has annual sales of approximately $135 million and includes 400 employees. Its primary focus is electronic security projects for commercial customers with special expertise in transportation, petrochemical, healthcare, and education vertical markets. The division provides design, engineering, installation and service of advanced integrated security technology and systems.

January 2019—Securitas announces the acquisition of Global Elite Group, a leading security services provider to the aviation industry in the U.S. by Securitas Transport Aviation Services USA. The price of purchase is believed to be approximately $22 million based on reaching targets yet to be confirmed. The acquisition marks the next step in Securitas' strategy for expansion in the aviation industry. In securing this acquisition, Securitas intends for the Global Elite Group to complement their current aviation organization.

July 2019—Securitas agrees to acquire certain inspection and background investigations assets of MSM Security Services, LLC. The purchase price is approximately $11 million, contingent on reaching certain business development targets. This is a strategic acquisition for Securitas in that it will expand the Securitas Critical Infrastructure Services Federal background investigations business and is anticipated to add approximately $15 million in annual sales.

Source: Press Releases

Key Performance Indicators

A. Statutory Results - During 2017 and 2018, the Group sold/exited 24 businesses which contributed revenues of £105 million in 2018 (2017: £304 million) and are reflected in the year-on-year change in statutory results, but excluded from underlying results.

B. Underlying Results - Underlying results are Alternative Performance Measures (APMs) and exclude results from disposed businesses and onerous contracts and specific and other separately disclosed items.

C. Adjusted PBITA is an Alternative Performance Measure.

STATUTORY RESULTS

REVENUE[a]
£7.5bn -4.0%
(2017: £7.8bn) **US$9.8bn**

ADJUSTED PBITA[a, c]
£460m -6.5%
(2017: £492m) **US$598M**

EPS[a]
5.3p -65.4%
(2017: 15.3p)

OPERATING CASH FLOW
£413m -15.4%
(2017: £488m) **US$537M**

DIVIDEND PER SHARE
9.70p
(2017: 9.70p)

UNDERLYING RESULTS[b]

REVENUE
£7.3bn +1.1%
(2017: £7.2bn) **US$9.5bn**

ADJUSTED PBITA[c]
£474m
(2017: £474m) **US$616M**

ADJUSTED EPS
16.7p
(2017: 16.7p)

OPERATING CASH FLOW
£453m -12.2%
(2017: £516m) **US$589M**

NON-FINANCIAL KPI

HEALTH AND SAFETY
67%
Reduction in road traffic fatalities since 2013

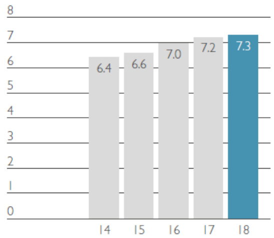
G4S is a public company listed on the London and Copenhagen Stock Exchange.

See conversion rate to U.S. dollars on page 11.

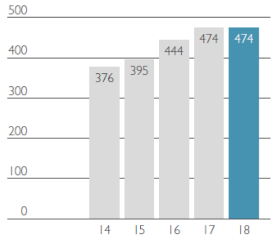
Source: G4S Full Integrated Report 2018

Financial History in Charts

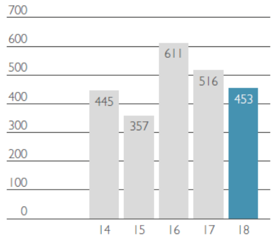
Revenue* (£bn)



Adjusted PBITA* (£m)



Operating cash flow* (£m)

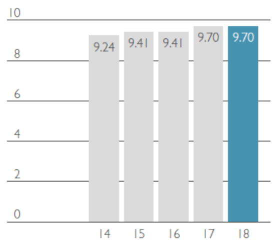


£7.3 billion
Revenue in 2018

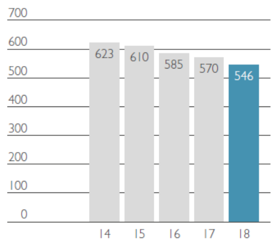
£474 million
Adjusted PBITA defined as profit before interest, tax and amortisation and excluding specific and other separately disclosed items, in 2018

£453 million
Operating cash flow in 2018

Dividend (pence per share)



Employees ('000)



9.70p
Total dividend per share for 2018

546,000
(including joint ventures and businesses held for sale or closure)

Based on Underlying Results, which excludes disposed businesses and onerous contracts - except for "Employees" chart, which is based on Statutory Results.

Source: G4S Integrated Report 2018

G4S Today - Around the Globe

G4S' Service Offerings

G4S has two business segments. Secure Solutions and Cash Solutions, each with a number of key service lines.

SECURE SOLUTIONS

- Security Solutions incorporating risk consulting, manned security, software and systems and integrated security solutions
- Facilities Management (FM) including integrated security FM services
- Care & Justice services including custody, health, rehabilitation and transportation

Security Solutions and Facilities Management represent 78% of G4S' revenue. More than £2.8b ($3.6bn) (2017: £2.45bn) of G4S' revenues are derived from technology-related security services and it's expected to keep this growth trend.

The Care & Justice services represent 7% of revenues and are concentrated in the UK and Australia.

CASH SOLUTIONS

- Cash-in-transit, cash processing and ATM services
- Smart safes and cash-recycling technology
- Cash-management software and services

Cash Solutions represents 15% of G4S' total revenue. At the end of December 2018 G4S had over 23,300 (2017: 19,500) cash automation locations, a 20% increase across North America, Europe, Asia Pacific and Africa.

The Board has approved the separation of Cash Solutions from the G4S Group. The demerger of Cash Solutions should be complete during the first half of 2020.

Source: G4S Integrated Report 2018

G4S Today - Around the Globe

2019 First Half (1H) Financial Results

SECURE SOLUTIONS
2019: 1H RESULTS

In £m, underlying results at constant FX	Revenue		PBITA		Margin
	H1 2019	Change %	H1 2019	Change %	H1 2019
Africa	211	8.8	17	6.3	8.1%
Americas	1,309	8.9	61	3.4	4.7%
Asia	453	3.0	31	6.9	6.8%
Europe & Middle East	1,239	1.0	92	5.7	7.4%
Total	3,212	4.9	201	5.2	6.3%

- Sales momentum and healthy pipeline
- Continued growth in technology enabled security solutions
- Commercial discipline and cost management

GLOBAL CASH SOLUTIONS
2019: 1H RESULTS

Revenue		PBITA		Margin
H1 2019	Change %	H1 2019	Change %	H1 2019
535	3.9	60	(10.4)	11.2%

In £m, underlying results performance at constant FX

- Revenue ex bullion contract +5.5%, RCS +33%
- PBITA ex bullion: +1.7%
- Substantial pipeline: retail and banking
- Expanding technology into banks and SME retail
- Restructuring benefits H2 2019/2020

Note: Change percentage compares 1H 2019 to 1H 2018

- Technology enabled revenues in Secure Solutions grew by 14.8% (1H 2019 compared to 1H 2018) and North American Cash Technology revenues grew by 33%.

Source: G4S Half Year 2019 Results

2018 Results by Region

(in £1,000's)	Statutory Results	Underlying Results
Areas		
Africa	406	405
Americas	2,443	2,443
Asia	882	881
Europe & Middle East	2,644	2,501
Cash Solutions	1,137	1,059
Total Group Revenue	**7,512**	**7,289**
Adjusted PBITA		
Africa	31	32
Americas	129	129
Asia	63	63
Europe & Middle East	175	179
Cash Solutions	114	121
Total Group PBITA		
Before Corporate Cost	512	524
Corporate Cost	50	50
Total Group Adjusted PBITA	**462**	**474**

Notes: In 2018, G4S combines the North American and South American results; whereas prior to 2018 these 2 continents were separately reporting regions. G4S also, in 2018, separates the Cash Solutions business from the results of the other regions. It is estimated that the revenues from the North American region is $2.7bn.

In 2018, approximately 40% of G4S' sales were derived from technology - related security services; approximately 15% increase over the 2017 year.

Source: G4S Integrated Report 2018

AMERICAS

SECURE SOLUTIONS – REGIONAL CEO JOHN KENNING

2018 HIGHLIGHTS:
UNDERLYING RESULTS

+4.8%
Organic growth

117,000
Employees

10.3%
Adjusted PBITA growth

Revenue £m			Adjusted PBITA £m		
2018	2017	YoY	2018	2017	YoY
2,443	2,332	4.8%	**129**	117	10.3%

G4S North America Secure Solutions is the Group's largest integrated security business. Key customer sectors – financial services, extractive, retail, government, embassies and manufacturing. In Latin America, G4S is a leading integrated Secure Solutions provider for commercial and government customers across 18 countries, with Brazil, Colombia and Peru our largest markets by revenue.

Revenues in our Americas region grew by 4.8% and Adjusted PBITA increased by 10.3% with the impact of tight labour markets more than offset by an improving revenue mix and the positive impact of our productivity programme.

Our Secure Solutions revenues in North America grew more than 5%, as our consultative approach to designing and delivering integrated security solutions continues to gain traction with large enterprise customers. We saw strong demand for our risk and security consulting services, security analytics, executive protection and investigative services. The United States remains close to full employment and our rate of revenue growth in North America was self-constrained as we continued to exercise appropriate commercial discipline.

In Latin America we continued to be disciplined in our bidding and our revenues increased by 2.8%.

Our on-going investment in sales, business development and customer service has enabled G4S to develop a substantial pipeline in the Americas, which provides good support for our commercial momentum in 2019.

During the 2018 year, the results of North America and Latin America were combined to be called "the Americas". It is estimated that the total revenue for North America (to include Cash Solutions - separately reporting) is approximately $2.7bn.

California class action settlement

In January 2019, the Group agreed the settlement of a class action relating to claims for employee meal and rest breaks for the period 2001 to 2010 in California. This settlement is subject to the final approval of the Superior Court of the State of California. The amount to be settled is between US$100m and US$130m with the precise amount to be determined during the settlement administration process. A provision of £100m (approximately $130m) has been established in the accounts for the year ended 31 December 2018 representing management's best estimate of the amount of the class action settlement and any related costs.

Source: G4S Integrated Report 2018

Key Performance Indicators

Allied Universal is a privately-held company owned in the majority by Private Equity Groups

Source: News Releases, Company Website, and Management

Allied Universal History

Allied Barton's history dates back to 1957; while **Universal Protection** was founded in 1965.

Both companies grew organically and through a series of acquisitions and in 2015, Allied Barton (then owned by Blackstone Group) was sold to Wendel Group out of Paris, France. Allied Barton had gross revenues in the $2.3bn range at the time of the sale.

In 2016, Allied Barton and Universal Protection (with revenues in the $2.2bn range and owned in the majority by Warburg Pincus and The Partners Group) announced their intention to merge. At the time of the merger the newly formed Allied Universal would have revenues of approximately $5.5bn.

Today, following the acquisition of U.S. Security, Allied Universal has run rate revenues of approximately $7.4bn. Approximately $7.2bn coming from customers in the U.S.; with the remaining revenues coming from Canada, Mexico, England and various countries in Central America.

Present Ownership

Present Ownership	Ownership %
CDPQ	45.0%
WENDEL	17.0%
WARBURG PINCUS	17.0%
Partners Group	8.5%
AUS Management	12.5%

Source: News Releases, Company Website, and Management

Allied Universal Today - Around the Globe

Footprint

Over 200 branches throughout the U.S., with a small presence in Canada, Mexico, United Kingdom, and several countries in Central America.

Service Offerings

Although Allied Universal has a couple of small divisions offering temporary staffing and janitorial services, its core business is in providing security services - manned guarding, systems integration, cyber security and artificial intelligence. Below is a description of its core offerings:

Manned Guarding

- Uniformed Security Guards
- Patrol Services
- Investigations
- Executive Protection

Integrated Technology & Security Systems

- Access Control
- Video Surveillance
- Autonomous Robots & Drones
- Monitoring & Repsonse Center
- Fire & Intrusion Alarm Monitoring
- GSOC as a Service
- Hosted & Managed Services

Intelligence-Driven Security Workforce

Through the recently rolled-out HELIAUS ® technology:

- Real-Time Data
- Sitemaps
- Custom Workflows
- Trend Analysis
- Reporting, Tracking & Compliance

Risk Advisory & Consulting Services

- Emergency Preparation Services
- Security Consulting
- Threat Management & Personal Protection
- Investigations
- Armed Disaster, Emergency & Strike Response

Source: News Releases, Company Website, and Management

Allied Universal Today - Around the Globe

Foreign Markets

Having recently entered several foreign markets, Allied Universal's four major websites are:

www.aus.com
www.aus.uk.com
www.ausecurity.ca
www.ausecurity.mx

Source: News Releases, Company Website, and Management

Allied Universal - Major Financial Transactions in 2018 - 2019

October 26, 2018

Allied Universal buys U.S. Security Associates

Allied Universal paid approximately $1.0bn for U.S. Security Associates. At the time of the purchase, USSA had more than 50,000 employees, generated 2017 pro forma revenues and adjusted EBITDA of $1.5bn and $95 million, respectively - resulting in a selling price of a little over 10x EBITDA.

February 20, 2019

CDPQ becomes largest shareholder in Allied Universal

Caisse de dépôt et placement du Québec (CDPQ) announced a major investment in Allied Universal. CDPQ manages approximately $45bn from its private equity fund. The transaction values Allied Universal at more than US$7bn.

The investment from CDPQ will support Allied Universal's long-term growth and strategy of the largest provider of integrated manned guarding security services in North America.

April 08, 2019

Allied Universal acquires Securadyne

With revenues exceeding $73 million, over 300 employees and 17 locations, Securadyne becomes the technology service platform upon which Allied Universal will provide global integration capabilities.

Steve Jones, CEO of Allied Universal said in the acquisition announcement . . ."Our new acquisition of Securadyne Systems supports our long-term strategy to become the leader in the security technology market." The new tech platform will be rebranded as Allied Universal Technology Services, which will be headquartered in Dallas, Texas.

The Securadyne acquisition makes Allied Universal Technology Services the fourth largest security integrator in the U.S.

Source: News Releases, Company Website, and Management

Allied Universal - Major Financial Transactions in 2018 - 2019

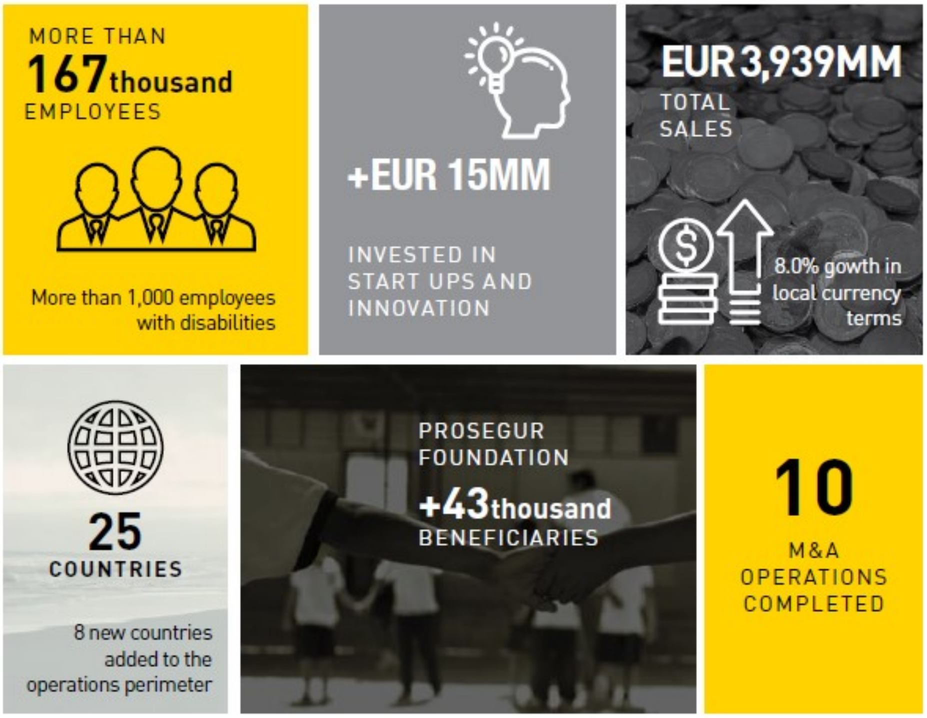
Allied Universal Completes Major Refinancing

Further to Allied Universal's major financial transactions, AUS recently completed a major refinancing supposedly leaving approximately $1bn available for acquisitions, entering new geographical markets, and robust marketing campaigns.

Source: News Releases, Company Website, and Management

Key Performance Indicators

US$4.6bn



Prosegur is a public company listed on the Madrid Stock Exchange.

See conversion rate to U.S. dollars on page 11.

Source: Prosegur Annual Report 2018

Prosegur's History

Prosegur had its beginnings in Madrid, Spain in 1976, and is a business group comprised of Prosegur Compania de Seguridad, S.A.; and its subsidiaries that operate in 25 countries.

The Prosegur parent company is listed on the Madrid stock exchange and 50.075% of the shares are owned by Mrs. Helena Revoredo Delvecchio, the Chairman of Prosegur.

Its life span of over 40 years is delineated below:

- 1980 - Opened Branch in Portugal
- 1987 - Becomes a Public company on the Madrid exchange
- 1992 - Created the Alarm division
- 1994 - Helena Revoredo appointed Chairman of Prosegur
- 1995 - Started operations in Latin America
- 2008 - Christian Gut becomes Chief Executive Officer
- 2011/2012 - Started operations in Asia, Germany, China and Brazil
- 2014 - Added Cyber Security to the service offerings
- 2017 - Launches IPO of Prosegur Cash
- 2019 - Entered the U.S. market through the following acquisitions:
    - Command Security Corporation (Manned Guarding)
    - Viewpoint (Remote Video Monitoring)
    - Cypher (International Cyber Security Company)
    - BSI (Best Security Industries -an EAS reseller of security tags and labels)

Source: Prosegur Website and Press Releases

Prosegur Today - Around the Globe

Prosegur's Footprint and Financial Performance

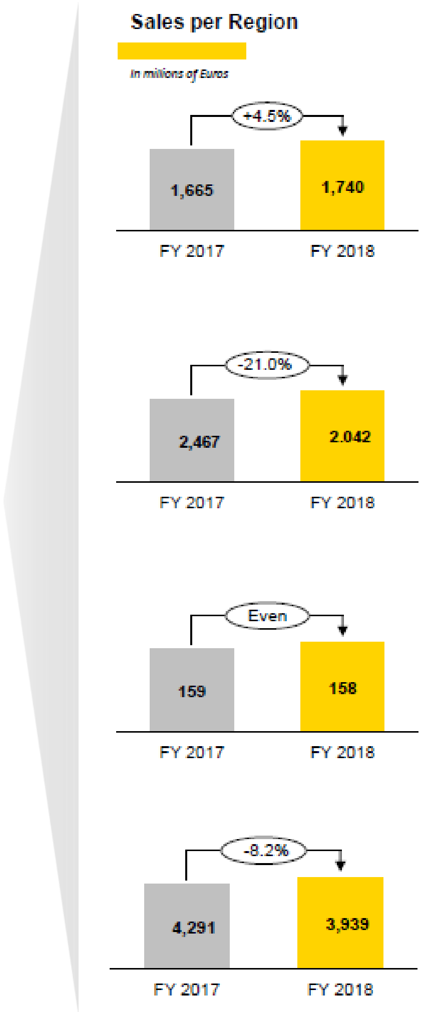
Prosegur serves customers in 25 countries: Spain, Portugal, France, Germany, Argentina, Brail, Chile, Peru, Uruguay, Paraguay, Mexico, Colombia, Singapore, India, China, Australia, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, the United States, and South Africa.

Three Operating Regions:

Prosegur had 8% growth in local currency for 2018

Organic Growth	6.5%
Acquisitions	1.5%
* Exchange Rate Fluctuation	-16.2%
Net Change	- 8.2%

* Resulting from significant monetary devaluation in Latin America and application of IAS 21 and 29 from Argentina's hyper inflation.



Europe

Latin America

Rest of World

TOTAL

Source: Prosegur's 2018 Annual Report

Prosegur Today - Around the Globe

Prosegur's Service Offerings

In 2015, Prosegur moved to a new organizational model: "One Group, Three Businesses". The Three lines of businesses compromise - Cash, Security, and Alarms.

PROSEGUR CASH

It provides services ranging from the basics of securities logistics and cash management to the outsourcing of high added-value services. This business is mainly focused on the banking and distribution sectors.

- It is the second largest provider of cash services in the world with 14% market share (vs. 7% in 2007)
- Number 1 in its focus cash markets (13/15 countries)
- Employs 60,000 people
- Utilizes over 9,000 armored vehicles

For 2018:

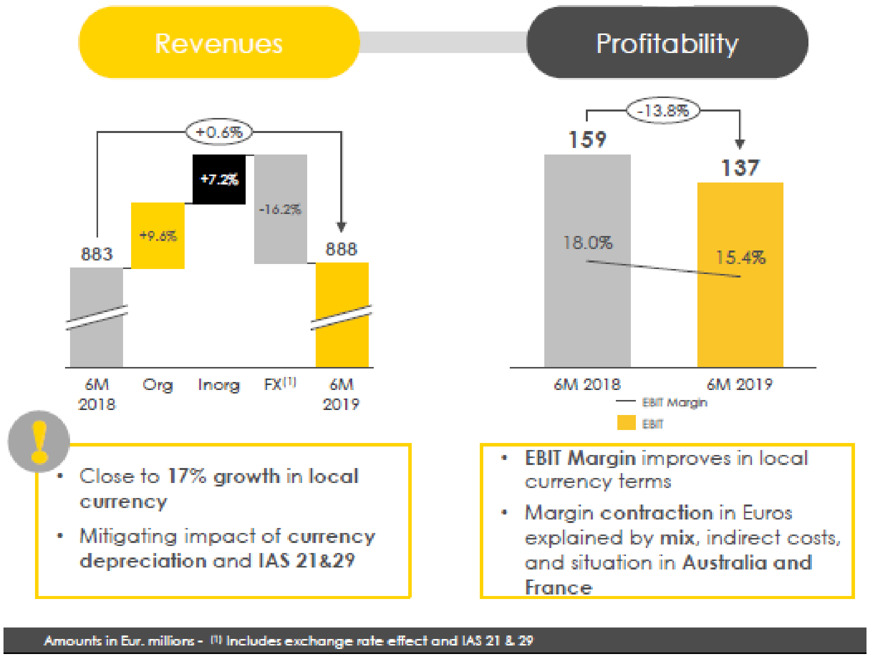
- Revenues of €1.731bn ($2.0bn)
- Annual Sales Decline of almost 11% due mostly to the exposure of the Latin American currencies
- Increased Revenues over 400% in the past 7 years
- Produced an EBIT Margin of 15.5%

Source: Prosegur's 2018 Annual Report

Prosegur Today - Around the Globe

PROSEGUR CASH

Revenues and Profitability - First half 2019 Compared to First Half of 2018



Prosegur Cash had real growth in local currency of 16.8% in 1H2019 vs. 1H2018

Source: Prosegur's 2018 Annual Report

Prosegur Today - Around the Globe

PROSEGUR SECURITY

It provides services that are the result of combining technology with professionals. This area includes, mainly, the activities of manned guarding, including the protection of premises, property and persons, together with activities related to technological security and cybersecurity solutions..

- Ranks #4 amongst the world leaders in manned guarding
- Employs 103,000 people
- Has industry leading technology-based solutions

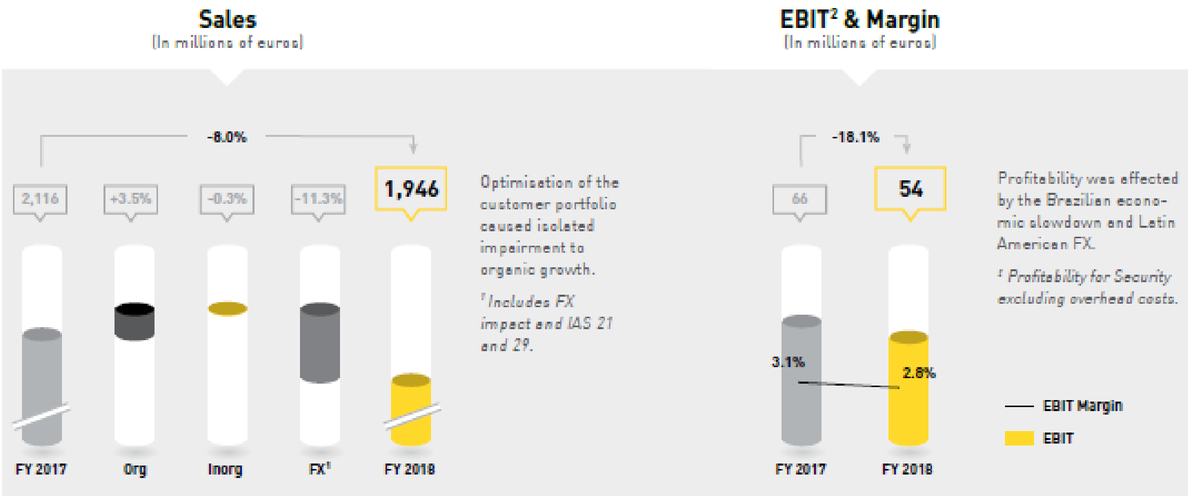
Source: Prosegur's 2018 Annual Report

Prosegur Today - Around the Globe

PROSEGUR SECURITY

- Sales Bridge 2017 to 2018
- EBIT Margin 2018 Compared to 2017

Prosegur Security posted revenues of EUR 1,946 million, 8.0% down from 2017, although in local currency terms there was an uptick of 3.2%. Likewise, growing sales of integrated security solutions made a positive contribution during the period, representing 23% of total revenues. In terms of profitability, the unit reported EBIT of EUR 54 million, down from EUR 66 million in 2017, while the EBIT margin stood at 2.8%.



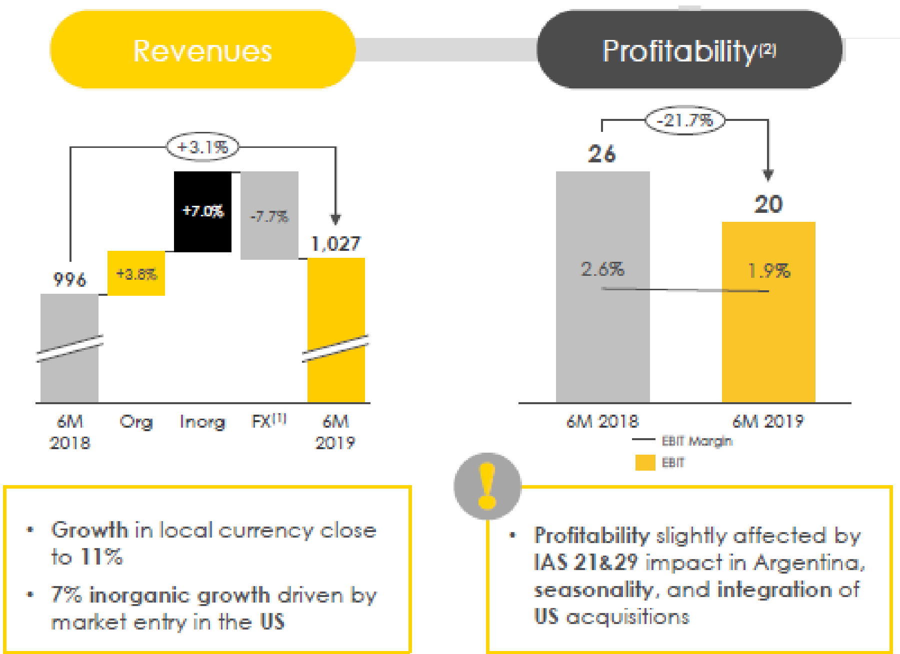
Prosegur Security had 3.2% real growth in local currency for 2018

Source: Prosegur's 2018 Annual Report

Prosegur Today - Around the Globe

PROSEGUR SECURITY

Revenues and Profitability - First half 2019 Compared to First Half of 2018



Prosegur Security had a 10.8% real growth in local currency in 1H 2019 vs. 1H 2018

Source: Prosegur's 2018 Annual Report

Prosegur Today - Around the Globe

PROSEGUR ALARMS

It has a wide range of services that help to improve the security, and security of families and businesses. It includes the installation and maintenance of home alarms, as well as alarm monitoring.

- Provides alarms for residential and commercial customers
- Over 547,000 total connections in 10 countries
- Employs 7,000 people

Prosegur Alarms recorded sales of EUR262M

Source: Prosegur's 2018 Annual Report

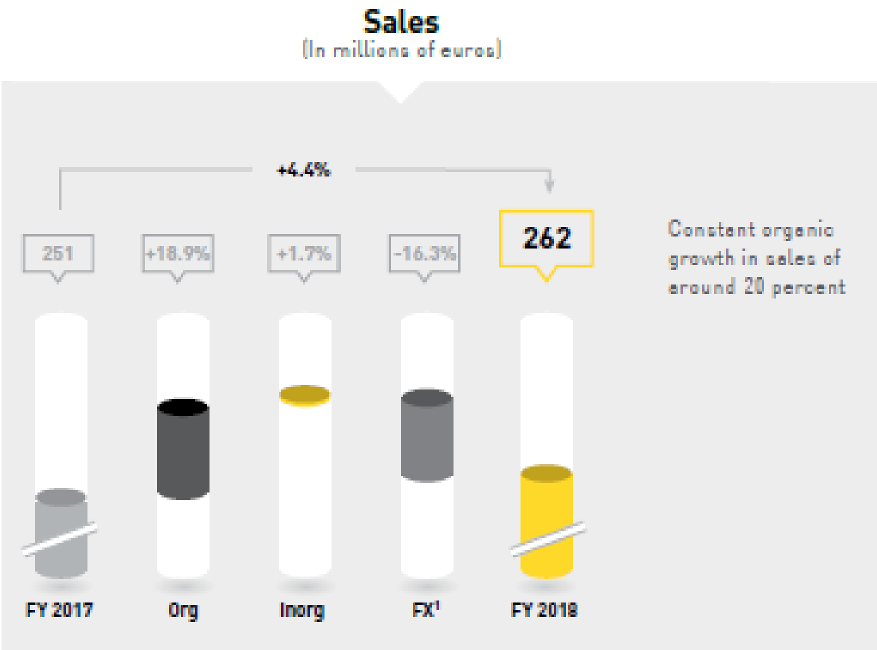
Prosegur Today - Around the Globe

PROSEGUR ALARMS

- Sales Bridge 2017 to 2018

Prosegur Alarms recorded sales of EUR 262 million in 2018, up 4.4 percent on the previous year. The unit secured 547,000 connections, representing net total growth of 10 percent compared to 2017.

Furthermore, it doubled the penetration of its Smart platform, which is now used by 15 percent of the entire customer base. Finally, the unit launched a series of initiatives aimed at improving its customer retention rate, portfolio classification and driving process improvement, the impact of which is already being felt in results.



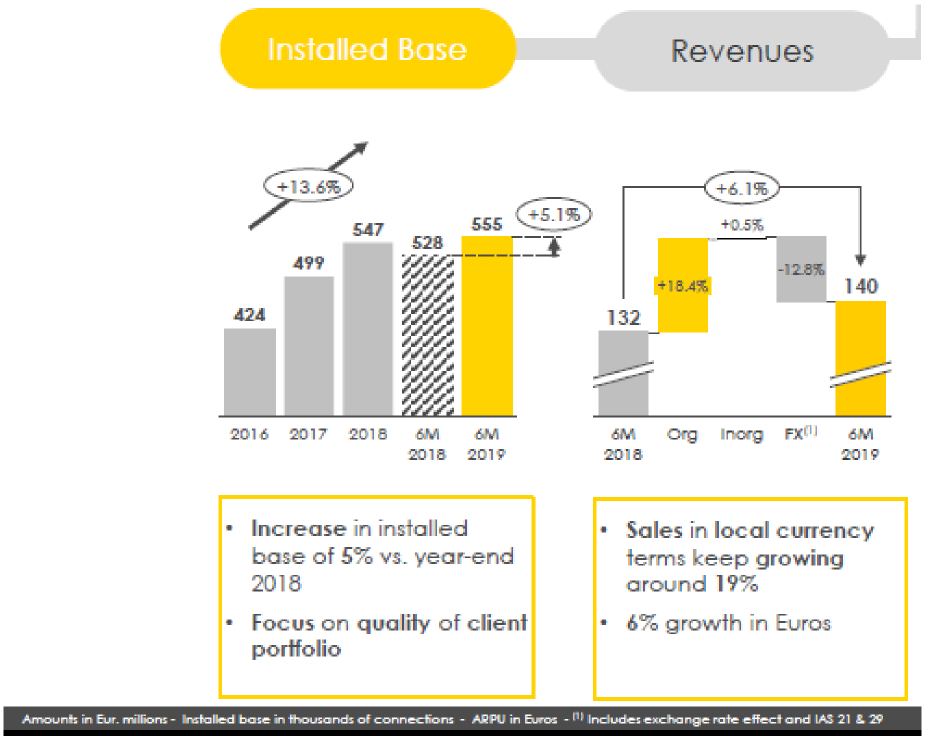
Prosegur Alarms had real growth in local currency of 20.6% in 2018

Source: Prosegur's 2018 Annual Report

Prosegur Today - Around the Globe

PROSEGUR ALARMS

- Growth in Connections
- Revenue - First Half 2019 compared to First Half 2018



Prosegur Alarms had real growth in
local currency of 18.9% in 1H 2019 vs. 1H 2018

Source: Prosegur's 2018 Annual Report

Key Performance Indicators

Total Sales

US$2.3bn
2,983.4 (in CN$1000)

Main Business Lines

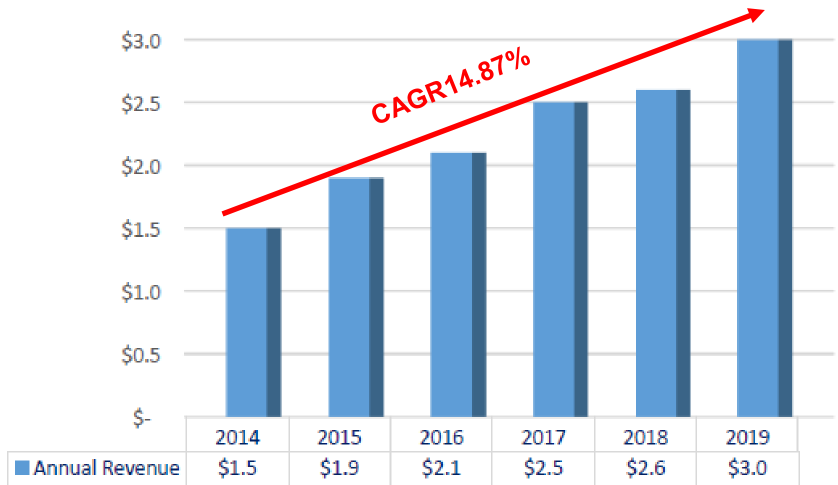
Cash Services	**33%**
Protective Services	**67%**

Employees

68,000
(at 01/31/2019)

Operations

North America, Europe, Middle East, Africa



GardaWorld is a privately-held company owned in the majority by a Private Equity Group

See conversion rate to U.S. dollars on page 11.

Source: GardaWorld Annual Reports

History

GardaWorld was founded in 1995 by Stéphan Crétier, current Chairman and CEO.

GardaWorld initially provided manned guarding services in Canada and grew organically and through acquisitions to eventually be listed on the Toronto Stock Exchange in 2003. Since then GardaWorld has significantly diversified its service offerings and geographical footprint with strategic expansions in cash handling services (Canada and U.S.), pre-boarding airport security screening (Canada), manned guarding in emerging markets (Middle East and Africa) and the U.S.; and travel security services.

SIGNIFICANT EVENTS - Since January 01, 2018

GardaWorld re-enters the U.S. manned guarding market through two significant acquisitions. Garda World originally entered the U.S. manned guarding market through the acquisition of Vance Security from SPX in 2006. It sold Vance to Andrews International in 2009 and re-inters the manned guarding market in the U.S. through its purchase of United American Security LLC in March of 2018 mentioned below:

1. On March 09, 2018, Garda World bought United American Security LLC. – Provider of manned guarding services in the U.S. market. UAS had, at the time of the acquisition, over 3,500 employees working from 26 regional offices. The purchase price, including long term debt, was US$72.4 million. The revenues of UAS was not announced, but it's estimated to have been around US$110 million at the time of the acquisition.

2. On April 05 2019, Garda World bought Whelan Security Company – a provider of manned guarding services in the U.S. market. At the time of acquisition, Whelan had 20,000 employees working from 54 branches. After this acquisition, Garda World had 92,000 employees worldwide. Garda World paid approximately US$162 million for Whelan. The revenues of Whelan were not announced, but it's estimated to be around US$285 million at the time of the acquisition. Garda World, in making the announcement, added that the Whelan acquisition affords Garda World the opportunity to now service customers all over the U.S.

Source: GardaWorld Annual Reports

History

SIGNIFICANT EVENTS - Since January 01, 2018

3. On July 23, 2019, BC Partners announced that it's making a significant investment in Garda World by buying out the present equity sponsor - RHONE Capital. The transaction values Garda World at CN$5.2 Billion (about 1.75 times sales and estimated 11 – 12 times EBITDA). When the transaction closes in late 2019, BC Partners will own 51% of the company with Stephan Crétier, the CEO, and other management team members owning the rest.

Source: GardaWorld Press Releases

GardaWorld Today - Around the Globe

SERVICE OFFERINGS - BY LINES OF BUSINESS

CASH SERVICES

GardaWorld's Cash Services platform is comprised of more than 210 locations, more than 3,400 vehicles and 150 cargo aircraft serving more than 13,500 customers. The company's clients include major banks and financial institutions, retailers, restaurants, and government agencies. Processing approximately CN$5 billion daily and performing approximately 70,000 secure pickups a day. The Corporation is the only non-bank Cash Services Company with Tier 1 Bank processing capabilities and industry's exclusive large capacity ultra-high speed image processing platform.

PROTECTIVE SERVICES

North America

GardaWorld Protective Services safeguards people and assets in more than 140 cities across the country for over 5,000 clients in various sectors, such as: natural resources, property management, health care, governments, retail, special events, and transportation. The corporation also provides airport pre-board security screening at 28 airports across Canada including Toronto, Calgary, Ottawa and Edmonton. Its flexible workforce, comprised of 25,000 highly-trained security professionals, provides licensed security guards, mobile patrols, alarm response units, labor disputes, security crisis management, special events security management, as well as consulting and investigations services. Three national command centers operate 24 hours a day, 7 days a week, to efficiently mitigate challenges and threats. It's also ISO 9001 certified.

Note: Above information as of 01/31/19

Source: GardaWorld Annual Reports

GardaWorld Today - Around the Globe

SERVICE OFFERINGS - BY LINES OF BUSINESS

PROTECTIVE SERVICES

International

GardaWorld International Protective Services works in complex, high threat and emerging markets, providing risk mitigation services when and where they are needed most. Its international security and risk team of professionals delivers flexible, discreet, avoidance-based security and protective services to secure people, assets and reputation, and gives its clients the confidence to grow their business. GardaWorld employs more than 26,000 staff in the emerging markets to provide protection, training and crisis response. The corporation is fully licensed and compliant with local regulatory standards in all countries in which it operates.

As a founding signatory of the International Code of Conduct for Private Security providers the company is trusted by its clients in the diplomatic, development, defense, oil & gas and critical infrastructure sectors as a transparent and responsible partner. GardaWorld is additionally certified to ANSI/ASIS PSC. 1-2012, ISO 9001, 14001, 22301 and BS OHSAS 18001. Every service in the world that is delivered by GardaWorld is covered by these certifications. It is the only private security company in the world certified to this level of compliance.

Note: Above information as of 01/31/19

Source: GardaWorld Annual Reports

GardaWorld's Revenue - by Lines of Service

REVENUES - FISCAL YEARS

January 31, 2019 and January 31, 2018

in ooo's CN$	2019	2018	Change
Protective Services			
North America	$ 1,127,315	$ 861,865	30.8%
International	865,979	803,095	7.8%
Total Protective Services	**1,993,294**	**1,664,960**	19.7%
Cash Services - North America	990,145	976,422	1.4%
Total Revenue	**$ 2,983,439**	**$ 2,641,382**	12.9%

Revenue from organic growth increased by CN$113.7 million and revenues from business acquisitions increased by CN$201.1 million or 7.6% driven mainly by the United American Security, LLC and the Primary Response, Inc. acquisitions. The impact of foreign exchange has increased the revenues by CN$27.2 million. Protective Services' revenues increased by 19.7% and Cash Services' revenues increased by 1.4%.

Source: GardaWorld Annual Reports

GardaWorld's Revenue - by Lines of Service

REVENUES - 1st QUARTER

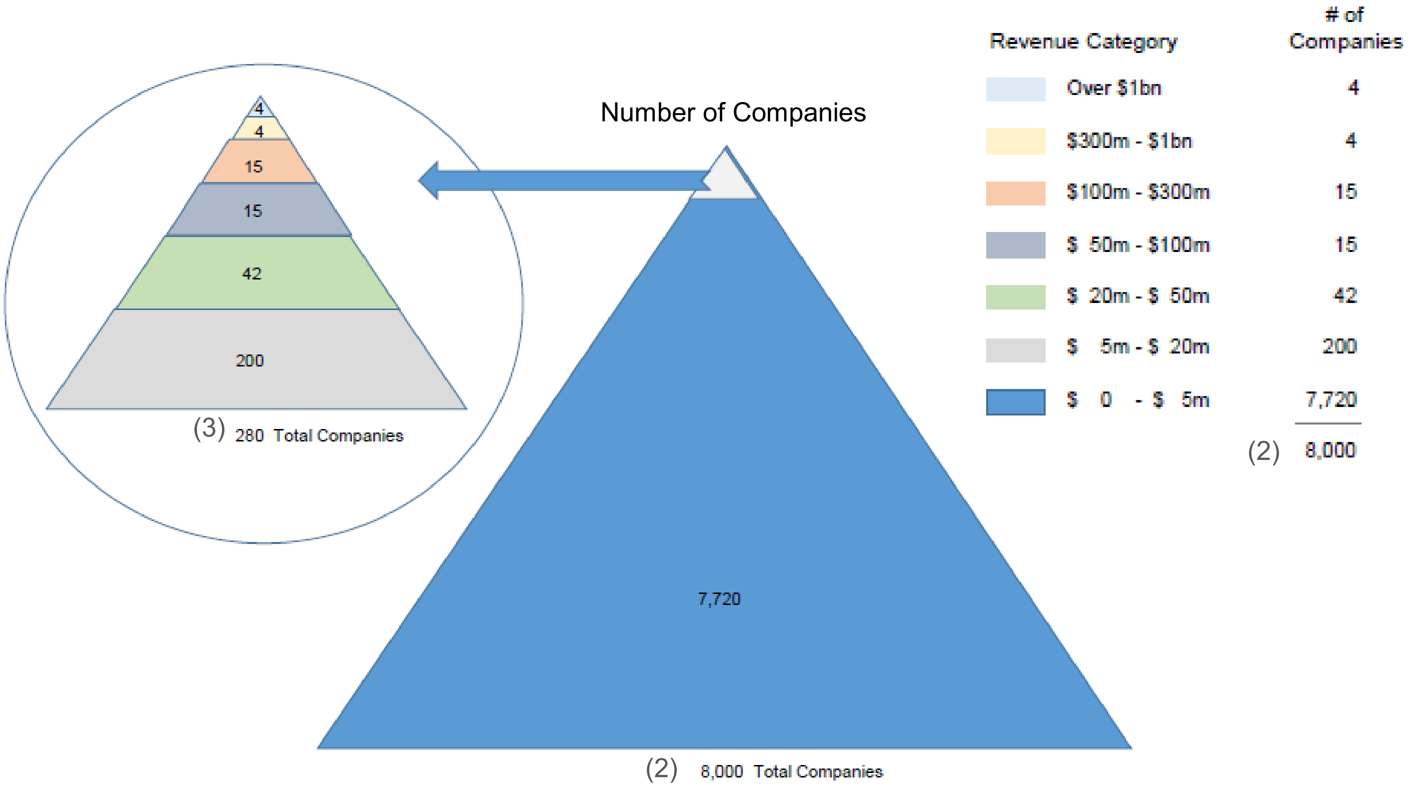
in .ooo's CN$	Feb - Apr 2019	Feb - Apr 2018	Change
Protective Services			
North America	$ 321.5	$ 252.3	27.4%
International	$ 228.3	$ 190.4	19.9%
Total Protective Services	**$ 549.8**	**$ 442.7**	24.2%
Cash Services - North America	$ 252.1	$ 235.7	7.0%
Total Revenue	**$ 801.9**	**$ 678.4**	18.2%

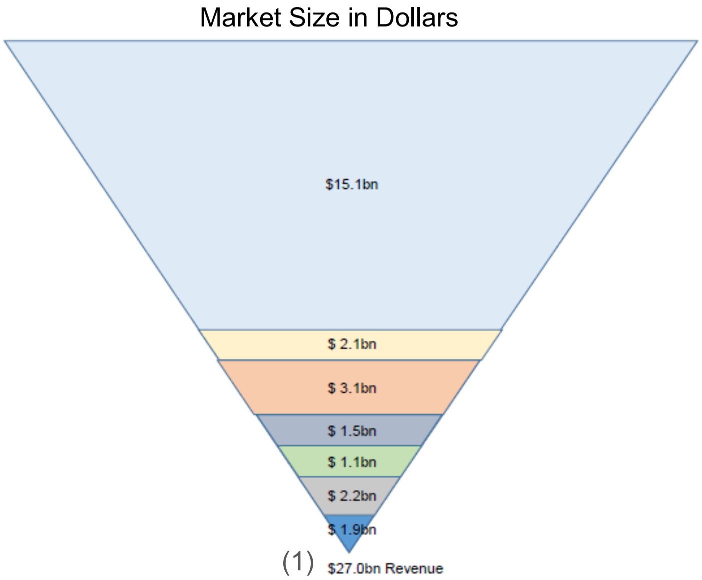
Details of Cash Services			
Canada	$ 61.2	$ 59.1	3.6%
U.S.A.	$ 190.9	$ 176.6	8.1%
	$ 252.1	**$ 235.7**	

Revenue from organic growth increased by CN$40.2 million or 5.9%, and revenues from business acquisitions increased by CN$57.4 million or 8.5%. The impact of foreign exchange has increased the revenues by $25.9 million.

Source: GardaWorld Annual Reports

Revenues and Number of Companies





1. Total market size estimated from annual reports of public security companies, Freedonia report, and files of RHPA
2. Arithmetical function to come to the 8,000 companies and $27.0 billion revenue
3. Information from annual reports and files of Robert H. Perry & Associates, Inc.

Size of the Industry

TREND: Freedonia and the large international companies are generally in agreement on the size of the ***NORTH AMERICAN MARKET*** (to include Canada and Mexico) at approximately $29 Billion. We estimate the U.S. market to be $27 Billion, with an insignificant portion coming from Canada and Mexico included for the large companies such as Allied Universal, Securitas and G4S that do not separate the revenues by country in their reporting. Based on our survey of company owners there has been real growth in the overall market figures, but not necessarily a significant amount of growth from an increase in billable hours. However, recent events in advancement in technology and artificial intelligence may open up the in-house market to qualified outsourced security providers.

As recent as 10 years ago, determining the size of the Contract Security Market, as it related to the manned guarding service offerings, was not complicated. Back then the only difference between the large and small companies was the amount of revenue and number of employees - all offered mostly standing and mobile guarding services.

As the menu of services expanded, determining the market size for any given service offering became more difficult and virtually impossible - leaving a question mark in deciding just how much the manned guarding sector has grown over the last 10 years and even from year-to-year

CHALLENGES IN DETERMINING MARKET SIZE

Most reporting agencies, in preparing their estimates of the size of the industry and growth expectations, rely heavily on the public information of the larger companies and the U.S. Census reports from the U.S. Federal government. The problem with using the these reports is that it asks for revenues from the main line of business of the reporting company which allows for inaccurate sector amounts for a company with two or several lines of businesses each having a different Standard Industrial Classification code.

In 2010, the US Department of Justice funded a report on the "private security industry" and the authors of that report ran into the same challenge in determining the size of the industry. They found that a broader definition of the industry will result in a higher estimate of the total revenue simply because the revenue of more companies will be included. Their report indicated that, depending on the criteria for revenue included in the count, the size of the outsourced security market in 2010 was somewhere between $20 billion and $30.5 billion (to include security guard firms as well as armored car firms and detective service firms), and one source indicated the revenue from the outsourced contract security market around 2010 as $11 billion.

Size of the Industry

The reporting agencies and large contract security companies, in their annual reports, put the size of the North American market at $29bn. We estimate the size of the U.S. market at $27bn, but includes an insignificant amount of revenue coming from the Canadian and Mexican market for the large companies (Securitas, G4S, and Allied Universal) that don't separate their revenues by country in reporting their year-end figures. As mentioned under the "Growth Factors" in this report, there's an estimated $20bn of in-house security, of which about $15bn is ideal for outsourced conversion.

The $27 billion is also consistent with our confidential internal files that identify the revenues, company-by-company, of many of the estimated 8,000 companies operating in the U.S. The combined revenues for these companies are approximately $23bn with the remaining $3bn in revenues coming from the smaller companies, for which we don't have specific revenue numbers. We are not including cash-in-transit (armored vehicles) or "pure play" Federal government security providers. This is a huge market – but extremely difficult to quantify in terms of security spend in the various world locations. The figures, if could be obtained, would also be distorted somewhat by the fact that there's a lot of minority and protégé subcontracting that create the possibility of double counting of the revenues in determining the size of this segment of the market.

Also, using $27 Billion as the size of the US market (with, as mentioned above, a small amount of revenues from Canada and Mexico included), it is estimated that the approximate size of the just the manned guarding portion (to exclude the revenues coming from the expanded menus of service offerings) is in the range of $24 to $25 billion.

Size of the Industry

This chart details our estimate of the growth for the industry for 2018 (by source), with a significant amount of the growth this year, as in prior years, coming from the Electronics/Systems Integration offerings; detailed in the overview of the U.S. operations of the five world leaders. Many of the company owners that participated in our survey indicated that they were able to obtain billing rate increases from their customers to help offset the wage inflation resulting from the record low unemployment rates. We estimate that, based on this survey, 2% of the growth in the market is the result of these billing rate increases. Also, this year our survey revealed that some, but by no means the majority, of the larger regional companies were growing through existing customers adding billing hours or obtaining new customers who previously did not have contract security. We estimate that 3% of the 6% growth in the manned guarding sector was the result of real growth in the new security provided and not a play on increase in billing rates. We also estimate that .6% of the growth came from revenues of systems integration companies purchased during the 2018 year.

	Source	Large Companies	Regional and Small Companies	Total Industry
(1)	Electronics/Systems Integration	1.0%	minimal	1.0%
	Manned Guarding:			
	New Revenue	1.0%	2.0%	3.0%
	Billing Rate Increases	1.5%	0.5%	2.0%
	Percent Increase	3.5%	2.5%	6.0%

(1) .4% organic growth.

TREND: The number of employees in the U.S. Contract Security Industry increased by an insignificant amount for this 2019 report. Although the total revenues were up 6%, a lot of the increase came from billing rate increases and the systems integration/ integrated security sectors (both low labor intensive) - with minimal growth in the number of additional security hours added, or in-house converting to contract security.

NUMBER OF EMPLOYEES

It still remains a challenge to find credible information on the number of people working in the outsourced contract security industry in the United States. The latest Occupational Employment Statistics Report by the Bureau of Labor Statistics (issued in May 2018 and the most widely quoted source for the security industry) indicates a total of 1,114,380 “Security Guards”. It includes some categories of labor not normally classified as manned security personnel, in-house guards and certain Federal government security employees not included in the count for the revenue size of the market.

Therefore, we went to published reports for the large companies and our internal files for the small companies. We arrived at 820,000 estimated employees in the industry based on a ratio of employees to total revenue as reported by the large companies along with our estimate of the number of employees for the smaller, non-reporting companies; after adjusting for more part-time employees in this latter category.

NUMBER OF EMPLOYEES - CONTRACT VS. PUBLIC POLICE FORCE

An August 2017 article in Forbes indicated that there were almost 700,000 police officers in the U.S.; which at 820,000 contracted guards (our estimate), puts the ratio at 1.2 contracted guards to every public policeman. In our 2018 white paper report, we quoted statistics that put the contracted security market at about 10% less than the public police force. However, in the 2018 analysis we used a July 29, 2016 *Wall Street Article* that put the public police force at roughly 900,000. There’s no clear explanation of the differences between the estimates from the two publications. However, as previously indicated, the outsourced market is growing and at a larger pace than the need to add public police personnel. In many municipalities, the public police force is being supplemented or replaced by outsourced guards who, in many cases, are better trained and come cheaper than what the local government has to pay for its own security force.

COMPENSATION

The May 2018 Occupational Labor Statistics report indicated that the median wages for contract security officers were approximately $15.50 (up from $14.40 in 2017) per hour worked; and $32,050 (up from $30,730 in 2017) for full-time gross annual pay. These figures vary significantly depending on the area of the country, union members and whether or not the employees are working at a Federal government facility where the wage and benefits are mandated by the Federal government contract vs. a commercial site. Also, the wages are rising due to the need to hire better qualified personnel for operating and managing the growing technical offerings of the Contract Security Companies – especially the offerings previously mentioned for the Big 5 world leaders

ARMED EMPLOYEES

Based on our in-house records of the hundreds of manned guarding company owners with which we have consulted over the past several years; it is estimated that, contrary to public opinion, less than 10% of security officers working for contract security companies carry weapons, but the amount of armed guards in the industry is rising. The ones that are armed today are more thoroughly vetted upon employment and go through extra training to qualify to carry the weapon. Further, many contract security companies hire off duty policemen to fill the posts requiring an armed security officer. The security company has to pay more for the off duty policeman, but most of the extra cost can be passed on to the customer.

However, as more and more incidences occur that could have been prevented by a weapon carrying security officer, the security customers are demanding that their contract security company find ways to meet this need.

Certain industries prone to increase in violence are already experiencing a ramped up demand for armed security officers. A 2016 article in the Beckers Hospital Review cites a doubling of armed personnel from the 2013 year.

A March 29, 2018 article in the Guardian indicated that armed officers were present in 43% of all public schools during the 2015-16 year compared to 31% just ten years before.

Overall, most of the large outsourced contract security companies today [the ones that can afford the investment] are meeting these demands – not only in better training and better vetting of the armed personnel, but also by introducing Artificial Intelligence as a way to anticipate incidences and respond before the incidence happens; which reduces the likelihood that an armed guard might use his/her weapon inappropriately.

SOURCES OF GROWTH

In-House Converting to Outsourced Security

It is estimated that the market size for companies providing their security in-house is about $20 Billion; based on what they would have to pay at out-sourced security rates. A study by our firm indicated that 60 – 75% of this market may be favorable for converting from in-house to outsourced security. The remaining 25 – 40% have internal requirements that prohibit them from outsourcing the security function. What is not clear, however, is why most of the contract security companies are not more aggressive at targeting and educating this market segment that can, and probably should, out-source their security. However, recently some of the large security companies have introduced technical applications, such as Artificial Intelligence, that will greatly enhance the security function. These applications are too expensive for the companies with in-house security to reproduce; therefore driving these companies to outsource security companies to fill this need.

Cost Considerations

Companies, (and more recently, municipalities) looking to cut costs are eliminating their in-house security program and using contract security companies. Typically, in-house security employees will cost their employer more due to long term tenure with the company and expensive retirement benefits. By contracting out the security function, companies and municipalities are getting better trained security personnel, in many cases, for less total outlay. Although there were many companies making this move during this reporting period, the amount of new revenue generated was minimal when compared to the $27 billion market.

The Need to Upgrade Security Functions

Many companies today are finding that their in-house force isn't prepared to handle a major crisis. Therefore, they're looking to outsource this function, not only for the cost savings described above, but also to make sure they have the right security in place when it's needed. The contract security company will, in most instances, have better trained personnel and more state-of-the-art technology to handle the security challenges of today. After all, it's the contract security company's goal to have the best and most effective security at competitive prices (the competition makes sure this happens); that's what they do and they have to do it best .

Increasing Crime and Terrorism

Immediately after 9/11 there was a large spike in outsourced security, which eventually settled back down, although to a higher level than it was before the terrorists attacks. The fear of another major terrorist attack still looms in the minds of the citizens in the US, but adding to that is the increase in the crime rates in general.

There's been a growing number of mass murders in our schools, theatres, shopping malls and sporting events; and still growing concerns over airports, nuclear sites, subways, and hospitals. And not only places where a large number of people congregate, but small gatherings as well – all having a chilling effect on our nation. All this points to a compelling reason to initiate or ramp up security at places not historically in need of outsourced security protection.

Government Agencies Outsourcing

The public police forces are, in most cases, operating on limited budgets, with outdated equipment and a low morale due to the attacks on policemen by our local community. Many insurance companies, as well as municipalities, are now demanding that companies provide adequate protection. The companies and municipalities that have a need to protect their property, employees, and citizens will be looking to the outsourced market as a way to respond to this ramped up demand. An April 18, 2019 Channel 6 News report from Milwaukee, Wisconsin announced a new effort to fight crime in the city by brining on cameras, security patrols, and a private security company to provide trained officers. A May 7, 2019 article in the Richmond Times-Dispatch indicated that . . . " Virginia is signing a $7M contract with a private security firm to transport mental health patients freeing up law enforcement. Many of the larger security companies started preparing for this increase in demand several years ago and are ready to respond.

Many sources indicate that a large growth in the contract security industry may be coming from airport passenger screening and other airport security functions presently handled by the Transportation Security Administration (TSA) in most of our airports. There are presently around 20 airports in the U.S. using outsourced security—the largest being San Francisco. However, many other large airports are considering making the change. [See page 107 for more details].

Enhancing Manned Guarding with Electronics

A recent survey by our firm indicated that many contract security companies today, that are actually growing, are doing so by offering systems integration, integrated security, or some other type of electronic security enhancing services. However, such companies as ADT Commercial and most recently the DIY Ring offering are gaining traction in providing services traditionally provided by the integrated security companies - thus may be a future threat to the manned guarding sector of the security industry. See page 66 for a more detailed discussion on this topic.

CONTRACTION

Companies Closing

Certain industries adversely affected by the downturn in the economy a few years ago are just now closing locations, thereby eliminating the need for security once needed in those areas.

Converting to In-House Security

Some companies are eliminating contract security and using their own personnel to handle the security functions as a way to justify keeping the valuable employees . . . However, the converse of this is true in many instances as mentioned under “Growth Factors” on page 58.

Replacing Manned Guarding with Electronics

Some companies are eliminating security officers entirely and replacing with electronic security; and some companies are just reducing the security force and supplementing with integrated security or other electronic security options. More on this topic under “Manned Guarding Converging with Electronics” on the following page.

Losing Market Share to the Traditional Electronic Security Companies

However, such companies as ADT Commercial and most recently the DIY Ring offering are gaining traction in providing services traditionally provided by the integrated security companies.

TREND: The large security companies continue to invest heavily in technology and other electronic services in order to enhance their position in being a "one-stop" security company able to service most, if not all, of the security needs of its customers. These companies project large continuing growth in the electronics sectors; surpassing the growth in traditional manned guarding services.

MANNED GUARDING CONVERGING WITH ELECTRONICS

The lingering question regarding convergence of manned guarding with electronics is how much of a role will electronics play in replacing, enhancing or supplementing the manned guarding function and the answer is still not clear.

Here's the story . . .

About eight years ago, the World Leaders - deriving almost all of their revenue from manned guarding services - started to anticipate the direction of the industry. The companies would become more competitive on pricing in order to gain market share. The customers of these companies would demand more (but not be willing to pay for it). The cost of labor - due to the minimum wage increase, the Affordable Care Act (ACA), and most recently, Predictive Scheduling - would escalate. These factors would deteriorate the margins and for some, drastically. Fast forward to today and it's evident that ALL of these anticipations have come to reality.

As these World Leaders, who were providing mostly manned guarding services at the time, started preparing themselves for the inevitable, they started diverting the funds they had set aside for acquisitions, which was several million dollars, into developing their technology offerings - a way to provide at least the same, and most times better, security at a lower price point to the customer. It would also set them apart from their "plain vanilla" smaller competitors that couldn't afford the investment in the very expensive technology. The goals of these world leaders were to have at least 20% of their total revenues coming from integrated security (page 63) by the year 2020 and some of the world leaders are already exceeding this target percentage. As set forth on page 78, the margins are not slipping as much for these large companies that have integrated security as it is for the smaller companies that can't afford the investment. Which means the larger companies are in a position to improve their margins going forward as more and more of their revenue will be coming from the higher margin integrated security offerings.

A statement on the website of Securitas USA describes Securitas' move to integrated guarding this way . . . *"the security industry continues to be challenged by the seemingly opposing dynamics of increasing the security of people and property while simultaneously maintaining cost control. At the same time, our clients are under constant pressure of their own to operate as efficiently as possible as they look to implement cost-control/reduction initiatives. Securitas USA's goal is to drive efficiencies within the security programs of our clients without compromising our capabilities to meet their security requirements".*

Manned Guarding Merging with Technology Creates the "Integrated Security" Offering

Today, the manned guarding function converging with advanced technology is labeled in different ways depending on the company offering it. The term most often used is "integrated security", but can also be described using other buzz words such as "integrated guarding" or "security solutions". Although the manned guarding component of the integrated security offering remains basically the same from one company to another, the technology offering can vary and sometimes the variance is significant and requires a much larger financial commitment; depending on the effectiveness of the technology.

Below is a very general description of the components of integrated security that usually starts with the manned guarding function as a way to operate or "drive" the technology or offering:

Remote Guarding – A security officer, stationed in an offsite video monitoring center or at the client's site, conducts a full video-tour of a facility, makes security announcements and manages access controls for employees and visitors. The same officer can complete logs and file reports traditionally performed on-site.

Mobile Guarding – The officer driving the vehicle will check on the facility a predetermined number of times – and be in the vicinity to respond if he/she gets a command from the central station monitoring center. This is becoming a larger, and very profitable, component of the large security company's revenue. Commercial and residential customers are seeking this as a way to reduce or eliminate the very costly false alarm costs now being imposed by the local law enforcement agencies.

Systems Integration – The systems integration function will install cameras, video surveillance, and access systems and usually tie all this into computer networks. Some of the smaller manned guarding companies will run the system and look to outside system integration companies for the installation and maintenance. The large companies will usually have an integration company in their portfolio, thus maintaining better control over the cost and quality of the service delivery.

Other offerings **–** while the use of drones and robots in the security industry is gaining a lot of traction, the use of ***artificial intelligence and cyber security*** are rapidly becoming the big attraction to customers in selecting their security company of choice.

Cyber Security and Artificial Intelligence are now a Very Important Service Offering of the Large Traditionally Manned Guarding Companies

Although Cyber Security and Artificial Intelligence are not commonly cited when defining the Integrated Security offering, each is growing exponentially as a current and potential service being offered by the security companies that can afford the investment needed to put the offering in place.

Cyber Security

Most of the World Leaders offering primarily manned guarding services will have their own in-house cyber security division and the divisions will be constantly recreating themselves as the cyber world faces new challenges. An October 01, 2018 article from MarketWatch said this about the growth of cyber security . . . "The rising incidences of cyber-attacks and cyber threats have given way to the development of the cyber security market. The [world] market is anticipated to attain revenues worth USD 251 Billion by 2023 while developing at an 11 percent compound annual growth rate in the forecast period".

So far it seems the World Leaders (in manned security) are only scratching the surface of the real potential growth in this huge market. By far the leaders in this market are companies not in the manned guarding business such as Symantec Corporation, EMC RSA, Intel Security, Hewlett Packard Enterprise, Trend Micro, Inc. Cisco Systems Inc. along with several other well-known cyber companies. However, the manned guarding companies are gaining traction (albeit very slowly at this point) in the cyber world and are catching the attention of the businesses and municipalities desperately needing these services – especially from their existing customers and customers of their smaller competitors.

Artificial Intelligence

Until recently "Artificial Intelligence" (AI) was an obscure phrase that was kicked around without any discernible meaning or application to real world circumstances. The Webster and Merriam dictionaries define Artificial Intelligence as, "1. The capability of a machine to imitate the intelligent human behavior, and 2. The capacity of a computer to perform operations analogous to learning and decision making in humans, as by an expert system". Over the past couple of years, AI has gained a lot of traction, especially in the areas where computer fraud and domestic acts of terrorism are prevalent.

Artificial Intelligence (Continued)

The experts see the AI technology, as it relates to the security industry, as a way to predict an incident before it happens and act on that prediction before the damaging event becomes a reality. Securitas mentioned AI about 5 years ago as a service it was developing and bringing to market; and some of the other large companies have also been building the technology and programs to implement this very important tool. In fact, this month (July 2019) Allied Universal took a very pro-active opportunity to introduce its AI platform called HELIAUS ® . The platform took several months and cost several million dollars to build. And it's expensive to maintain and implement. The technology can be used at the site level; which means the security officers have to be more thoroughly vetted and trained (initially and with frequent updates) thus causing more expense to deliver the program. However, Allied Universal, as well as the other large companies using and/or developing the AI technology, expect the offering to greatly enhance their service delivery, and ability to gain revenues from its present customers, as well as customers from its competitors that can't afford the technology. It also anticipates that this technology will help it break into the estimated $15 billion, presently untapped, in-house security market.

The Pure Play Alarm Companies Share Market Segments with the Manned Guarding Companies

Not only are the large traditional manned guarding companies growing faster in their electronics offerings than they are in the manned guarding side of the business, but the alarm companies - that used to be mostly residential providers – are also now growing in the commercial markets, thus becoming competitors of the manned guarding companies in this segment of the security industry. A case in point is ADT: ADT, up until recently, exclusively provided alarms to the residential market, but now the commercial market represents 25% of its $4.5bn in revenue, and growing. Which means ADT has about the same revenues coming from systems integration as the Big 5 companies combined. Further, ADT is also competing with the manned guarding companies in the cyber security market. ADT entered the cyber security market through its purchase of DataShield in December of 2017. DataShield was founded in 2009 and provides cyber security solutions in conjunction with managed detection and response (MDR) services across various lines of industries.

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As further evidence that ADT is serious about expanding its commercial portfolio; this past year, ADT separated the company into two divisions – ADT (the traditional home alarm company) and ADT COMMERCIAL – the brand for the commercial, mostly systems integration, market. In November 2018, ADT Commercial bought Red Hawk Fire and Security for $317.5 million. Red Hawk was one of the last few independent large national commercial integrators, offering complex, mission-critical solutions across its 45 district locations and produced revenues of $300 million for the 2018 year. [Source: Security Info Watch November 2018].

This expansion in commercial electronics by both the traditional manned guarding and alarm companies has expanded the customers' choices for providers and has opened up a new and much higher level of competition amongst well-financed, multi-functional security companies.

Then in a most recent surprising move, Security Sales in its August 9, 2019 e-mail blast announced that Ring is launching a smart DIY security system for small businesses. It went on to say that, "Smart security provider Ring is dipping its toe in the commercial market with the launch of Ring for Business, a DIY solution aimed at small companies . . . One in four small businesses are impacted by burglary or theft."

Since this was just announced, there's no clear indication of how this may affect the small manned guarding companies with the customers that may qualify for this cheaper security alternative to manned guarding or maybe a supplement/enhancement to the already effective manned guarding function.

The Electronics Industry is Now Growing at About the Same Rate as the Manned Guarding Industry

Michael Barnes, President of Barnes Associates, a well-known and respected M&A and consulting firm specializing in the electronic security industry, indicated the following in his popular industry overview report at the Barnes-Buchanan conference (now in its 24th year) in Palm Beach in February 2019:

- Total U.S. revenues for the alarm monitoring/service and systems integration companies are now $61bn - 6% growth over the 2017 year.
- Total U.S. installation revenue is now $30bn - ↑ 3%
- Total U.S. alarm monitoring/service revenue is now $31bn - ↑ 6%
- The MSO Conglomerates (Multiple Service Offerings - the telecoms/cablecoms) that have steadily entered the market over the past few years showed a year-over-year increase of 14% (down slightly from the previous year). The MSO's account for about 6% of the total electronics security market – staying about the same as Barnes' 2017 report.

Many of the telecom/cablecom and internet giants making up the MSO's such as Comcast, Comporium, Charter/Time Warner, Cox and Century link have entered the home electronics security market. AT&T Direct and Verizon were in the market, but left. Amazon is the most recent entrant into the market, and by far the most concerning to the other players in the electronic security industry.

There have been recent news articles indicating that other MSO’s are considering this move as well – a natural progression for these conglomerates to expand their service offerings for their millions of customers. Some experts in the industry are saying that this could indicate a game changing event for the present providers of electronic security. One scenario is that the MSO’s would have to partner with the existing electronics companies to handle the installations, service and response (which is already happening), and to help overcome their often less than stellar reputations for reliable service. Also, many of the systems provided by the MSO’s are DIY systems - in the case of Ring. The MSO’s do not presently provide a central monitoring station and are passing this on to existing monitoring companies. This is good news for some of the existing electronics companies. While others are saying that these companies have a very large band-width that takes competing in the electronics sector to a whole new level and that would be concerning.

The most recent announcement, which underscores the reason for the move the MSO’s are making to leverage their huge customer base, was published by SecurityInfoWatch in December of 2018. The announcement stated that AAA of Nevada and California is buying Safe Security, a large provider of smart home and business security services, with a significant market presence in the residential and commercial alarm industry. Safe provides monitoring services, installation, maintenance and other related services to thousands of homeowners and businesses across the nation. This captive audience makes for a perfect scenario of cross selling home alarms with the “comfort services” - roadside assistance and insurance - being provided by AAA.

The “Converging” Challenge

As part of our research for this year’s White Paper, our firm conducted a survey of owners, which included smaller and regional companies. The responses were evenly split between the owners of companies with no plans to expand the offerings beyond the traditional manned guarding services and the owners of companies that thought they have to expand their services to compete in this “new” marketplace. Some of the owners have teamed with technology companies that will enable them to joint venture these services, although the company will, in many cases, not be in control of the quality of the service being provided, thus jeopardizing its relationship with the customer. The respondents who indicated no plans to expand their menus of services thought the expanded menu would be too expensive, or were servicing the type of customers that don’t have, and will probably never have, a need for their manned guarding services to be supplemented by some type of electronic security. These companies will continue to be successful in providing personal service oriented traditional manned guarding services; at least until the customers’ needs require integrated security.

However, as mentioned earlier, the five World Leaders are growing faster in the electronics part of their services than they are in the manned guarding offerings; a sign that more and more of their customers are asking for, and demanding in some instances, that they provide a level of service only available through the integration of electronics and manned guarding. Many of the owners of the smaller companies indicated that they were already losing some of their tenured, valuable customers to the larger security companies that can offer these services.

The Role of Acquisitions in the Convergence Process

Here is the story of how the industry leaders got into the electronic security market and making the move from the traditional "bill by the hour" plain vanilla, highly competitive guarding services to the more effective and customer demanded integrated security services, which in most instances, carries a higher margin to the security company provider:

Securitas sold off its electronic systems integration business, Niscayah, about 10 years ago, then after finding out that it did in fact enhance the manned guarding business, tried to buy it back. In the buy-back process it lost its chance to acquire the company when Stanley Works outbid Securitas and bought the company for $1.2bn. On June 5, 2014 Securitas bought a 24% stake in Iverify (www.iverify.net), a state-of-the-art video monitoring center headquartered in Charlotte, NC. Then in an even bolder move, on February 1, 2016, Securitas completed the purchase of Diebold's $330m (in revenue) North American Electronic Security business. On June 11, 2018, Securitas purchased the $135m Kratos Public Safety and Security division (a top 10 systems integrator in the U.S.) from Kratos Defense & Security Solutions, Inc. for $70m Cash.

On December 16, 2013, G4S Technology created a new service and maintenance division in Chicago as a way to leverage the technology resources it already had in-house. This new business served to combine already established G4S call centers and hosted video monitoring centers in other parts of the U.S. In addition to its security business (monitoring and installation), G4S Technology has a telecom division. This division now goes under the brand - G4S Secure Integration.

On December 4, 2013, Universal purchased THRIVE Intelligence, a state-of-the-art monitoring center headquartered in Dallas, Texas. In a more recent move, Allied Universal bought Securadyne, a $73 million commercial systems integrator with 300 employees working from 17 locations across the United States. In July 2019, Allied Universal introduced its newly developed artificial intelligence platform called HELIAUS ®.

Prosegur entered the U.S. market in late 2018 and early 2019 through 2 major acquisitions in the electronics/cyber security space:

Viewpoint - Founded over 10 years ago and specialized in video-voice security technology and serves clients in multiple industries.

Cipher - A leading cyber security company with presence in North America, Latin America, and Europe. Cipher was founded in 2000 and delivers Managed Security Services (MSS) and Security Consulting Services. This acquisition expands and enhances Prosegur's already established cyber security business operating mostly in Europe and the emerging markets. After the acquisition, Prosegur put all its worldwide cyber security offerings under the Cipher Security management.

MARGINS

Margins and EBITDA

TREND: The margin percentages (profit at the customer site level) have been trending down for the past five years; and are now significantly lower for the small and regional security companies compared to ten years ago, but have now leveled off; albeit at a much undesirable lower level. This downtrend in margins has been brought about through competitive pressures and increased direct costs. The Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) line shows insignificant change for the regional companies, but a drastic negative change for the small company. The margins and EBITDA for the national and international companies have actually increased due to integrated guarding and other high profit margin services growing and offsetting increases in direct cost. Also, the larger companies, through offering a wider menu of needed security services, are winning high margin customers from their smaller competitors.

The margins for the small and medium sized companies are still, on average, better than the margins for the large national and international companies.

Typically, the well-run, closely-held, small to medium sized contract security company, will have better margins than its larger competitors for the following reasons:

- The smaller contract security company is selling personalized service and many customers are still willing to pay extra for this attention not available from its larger competitors.

- The smaller contract security company operates in a limited geographic area or region; thereby cannot service or attract the larger customers with multinational or international sites. These “national accounts” are mostly handled by the larger national or international security companies, but the competition to win these types of customers is very intense. Therefore, the large security companies will bid these accounts at much lower margins (than the smaller companies are getting for their “local” accounts) in exchange for a larger volume of revenue, the prestige of providing security for some well-known conglomerate, or the possibility of obtaining additional sites or other types of security for this conglomerate at much higher margins after the security company gets its foot in the door.

Margins and EBITDA

On pages 78 and 79 are charts, with 10-year trends, showing the typical margins and EBITDA for the small, regional and national/international U.S. Contract Security Companies – with an insignificant portion of the revenue coming from the governmental sector (typically very low margin business). There is no margin or EBITDA information published for the industry, except in the annual reports of the two public companies - Securitas and G4S; and Garda, which is not publically traded, but makes its annual reports available through a Canadian reporting agency. The aggregate U.S. manned guarding revenues of these three companies represent approximately 30% of the U.S. Contract Security market. The information in this chart was prepared based on a review of the annual reports of these three companies and conversations with key executives of the large privately-held companies; as well as financial reports sent to our office by owners of various small and regional privately-held manned guarding firms.

The resulting figures in the chart indicate a decrease in margins over the past few years of approximately 4% for the small companies and 3% for the regional companies. However, it's interesting to note that although the margins at the site level have slipped, EBITDA has remained relatively steady over the past couple of years for the regional companies. This is due primarily to a lot of "belt tightening" at the home office level accomplished by being more efficient in utilizing the non-billable personnel, or eliminating altogether some non-billable personnel through investing in technology. The small companies are usually operating at optimum levels of overhead personnel already and do not have much room for decreasing operating costs; hence the reason the EBITDA is decreasing significantly for these smaller companies.

There has been a larger decrease in margins in areas that have recently been unionized as unions force the company to pay union dues and mandate expensive employee benefits.

The overwhelming majority of the owners of the small companies that helped us in preparing the statistics for this white paper feel that the margins will only get worse due primarily to competition from the larger companies, the increase in minimum wage (the cost of which can't be fully absorbed by the customer) and the higher than normal non-billable overtime premium pay due to the present historically low country-wide unemployment rates. Also owners we interviewed in late July 2019, cited the Predictive Scheduling law, just passed by the city of Chicago, as being very concerning to the future of the margins.

Margins and EBITDA

All companies are presently experiencing or anticipating increases in direct costs due to the following factors – which, in many cases, cannot be passed on to the customer through higher billing rates or cost pass through adjustments:

Wage creep through longer tenure of the security officers

Companies are paying more attention to the periodic pay increases than ever before. This is one of the ways they retain loyal, better trained security officers in this time of low unemployment rates. However, this wage creep erodes the gross margins if it can't be passed on to the customer in the form of billing rate increases; which often meets with resistance since many customers today are still operating under tight security budgets. Although this may be a rising cost factor, most companies see this as a viable alternative to the much more expensive high turnover of the security officer force.

Affordable Care Act

Many companies have now made a temporary "fix" in their concerns over the ACA, supported by low cost plans and the elimination of the individual mandate. However, this increased cost of doing business still exists for most companies, not only in the mandated premiums but the cost of administering the plans and meeting all the complicated reporting requirements (See page 84 for a detailed presentation).

Increasing Unionization

See page 104 for a detailed presentation

Increase in Minimum Wage

See page 103 for a detailed presentation

Mandated Benefits

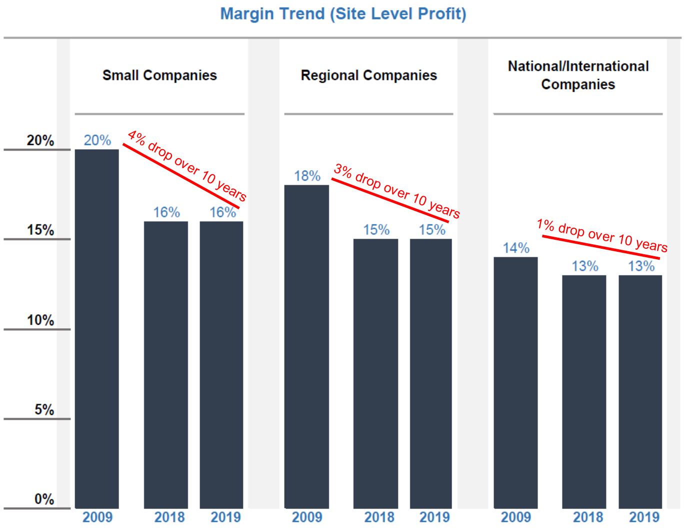
Some states already have a 3-day sick pay requirement and it's anticipated that this policy will spread throughout the country. The latest city to implement the requirement was Dallas in July 2019.

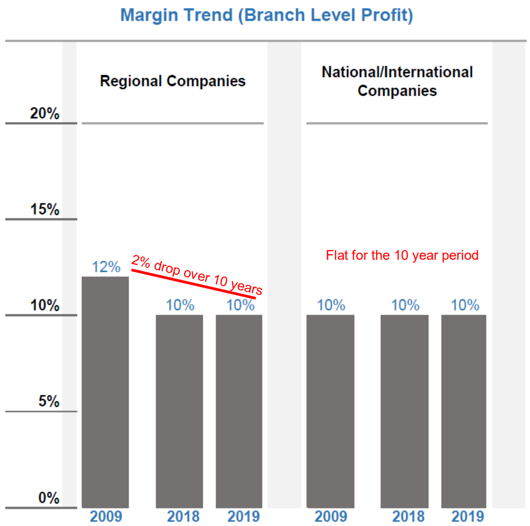
Investment in Technology

The company that wants/needs to stay competitive today is having to make a large investment in technology, which is necessary to offer more services to the demanding customers (i.e.; integrated guarding). The initial cost of this investment is high, thus driving down the profits for a period until the additional services can be offered to the customer.

Predictive Scheduling (To be Implemented in Mid-2020 for the City of Chicago)

See page 105 for a detailed presentation.

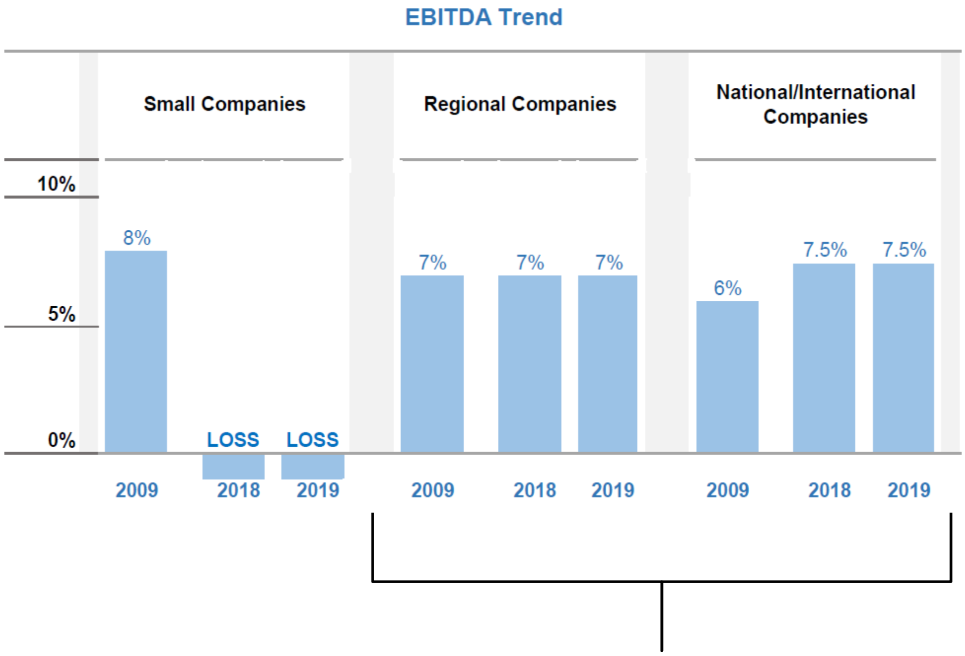




Note:

- **The International World Leaders with significant revenues coming from the "emerging markets" report company wide margins in the 18% - 20% range; underscoring the continuing competitiveness of the U.S. manned guarding market.**
- **See page 110 for definition of terms**

EBITDA



The Tax Reduction Act of 2018 reduced the taxes paid, below the EBITDA line, for most corporations by 14%. Securitas and G4S stand to gain approximately $50M from this reduction in tax rates.

Defining Terms on the Previous Charts:

Margins (profit at the customer site, also referred to as "gross profit")

All direct cost as a percentage of revenue. Direct costs are all costs assigned to the site, such as: compensation for the billable officers, wages for the dedicated non-billable supervisors, uniforms, employer payroll taxes, workers compensation insurance, general liability insurance, employer portion of health benefits, cost of equipment dedicated to the site, union cost, cost for non-billable roving supervisors (not assigned to an account) if there are a lot of "cold start" sites, etc.

Branch Level Profit

The profit at site level less all the cost to operate the branch office (for companies with multiple branch offices).

EBITDA

Earnings Before Interest Taxes Depreciation and Amortization.

Small Companies

Revenues less than $10 million; owner manages the business and has customer relationships. Usually inefficient in back-office operation and pays more on a per-unit cost for insurance, uniforms, etc. In addition to the previously mentioned cost increases, gross margins are slipping due to the larger companies' recent interest in the smaller accounts, which typically have higher margins. Adding to the margin erosion for the small company have been the pricing pressures from the customers.

Regional Companies

Revenues $10 - $100 million; owner less involved in customer relationships, operates multi-offices – usually volume is $5 - $10 million per office. These medium sized companies are also experiencing margin slippage due to the previously mentioned costs. Although the margins are decreasing, the EBITDA has remained relatively constant due to a lot of "belt tightening" at the administrative cost level.

The Branch Level profit can be much lower for regional companies with many small offices in areas with an insufficient volume to justify the branch office overhead. This is often found in companies that are expanding through entering new markets, or having to maintain a support office to service a large account with multiple locations.

National/International Companies

As indicated in several places in this white paper report, many of the national/international companies are now investing heavily in electronics and technology as a way to compete in the market place. The margins are not decreasing, but increasing, due to the move to have more volume in the higher margin security offerings.

MERGERS

TREND: 2018/2019 was another "moderate activity" period in terms of number of transactions for mergers and acquisitions in the traditional guarding and electronics security industry; not only here in the United States, but around the world, as well. However, there were some significant transactions in terms of size that is getting the attention of very large investors looking to park a significant amount of their managed funds in the contract security space.

The following are transactions — primarily involving sellers with revenues exceeding $100 million — for the 2018 year and 7 months ended July 31, 2019. Also listed are certain smaller transactions and Initial Public Offerings we feel are significant to the direction of the security industry:

U.S. Manned Guarding Transactions

March 2018 **–** ***GardaWorld acquired United American Security.*** LaSalle Capital sold United American Security to Garda World Security Corp for approximately $70M (as reported under Garda World's profile on page 46 of this White Paper). UAS reported approximately $110M in revenues at the time of the sale.

September 2018 – ***Command Security Corporation Announces Signing of Definitive Acquisition Agreement with Prosegur for $2.85 per share*** Prosegur bought Command Security Corporation through a tender offer of its outstanding public shares. Prosegur paid approximately $30M for the shares and Command had revenues of approximately $150M.

October 2018 – ***Allied Universal completes acquisition of U.S. Security Associates for approximately $1 billion*** U.S. Security Associates had revenues of approximately $1.5bn and adjusted EBITDA of approximately $95M.

November 2018 – ***Delta Global Services to combine with Argenbright Holdings*** Argenbright Holdings acquired 51% of Delta Global Services. DGS provides diverse services to airlines, including passenger secondary screening, cabin and cargo services, ground support, and security services.

U.S. Manned Guarding Transactions (Continued)

February 2019 – ***CDPQ acquires 40% of Allied Universal from Warburg Pincus and Wendel*** At the time of the acquisition, Allied Universal had over $7bn in revenue. The enterprise value is 100% of revenue ($7bn).

April 2019 – ***GardaWorld acquires Whelan Security*** Whelan Security had approximately $285M of revenue with 20,000 employees working from 54 branch locations.

April 2019 – **Sun Capital buys ZS Fund's interest in SOS Security** There was not a news release on this transaction. SOS has revenues of approximately $600M.

U.S. Electronic Security Transactions

June 2018 - ***Securitas Completes Acquisition of Kratos Defense and Security Solutions*** Securitas Electronic Security completed its $70M acquisition of the public safety and security business from Kratos Defense and Security Solutions. As reported on page 71 of this white paper, this Kratos subsidiary reported revenues of $135M.

November 2018 – ***AAA (California and Arizona) enters security business with acquisition of SAFE Security*** SAFE was founded in 1988 and provides monitoring, installation, maintenance and other related services to homeowners and businesses across the U.S.

December 2018 – ***ADT buys Red Hawk Fire and Security in a $317.5M transaction*** Red Hawk's fire, life safety and security services are used at more than 70,000 commercial facilities nationwide. Its revenues are approximately $300M.

April 2019 – ***Allied Universal Acquires Securadyne to Build Out Integration Platform*** This acquisition gives Allied Universal an integration platform to provide technology-enabled security solutions on a global scale.

June 2019 – ***Vector Security buys Nashville firm (ADS Security)***, creating an expansion into several new states

U.S. Armored Car Transactions

May 2018 - ***Dunbar Armored selling to rival for $520M***, The Brink's Co. is acquiring its competitor, Dunbar Armored, Inc., a family-owned business in Baltimore County for 95 years, in a $520M all-cash deal. Dunbar reported revenues of approximately $390M and adjusted EBITDA of approximately $43M.

Public Offering Announcements

January 2018 - ***Apollo takes ADT public in early 2018***

TREND: Private Equity Groups that were not previously invested in the contract security sector are now viewing this segment of the security industry as an attractive placement for their managed funds.

Private Equity Groups (PEG's) are firms made up of executives with an attractive track record in running large companies; and experts in analyzing the financial data of the target companies the group is interested in buying. The PEG will have a track record in finding, buying and managing (either passive or active) struggling or growing companies needing the financial resources to take the company to the next logical level. The investors in these firms are primarily very large pension funds, insurance companies, high net worth individuals, family partnerships, municipalities, the members of the Private Equity Group and sometimes the owner of the company they are buying.

According to the Private Equity Growth Capital Council, there are more than 3,300 private equity firms in the United States that own more than 11,000 businesses, which employ roughly 7.5 million people.

Private Equity Groups Investing in the Contract Security Industry

Traditionally, the PEG's interest in the security sector was mostly centered around the biometrics and electronic security businesses, since these companies carried larger margins with less liability than the traditional manned guarding companies.

However, the PEG's that have invested in the manned guard security sector have played a very important role in the expansion of the industry. Private Equity is sitting on a lot of cash needing to be invested. The PEG's don't mind taking risks and are committed to investing what's necessary to make sure the company they are invested in is successful. The PEG's are developing technology (which requires a large financial commitment), paying high multiples for well-run tuck-in companies with characteristics consistent with their growth criteria, and paying salaries high enough to attract the seasoned executives capable of making all of this happen.

Private Equity has been a source of retirement for owners of well-run companies

Collectively, the very few PEG's that have invested in the contract security industry over the past 10 years have bought over 200 privately held companies; providing the sellers the opportunity to receive a well-earned reward for their many years of hard work. The large public companies such as Securitas and G4S have been on the sidelines for acquisitions of traditional manned guarding companies for the past 5 - 8 years, so they have not been a buyer of choice. The privately held companies looking to make acquisitions have not been able to compete with the high prices the PEG's are paying. The privately held buyers are not sitting on a stash of idle cash, therefore have to rely on bank loans to finance the acquisition. The banks are requiring the owners to collateralize the loan with the net worth of the buying company as well as the personal assets of the buyer, which the "would be" buyer does not want to do; and the sellers are not willing to take a long term note.

Also, in spite of the fact that many of the large targets were bought when Universal Protection (now Allied Universal) was on its buying spree; there are a **few** companies with revenues in excess of $100m still left and are prime targets to be bought. The challenge the PEG's will have is in finding these companies since many of the owners of these companies don't want to be targets for their competitors so these companies are not on the traditional public lists.

Company	PE Partner	Date Invested	Overview
Security Solutions of America	Capitala	June 2015	Capitala has a significant investment in Security Solutions of America - a $40m multi-service security provider.
Allied Universal Security Services	Wendel Warburg Pincus Partners Group, Realizing Potential in Private Markets	August 2016	All of the Private Equity Groups are co-investors and own collectively about 87% of Allied Universal - billing around $7.4bn per year.
Allied Universal Security Services	CDPQ Caisse de dépôt et placement du Québec	February 2019	
constellis	Apollo	September 2016	Apollo, the lead investor in the transaction, teamed with certain key executives in this management lead buy-out. Revenues are not publically disclosed
UAS	Rhône	March 2018	GardaWorld, owned in the majority by Rhone Capital at the time of the acquisition, bought UAS in March of 2018. The revenues of UAS were in the $110M range at the time of acquisition.
JBM Patrol & Protection	Sunlake Capital Mangrove Equity Partners	December 2018	Sunlake teamed with Mangrove Equity to buy JBM Patrol as a flagship company for additional synergistic acquisitions in the manned guarding space.

Company	PE Partner	Date Invested	Overview
SOS	SUN CAPITAL PARTNERS, INC.	April 2019	Sun Capital bought ZS Fund's majority ownership in SOS Security. SOS has revenues of approximately $600M.
whelan security	RHÔNE	April 2019	GardaWorld, owned in the majority by Rhone Capital, at the time of the acquisition, bought Whelan Security in April of 2019. The revenues of Whelan are in the $285M range.
GARDAWORLD	BC PARTNERS	July 2019	BC Partners bought Rhone's interest in Garda. Garda is now owned 51%by BC Partners, with 49% being owned by Garda's CEO, Stéphan Crétier, along with other management team members.

The Large Public Companies

In January 2019, Securitas bought Global Elite Group, a leading security services provider to the aviation industry in the U.S. The announced purchase price was $22 million dependent on reaching certain financial targets. This acquisition was very strategic to Securitas' plans for further expansion into the very large U.S. aviation market.

In July 2019, Securitas bought certain inspection and background investigation assets of MSM Security Services, LLC. This was a strategic acquisition for Securitas in that it expanded the Securitas Critical Infrastructure Services Federal background investigations business.

With the exception of the above acquisitions, neither Securitas nor G4S has been active in buying traditional manned guarding companies over the past five years anywhere in the world. They are enjoying continued and sustainable growth in revenue and profit through promoting their integrated security and cyber security success, which is enhancing their organic growth trend. They will continue to curtail their buying activities; unless opportunities arise in the non-traditional security sectors, such as large high-end systems integration companies or opportunities to leverage their integrated guarding efforts.

The Private Equity Groups

The investors in the Private Equity Groups demand attractive returns on their investments. They will be looking for the companies in which they have invested to outperform the market trends; which means they will be expecting growth rates higher than 6%. ***Given that the total revenues of the companies owned in the majority by private equity groups are in the $8.5bn range; at a low 90% customer retention rate, the companies have to gain approximately $1.3bn of combined new revenues just to meet the 6% market growth performance. This is a challenge in the rather mature security market.***

The large private equity groups will meet this challenge by:

1. Entering new foreign markets - greenfield or through acquisitions (in the case of Allied Universal).
2. Staying aggressive in their program of acquiring their smaller competitors, but only if the multiple is in line with the buyer's build vs. buy model (i.e.; the present multiples will not likely increase).
3. Making larger investments in the integrated security model as a way to obtain new customers as well as additional revenue from existing customers.
4. Getting more aggressive in the bidding for new accounts
5. Seeking bill rate increases in line with escalating increases in labor costs.

The Closely-Held Company Buyers (Not Owned by PEG's)

Some of the closely-held companies will remain on the acquisition trail for the smaller tuck-in acquisitions. However, they continue to have a difficult time in competing with the aggressive companies owned by PEG's.

MULTIPLES

OVERVIEW OF LARGE CONTRACT SECURITY COMPANY TRANSACTIONS

Year	Company Sold	Buyer	Revenue	EBITDA	Price	Price as Multiple of Revenue	Price as Multiple of EBITDA
2015	Valor / Brantley Security Services	Universal Protection Service	$130M	N/A	N/A	N/A	N/A
	AlliedBarton Security Services	Wendel	$2.2B	$150M	$1.67B	80%	11.67x
	Guardsmark	Universal Protection Service	$500M	N/A	N/A	N/A	N/A
	ACSS American Commercial Security Services	Universal Protection Service	$400M	N/A	$131M	33%	N/A
2016	(1) AlliedBarton Security Services / Universal Protection Service	Warburg Pincus / Wendel / Partners Group	$4.5B	$440M	N/A	N/A	N/A
	constellis	Apollo	N/A	N/A	N/A	N/A	N/A
2018	UAS	GardaWorld	$100M	N/A	$70.7M	71%	N/A
	U.S. Security Associates	AlliedUniversal Security Services	$1.5B	N/A	$1B	67%	N/A
	Command Security Corporation CSC / Aviation Safeguards	Prosegur	$175M	3M	$30M	18%	10x
2019	whelan security	GardaWorld	$285M	N/A	$160M	56%	N/A
	(2)	Sun Capital Partners, Inc.	$600M	N/A	N/A	N/A	N/A

The above summarizes the ***large announced*** sale transactions for the past 5 years of U.S. security companies offering primarily manned guarding services. To view large transactions dating back to 1999 in our previous White Papers, please visit the Publication Listing on our website.

1) This transaction was announced as a merger. The EBITDA figure for Allied Universal, post merger, ($440m) was estimated based on anticipated proforma synergies.
2) Sun Capital bought ZS Fund's majority interest in SOS Security

Selling Prices for Large Companies

TREND: The selling multiples for large manned guarding companies for the years prior to 2015 were in the 8—9 times EBITDA (Earnings Before Interest Taxes and Depreciation) range. In 2015, Allied Barton was sold to Wendel for around 12 times EBITDA; and transactions since that date have been in the 10 - 12 times EBITDA multiple range and seem to be leveling off at around those multiples.

Most of the large transactions announced in the years leading up to the Allied Barton/Wendel transaction indicated average purchase price values in the 8 – 9 times EBITDA range. Transactions for 2018 and 2019 year-to-date have been in the 10-12X EBITDA range. Most of the transactions were financed by Private Equity which accounts for the somewhat unpredictable trend in the multiples. Private Equity takes its investing cues from the direction of the financial markets. Although the U.S. is experiencing the best economy in decades there are concerns on the horizon. The variables in borrowing money, the instability of the foreign markets, and the overall prediction of the direction of the U.S. economy comes into play when deciding the multiples Private Equity can and will pay. There is presently strong concern that a change in the current political leadership will result in higher taxes and an overall shift of government attitudes toward business owners of all sizes.

In the case of Private Equity Groups buying a large contract security company, and now as small as $50 million in revenue, as a way to enter the market, the multiples paid are at least as high as what the industry buyers are paying, even though the PEG'S return on investment in the short term was not as attractive as the industry buyers were enjoying. However, the PEG's had to be competitive in the bidding process for the initial buy. As the PEG's made future acquisitions through the flagship company, their returns became a lot more attractive, especially if the acquired company folded into the flagship company's operations – thereby through averaging the prices paid for the multiple purchases, the return on the initial purchase became a lot more attractive.

Selling Prices for Large Companies

There are presently several well funded Private Equity Groups on the hunt for a flagship manned guarding company. They usually set their sites on companies with at least $100M in annual revenue for their initial buy, but since most of the larger companies were bought up in the acquisition frenzy of Universal (now Allied Universal), the Private Equity Groups have lowered their target revenues somewhat.

There are also some very large foreign manned guarding companies looking to enter the U.S. market through a purchase of a significant company providing manned guarding and systems integration services.

As for the companies already owned by Private Equity Groups, they are having to be even more aggressive in their growth plans. Their owners are expecting their company to outperform the present 6% growth trend in the market. Given that the total revenues of the companies owned in the majority by PEG's, are in the $8.5bn range; at a low 90% customer retention rate, the companies must have combined new revenues coming in of around $1.3bn in order to just meet the 6% market growth performance. Although a lot of the new revenue will be coming from the companies entering new geographical foreign markets, price increases and more aggressive marketing efforts; much of the growth will still be coming from select tuck-in acquisition opportunities.

As for Allied Universal, with its recent infusion of approximately $1 Billion for acquisitions, will continue to go after large companies, especially to increase its service offerings, not only in North America, but foreign opportunities as well.

Selling Prices for Small Companies

TREND: The multiples are still at an all-time high. There are enough aggressive, well-financed, buyers in the industry competing for the targets to keep the multiples attractive. The multiples will probably not get higher since they are very close to reaching the aggressive buyer's threshold where the decision is made to put funds earmarked for acquisition into more aggressive marketing efforts instead of "over paying" for the targets.

The "enterprise" prices being paid for the smaller companies over the past few years, to include the normalized working capital necessary to carry the volume of business, has been approximately six times the ***buyers' (not the sellers') proforma post transition cash flow.***

Although this multiple has increased significantly over the past five years, sellers aren't necessarily receiving a higher price for their company.

As the revenue and/or gross margins of many of the small companies have dropped in the recent past, the selling price has remained steady or decreased since the higher multiple is applied to a lesser profit. As previously stated, the buyers are buying profit, not gross revenue.

Why buyers were paying higher multiples

Since the LIBOR rate, the rate world banks charge their most credit worthy customers to borrow money, had been declining recently – approaching zero at one time – the large Private Equity Groups (the most active buyers for contract security companies today) were paying less to borrow money and were passing this savings on to the seller in order to entice the "fence straddlers" to come to the closing table.

Also, the Private Equity Group owners were demanding acquisition growth from their manned guarding portfolio companies, which required higher than market multiples in order to entice the owners to sell.

Will the multiples of cash flow keep getting higher or is there a "correction" on the horizon?

It is unlikely the multiples will increase. Presently the LIBOR rate is in a state of uncertainty. The economic growth of the U.S. is stalling due to foreign trade wars and there are even talks of a recession. All this leads to buyers also being concerned about how aggressive to be in pricing their acquisitions. The present multiple level is very close to reaching the buyer's "build vs. buy" model threshold, which means rather than a buyer paying a higher than normal multiple to purchase a company, a robust advertising/marketing campaign to obtain new customers organically may be a more compelling alternative. Also, in the past, many of the active acquirers were needing to make acquisitions in order to get into new geographical markets. The traditional active acquirers have now developed an attractive national footprint. They are in all the major markets and can service national accounts with very little, if any, need to subcontract the business to a smaller company, or acquire a company just to get into the market. They will still make smaller acquisitions, but the selling company now has to be strategic to the buyer's growth criteria and has to meet more stringent due diligence criteria.

Factors Driving Owners to Sell

TREND: The results of a recent survey conducted by our firm indicated continuing higher operating costs suppressing gross margins. The medium size and large companies are able to adapt by getting more efficient, thereby reducing overhead costs below the gross margin line. Smaller companies do not have the organizational structure or money to invest in technology to reduce overhead cost, thus exploring the possibility of selling to their larger competitors.

Below are some of the factors driving the owners to sell now:

Concerns over tax increases and other anti-business legislation that might come from a new government legislation – as we approach a major election year, there are many candidates promising a restoration of the pre 2018 tax rates (about 15% higher than the present rates), putting the capital gains rates back in the 30% range and implementing a net worth tax.

Increase in the Federal and state mandated minimum wage – many states have already enacted increases in the minimum wage to upwards of $15 per hour phased in over the next several years. Owners of the small companies are concerned that this increase cannot be fully passed on to the customer, which results in higher direct cost and more erosion to the margins – the profit line the buyers are using as a basis to compute the prices they pay for an acquisition. See “Challenges for Owners of Contract Security Companies” on page 103 for a detailed discussion on the increase in minimum wage.

The cost of implementing the Affordable Care Act - Although many companies today have now made a temporary “fix” in their concerns over the ACA, supported by low cost plans and the elimination of the individual mandate, it’s still unknown what the exact impact this bill will have on the contract security industry in the long run. Most owners think it will definitely mean less profits and loss of customers or billable hours.

Not being able or willing to keep up with the changes needed to stay competitive. As we mentioned in the section on margins, the margin at the site level is dropping for all but the largest companies. The companies that can (i.e.; the large and medium-sized companies) are compensating by getting more efficient below the site level line. They are reducing clerical labor and non-billable overtime percentages by investing in technology that enables them to run the company with less people and at the same time be more efficient. However, the technology costs money and many owners today, especially those getting close to retirement age, aren’t willing or financially able to make the investment that doesn’t give an immediate return. Also, the training, tax, and licensing laws are getting much more complicated and in some cases have required an investment in outside consultants, which is another new expense; not to mention the expense that will be associated with complying with the Affordable Care Act.

Small to medium sized companies are losing business to the national account providers - This trend has been going on for several years and, according to the owners of many of these companies that took part in our recent survey, the situation is getting worse. The large, well-financed, companies are now going after the customers of the smaller companies that tend to have better margins. Previously, these customers were too small to be a target for these large security providers. Note in the "Industry Leaders" section of this White Paper that the organic revenues of the "Leaders" increased around 7%, while the total market grew at 6%. This means that some of the increase in revenue for the larger companies is coming from their smaller competitors. This loss of business is causing the owners of the smaller companies to seriously think about selling before more business is lost to the large national companies.

Possible lower valuations later - Many owners feel that the challenges of the future will mean more companies will be put on the market, thereby causing a decrease in the valuations for a future sale – especially if the taxes on a sale get put back to previously high levels as is the possibility (and probability) under a new government administration.

Unionization – [See page 104 under "Challenges for Owners of Contract Security Companies"]

Original owners reaching retirement age - Many contract security companies today were started 30 – 40 years ago, when the trend to out-source security was getting started in a big way. These owners are now reaching retirement age and are looking to sell their business.

Predictive Scheduling - The city of Chicago just passed a law, to go into effect July 1, 2020, requiring employers (i.e., manned guarding companies) to provide employees a 10-day notice prior to changing their normal work schedules. The new Act is not only troubling for owners of manned guarding companies operating in Chicago, but also owners in other areas feel they may be the next target for this Act that increases the cost of labor.

Factors Driving Owners to *NOT* Sell

Below are some of the factors driving the owners NOT to sell:

Decline in alternative investment opportunities — Before Certificates of Deposit and bond rates dropped dramatically, many sellers of contract security companies made more money from the funds they invested from the sale of the company than they made while owning and operating it. However, now that these safe haven investment returns are so low, the profits the owners are making from their company cannot be replaced by returns on the after tax monies invested from the sale of the business.

Many companies have already lost value — Many of the contract security companies have, in fact, felt the effects of this very competitive market and have lost value – not because the selling multiples have gone down, but because the company has lost valuable and profitable revenue. The owners do not want to have to settle for a reduced price because they still have high expectations, so they are hoping their company will get large and more profitable again; at which time they will think seriously about selling.

Some companies are enjoying increased revenue and profits — The results of a recent survey conducted by our firm indicated that a small segment of the contract security industry is actually growing in revenue and profits. These are the companies owned by executives who are keeping up with the technological advances in the industry and investing heavily in marketing efforts.

Owners consider the industry recession proof — contract security company owners see continuing activity in the market, so they are tak-ing a "wait and see" approach to selling, thinking that buyers will still be there when they get ready to sell.

OUTLOOK

TREND: Most of the “Challenges” mentioned in our previous White Papers remain today; and some are even more critical.

Looking back over the past 8 years or so, there have been several Challenges that affected the owners of contract security companies that eventually went through periods of corrections. There were the high unemployment rates that caused the owners of contract security companies to have to pay high unemployment taxes - a large hit to the gross margin. Then the unemployment rates started a downward spiral under the present administration making an improvement on the unemployment tax rates; but with low unemployment, came the high non-billable overtime rates. Four years ago, the major concern was what would happen to the owners of companies when the Affordable Care Act took effect. This concern gradually subsided somewhat as the owners found ways to minimize the effect of the act. Today, we see the following as the present challenges - and potential future challenges - to owners of contract security companies, some more costly than others, but nonetheless still a challenge in running a profitable company.

PRESENT CHALLENGES

Low Unemployment - Causing High Non-billable Overtime Rates

Based on the most recent U.S. Bureau of Labor Statistics report, the U.S. unemployment rate rose to 3.7 percent in June 2019 from a 49-year low of 3.6 percent in the previous month and above market expectations of 3.6 percent. The unemployment rate has been hovering in the high 3 percent range over the past two years, the highest point being 4% in January 2019 and the lowest being 3.6% just three months ago (April and May of 2019).

With low employment comes recruiting challenges. Qualified security officers are difficult to find, since many of the prospects are finding better paid positions at the retail/manufacturing and hospitality sectors, which are now offering higher pay rates and more attractive benefits than most contract security companies can afford, given their already low gross profits. The windfall tax decrease from the Trump administration which took effect in 2018 caused many of the large companies in the retail/manufacturing sectors to pass some of the savings on to the employees in the form of higher wages, another factor fueling the gap in the pay scale between service companies and the larger retail/ manufacturing conglomerates. However, based on the BLS reports, the overall effect of these pay increases was negligible on the overall unemployment rates. Many respondents to our survey indicated that their non-billable overtime rates have increased dramatically to the point of lowering the gross profit 1 - 2 percentage points (or higher in some cases).

PRESENT CHALLENGES (Continued)

Low Unemployment (Continued)

A few of the companies indicated that they were able to get their customers to agree to a slight billing rate increase to offset some of this otherwise non-billable cost. The respondents indicated that the customers were understanding in their challenge to recruit qualified security personnel in this low unemployment market. The customers did not want to lose their favored security officer to the higher paying industries. In fact, the customers were experiencing recruiting challenges within their own organization.

While most of the new laws mentioned below raise the standard of living for security officers, the fact still remains that the laws add layers of cost to the service model that has to be absorbed by the company or passed on to the customer. As mentioned in several sections of this White Paper, increases in rates to the customers also increases the likelihood that the customer will seek alternative sources of security (integrated and/or other electronic security sources).

Increase in Minimum Wage

Several states have announced a “proposed” or already “approved” increase in the minimum wage. A July 18, 2019 article in Forbes indicated that … "The House voted Thursday to raise the minimum wage to $15 per hour by 2025, and while the proposal will likely flounder in the Republican-controlled Senate, 30 states have already taken their own measures over the past five years to raise their own minimum wages, with seven going as far to pass $15 minimum wages". The article went on to hint that a Federal mandated minimum wage increase was due since the present $7.25 rate has not been increased since 2009, the longest time the U.S. has gone without a minimum wage bump since it was established in 1938.

According to the companies in our files and other industry statistics, the average pay rates for security officers on post assignment is in the $12 - $13 per hour range. Most contract security companies pay about $3 per hour higher than the local minimum wage in order to attract qualified personnel. A company with a present pay rate of $13 per hour that is forced to meet the $15 per hour law would have to increase the billing rate to the customer by over 20%; and even more if the company wanted or needed to maintain the $3 per hour distance from the lawful minimum wage.

The lingering concern amongst the owners of manned guarding companies is that the higher bill rate necessary to cover the increase in the security officers’ wages will drive the customer to the low rate competitors or reduce the manned coverage in favor of electronic security.

PRESENT CHALLENGES (Continued)

The Affordable Care Act

As mentioned in past White Papers, the ACA is and continues to be a great concern to owners of contract security companies, even though not as much today as it was four years ago when it was passed into law. The cost of the insurance premiums mandated by the ACA is still somewhat of a moving target and a big question mark in the minds of the owners of contract security companies. However, many have found ways to mitigate the original concerns through lower cost insurance offerings; the concern also has been mitigated by the fact that only a few of the security personnel have elected to sign-up for even the lowest cost insurance plan offered by the company - a result of the elimination of the "individual mandate" which was approved in late 2017 and became effective in January of 2019. Employers are still pushing for an elimination of the "employers' mandate" part of the Act, and whether or not this will ever happen is still an ongoing discussion among the lawmakers .

Mandatory Paid Leave

According to a recent "Work Place Fairness" report there are 9 states and 13 major cities (in states that have not yet passed the law) that have passed a bill requiring that companies give workers paid sick days to care for themselves or family members. The obvious concern to the owners of contract security companies is that this is just one of many new laws being passed that increases the cost of operating a business that probably will not be able to be passed along to the customer.

Deeper Unionization of the Contract Security Industry

For some companies the wage rates and benefits mandated by unions are lower than what the company provides its non-union personnel. However, for the vast number of companies, unions increase operating cost, which in turn lower margins.

In June 2018, the Supreme Court handed down a decision to eliminate the requirement for public sector workers to pay union dues. Excerpts from a June 27, 2018 article in the *New York Times* stated this about the decision: "Most public-sector unions in more than 20 states with such laws are going to get smaller and poorer in the coming years. Though it's difficult to predict with precision, experts and union officials say they could lose 10% to 1/3rd of their members, or more, in the states effected, as conservative groups seek to persuade workers to drop out..." Later in the article a representative of the labor unions said that the unions were getting as aggressive as ever in cutting costs to offset the loss of some of the union dues; as well as ramping up its efforts to organize non-unionized workplaces and reach out to its existing members for more support.

PRESENT CHALLENGES (Continued)

Deeper Unionization of the Contract Security Industry (Continued)

There have not been any recent pronouncements changing the above decision and as of the publishing of this White Paper, it's unclear how this decision may affect the labor intensive contract security industry (non-public sector workers), if at all.

Sales Taxes

Many municipalities are trying to pass legislation to tax services (not presently subject to sales tax) in an effort to make up for the diminishing tax based revenues. This sales tax is usually passed on to the customer contracting for the security, but it definitely impacts the customer's cost of security, which in turn puts pressure on the customer to ask for price concessions from the security service provider.

Predictive Scheduling

Predictive Scheduling was passed a couple of years ago in some of the major cities such as Los Angeles and Seattle as a way to assure the "quality of life" for the employees. It basically required employers to give the employee a certain number of hours/days' notice before changing the employee's normal work schedule; and if violated, the employer would have to pay high premium rates for the hours worked "outside" the normal scheduled hours. It counter acts on-call and "just-in-time" scheduling practices most commonly used and needed by manned guarding companies to fill an empty post assignment. Up until this month (July 2019) only retail and hospitality industries were covered under the regulations of the various cities that enacted the Act.

Then just this month, the city of Chicago passed a predictive scheduling Act that includes companies employing over 100 people providing "Building Services" defined as…. " any employee performing janitorial services, building maintenance services, security services or other services in or around a covered location to maintain the security, repair, cleanliness, and overall quality of any residential or commercial property". Although this definition of covered employees would include most activities performed by the traditional manned guarding companies, there are certain exclusions covered in the act.

This new Act is not only troubling for the owners of traditional manned guarding companies operating in the city of Chicago, but owners of manned guarding companies in other areas of the country are now concerned that their geographical coverage may be the next target for Predictive Scheduling.

POSSIBLE FUTURE CHALLENGES

Expanded Overtime Eligibility for Salaried Workers

In 2016, a proposal by the Obama administration to increase the overtime threshold to $47,476 per year was halted by a federal judge from being implemented. The proposed rule is back again. Although watered down some what, it is still troubling to many owners of contract security companies. The rule now under proposal raises the threshold from the present amount of $23,660 to $35,308. Based on our research for this white paper, the new proposed rule is still under consideration.

Changes in the political climate

As the U.S. approaches a major election, many candidates running for political office have platforms that call for reforms that hurt the small and large business owners, such as:

1. The elimination of the recent tax cuts that reduced the tax on corporate profits by approximately 8%-14%, depending on the corporate entity ("C" corp vs. pass through entities); which, if enacted, will make it more costly to own and operate a business.

2. Increasing the capital gains rates - some candidates are proposing to increase the present 20% rate up to 30% or higher; or eliminating the lower rate altogether. This would put a large tax bill on owners when selling their company. For instance, the company would have to sell for about 15% more at a 30% tax rate in order for the owner to enjoy the same after tax benefits under the present 20% tax rate - a company selling for $10 million now would have to sell for $11.5 million under a 30% rate. Buyers can't increase their offering prices enough to offset the increases in taxes.

3. Accelerating the minimum pay rate increase - as mentioned previously, many states have already mandated a minimum rate of $15 per hour to gradually phase in over the next 5 years or so. Some of the candidates are proposing that this increase be Federally mandated and become effective at a much faster rate.

TREND: The large and small well-financed companies have many opportunities to grow and become more profitable in today's market, where the need for better security continues to increase.

Expansion of Private Airport Screeners

The recent move to privatize security screening at airports could create a large market not available to most contract security companies since the TSA was formed after the events of 9/11. In fact, this may be the source of the largest growth for the outsourced contract security industry.

There have many reports recently that the government run TSA program is not working. The inefficiencies associated with the government program is causing delays in airports; and most recently even larger delays due to the Federal government shutdown for several weeks affecting the TSA employees. One of the solutions being considered [and probably the most viable] is to expand the Screening Partnership Program (SPP). Created in 2001, the SPP allows private airport screeners to operate under the oversight of the TSA. Private company personnel check bags, screen passengers, and manage daily affairs while meeting the same standards originally enacted by Congress after 9/11.

Municipalities Continue the Trend of Outsourcing its Security Function

A look at the public bid list will reveal that more and more municipalities are looking for ways to contain cost as it's faced with having to raise rates to its customers; and the municipalities are doing it through outsourcing its security functions and in some cases, its police force. Not only is it outsourcing to reduce its cost, but also to get more effective security now being provided by the contract security companies that have invested heavily in technology – something the municipalities have been lax on doing over the past few years because of budget restraints.

Decrease in Federal Income Taxes - already enacted and being enjoyed by owners.

The tax legislation enacted in December of 2017 lowered the income tax rates from 35% to 21% beginning in 2018 for companies operating and taxed through traditional "C" corporations - a 14% decrease in the taxes paid on profits. It also lowered the taxes approximately 8% for the owners of businesses operating as a "pass through" entity. These two provisions made a lot more cash available to the corporations and/or owners that can be used to grow the company, pay down debt, make acquisitions or just increase the amounts the owners take out for personal use. In fact, as a result of the new tax legislation, Securitas and G4S stand to reduce taxes about $50 million combined per year based on the current estimated US taxable income, after the effect of adjusting for deferred tax expense (a one-time adjustment caused by the new tax act).

OPPORTUNITIES (Continued)

Increasing Crime Rates

There's been a growing number of mass murders in our schools, theatres, shopping malls and sporting events; and growing concerns over airports, nuclear sites and subways - basically anywhere a large crowd of people could become prime targets for psychopaths and terrorists attacks – all having a chilling effect on our nation. All this points to a compelling reason to initiate or ramp up security at these or other locations. The public police forces are not equipped to handle the special security expertise required to secure some of these critical infrastructures; therefore the owners are looking to outsource these functions to companies with the experience and technology to handle this type security.

The rapidly growing Cannabis industry

Presently in the U.S., there's a lot of uncertainty surrounding the Cannabis market - it's legal in some forms but not others, even recreational cannabis is now legal in many states and many pre employment drug screening devices have eliminated cannabis from it's list of banned substances. However, since the Cannabis industry has still not been formally legalized in every form and in every jurisdiction in the U.S., the banks and other industries under the scrutiny of the Federal laws are reluctant to get involved in endorsing it across the board as a legal industry. Many banks will not handle deposits coming from Cannabis dispensaries for concern that their actions might be in viewed as their taking part in illegal activities.

When all the legal ramifications of handling the monies from the Cannabis industry are sorted out, the opportunities for contract security companies in this industry are phenomenal.

A January 16, 2019 PR Newswire said this about the Cannabis industry, "The cannabis market is growing at a remarkable rate, as the legalization movement sees success. Despite the global expansion, the North American segment continues to dominate the cannabis industry worldwide . . . although the medical segment is growing rapidly, the recreational market is still developing, primarily led by U.S. states like California, Nevada, and Colorado. According to data compiled by Genesis Market Insights, the global market was valued at USD 17.18 Billion in 2017 and is expected to reach USD 58.90 Billion by 2023. Additionally, the market is projected to grow at a CAGR 22.91% throughout the forecast period, from 2018 to 2023. "

There are already many security companies being started and developed to handle the specialized security for this rapidly growing market. 3 Sixty Risk Solutions Ltd. is a recent Canadian IPO (initial public offering) which will specialize in Cannabis security and Garda, in Canada, already has an established footprint in this industry in the Canadian market.

GLOSSARY

Glossary of Terms

Terms:

Alarm companies - Companies deriving the majority of its revenues from alarm installations and central station alarm monitoring

CAGR - Compound annual growth rate

Cyber Security - The protection of internet-connected systems, including hardware, software and data, from cyberattacks

EBIT - Earnings before interest and taxes

EBITDA - Earnings before interest, taxes, depreciation and amortization

EPS - Earnings per share

In-House Security - Term used to describe the use of a company's own employees to provide the security function vs. using a contract security company

Integrated Guarding - Term coined by the large security companies to describe the combination of on-site manned guarding with remote video and mobile vehicle patrol

Manned Guarding - Term used interchangeably with security guards and security officers

Margin - Gross income (income after production expenses – i.e., site level income) as a percent of total revenue.

Operating Margin - Earnings Before Interest and Taxes as a percentage of total revenue

Organic Growth - Growth exclusive of acquisitions

PBITA - Profit before interest, taxes and amortization

ABOUT ROBERT H. PERRY & ASSOCIATES, INCORPORATED:

For over 25 years we have successfully completed over 250 sell-side engagements for security companies located in 8 countries and having revenues between $2M - $200M.

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