

Q1 2019 Physical Security Industry Update



Market Update: Slow down cancelled

In my Q3 & Q4 2018 updates I talked about headwinds from inflation and a slowing housing market and cautioned that we would see the commercial security market start to slow down. Well, not this year. The overall market is incredibly strong. ISC West was jammed with people, products and active projects. Many I spoke with said they have record backlogs and that 2019 is going to be a significant growth year. The only concern voiced by nearly everyone is the need for additional talent. At some point it may be available talent that challenges overall growth.

There have been several large “Market Shaping” announcements in the first quarter that potentially create new business models.

ADT announced the acquisition of \$375 million **Red Hawk**, doubling down on their move back into commercial security business in a big way to offset their continued challenge of attrition in the residential business. ADT now has >\$1 billion of commercial integration revenues. So far Wall Street still isn't buying the new model as their stock still struggles along around \$6.50 in spite of the push to rebalance the business.

Allied Universal, the world's largest manned guarding company acquired SDM #11, \$73 million, **Securadyne** hoping to create a total security solution for their customers. Seems logical to provide both manned guarding services and the security systems integration creating a unique total provider solution including a response capability to the access control & video surveillance services.

Cook & Boardman, the largest and only private equity backed commercial door & hardware provider acquired **\$50 million A3 Security** in North Carolina. C&B intends to offer a total opening solution to customers incorporating division 8 & 28 products & services as the line between electronic - intelligent locking applications blur the traditional lines of supply.

Alarm.com and **DR Horton** agreed to build in home automation & security into every new home DR Horton builds. The “Home is Connected” solution is a big boost to home automation and includes; Locks, lights, doorbell cameras, a single app for everything, advanced home automation capabilities, and a upgrade path to professionally monitored security. Here's an opportunity for security dealers to “manage” DR Horton neighborhoods. Expect other home builders to follow suit, fueling home automation growth. Alarm.com Q4 results beat on all metrics. Stock is trading at record highs, but it may be time to jump in.

Further confirming the rapid growth in home automation / security, **ASSA ABLOY** moved senior executive Martin Huddart into a new global initiative, Smart Home. Both Yale and August products will be incorporated into multiple strategic alignments (Alexa & Google Assistant) and will develop existing & new routes to market.

These acquisitions / ventures are not only large but each one has the potential to shape the market structure of the future. These moves will be interesting to watch.

Q1 2019 Highlights from the Manufacturers

Allegion: Solid growth.

- Revenue of \$655 million, +6.8% v PY. +5.8% organic including 2.1% price realization.
- Adjusted Operating Margin was flat at 17%. EPS was up 10%.
- Americas sales were \$475 million, +8.2%, 7.6% organic v PY. Low double digit growth in Non-Residential, Residential sales were flat. Electromechanical products +10%.
- Americas Operating Income was \$132 million, OM was flat at 25.9%.
- EMEIA revenue was \$142 million, -4.9%, +1.7% organic. OM increased from 6.0% to 8.2%.
- Asia revenue was up 55%, -2% organically +63% acq. Loss decreased from -4.2% to -1.9%.
- No change in 2019 forecast. EPS growth projection +6 - 9%.

ASSA ABLOY: Third quarter in a row with > 15% Growth - Distances itself from competition

- Total Sales were 21.5 MESK (\$2.5billion) up 16% vPY. 5% organic, 3% acquisitive, 8% currency. EBIT was up 15%, EPS + 13%. Operating cash flow doubled.
- Very strong growth in the Americas. Strong growth in Global Tech & APAC. Electromechanical products up 30%.
- Americas - strong growth in US residential & electromechanical products. **Revenue was up 22%**. 10% organic, 11% currency, 1% acquisitive. Operating margin was 19.9% helped by volume, impacted by raw materials and mix.
- Global Technology (HID & Ving) group, **was up 35%**. 9% organic, 11% currency, 15% acq. Operating margin declined from 18.8% to 17.9%. Strong growth in citizen I.D., Secure Issuance & access control.
- Entrance Systems, reported 3% organic growth. Sited growth in residential doors.
- Completed 3 acquisitions in Q1, KEYper Systems, Secure Edge Technologies, & Spence Door.

dormakaba: 6 month results released March 6th 2019

- Revenues were CHF 1,396.5 million, \$1,368 million US. +2.1% organic, -1.4% divestment, -1.0% currency.
- Americas revenues were \$400 million, -1.8% organically. Ebitda improved from 19.7% to 21.1%.
- Key Systems and Wall Solutions were up 3.8% organically.
- Divested US Door Hardware Services after the business failed to achieve expected profit performance.

Stanley: Security continues to lag the rest of their business

- Net sales were \$3.3billion; up 4% vPY, +5% organic.
- Tools & Storage +7%, Industrial was up 10% and Security declined 1% for the 3rd Qtr in a row.
- Security reported sales of \$486 million, -1% v PY. Americas were up 2%.
- Americas profitability improved from 9.6% to 10.3%.

M&A Activity - in addition to the game changers on page 1....

Joe Grillo's **ACRE** group acquired software OEM **RS2** after picking up Open Options last quarter. Now with Vanderbilt, Open Options and RS2 it will be interesting to see what Joe has up his sleeve.

FE Moran Security Solutions, no. 34 of the SDM 100 acquired **MidCo Inc** with offices in Burr Ridge and Bloomington, Ill, adding commercial security, network solutions, communications & life safety solutions to FE Moran. *Davis Group's Steve Rubin represented MidCo in this transaction.* .

Convergint announced the acquisition of Pineville, North Carolina-based **Security Solutions & Management** (SS&M). SS&M's focuses on the government sector.

CIA Security was acquired by Doyle Security Systems. The acquisition has been reported to be the largest merger in the 100-year history of Doyle Security, and will result in 7,500 new customers for the company. *Davis Group represented CIA in the transaction.*

In one of the best examples of an acquisition destroying corporate value, **Schneider Electric** has entered exclusive negotiations with Transom Capital Group, a U.S.-based private equity firm, to sell **Pelco**.

Kendell Door & Hardware completes the acquisition of **Washington Architectural Hardware**.

Congratulations to Don Anderson, Washington Architectural Hardware (WAH) and John Katter, Kendell Door & Hardware for completing this acquisition and teaming up to create a significant business presence in the physical security industry.

3SE LLC is proud to have represented WAH in this transaction.

Connect America, an independent provider of personal emergency response systems (PERS), has acquired **Tunstall Americas**, a provider of connected health services. The integration of Tunstall Americas with Connect America brings together over 1,000 employees, more than 300,000 shared subscribers and more than 1,000 healthcare network partners.

Featured Current Business Opportunities:

- **Southern based hybrid door/hardware systems and security integration company.** \$7 million revenue, 58% Door Hardware systems, 42% access control, video, fire alarm & nurse call systems. \$500,000 / yr contractual monitoring, test & inspection revenues.
- **Florida based full service systems integrator; video surveillance, fire alarm, AV & communication systems provider based in a vibrant market.** \$9 million revenue, highly profitable. Consistent revenue and profitability performance. *Under LOI*
- **Western based Network & Security Systems Integrator.** IT / Network systems integrator that has involved in a full-service security integration business providing access control, video surveillance, IT / network services, digital signage and licensed & unlicensed communication systems. \$4.75 million revenue, 16% adjusted ebitda. Owner will retire and has operating team in place.
- **Greater Chicago Area Commercial Door & Hardware and Garage Door Systems Business.** Long established business selling commercial doors and frames to smaller contractors. \$1.5 million revenues, 9 employees. Access to major manufactures would be important. Excellent geographical expansion opportunity.
- **Louisiana integrator** with \$5.6 M in revenues, \$2.5 M adjusted EBITDA. 2019 expected to be \$7.0 M with Adjusted EBITDA of \$2.75 M. Clients include schools, prisons, jails, courthouses, arenas and City Projects. Four locations in Louisiana with Security Licenses and State Contractors license in Louisiana, Mississippi, and Arkansas
- **FL. Integration Business** \$10 M revenues; \$2 M adjusted EBITDA; Major customers include National Retail Chains & Top-Secret Govt. Services Companies. \$250,000 Contracted RMR.
- **New England Security Integration Business.** \$2.5 M revenue, looking to help acquirer expand their business with additional talent, end customers and services. Serves Education, Healthcare, & Corp clients.
- See our complete listing of business opportunities at <http://www.graybeardsrus.com/>

3SE Corp's Dave Sylvester works exclusively with Davis Mergers & Acquisitions Group to increase our collective presence and involvement in the Physical Security Industry. We focus 100% of our energies on representing sellers of alarm dealers, systems integrators, door & hardware system integrators, and security product companies.

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