

Q2 2019 Physical Security Industry Update



Market Update: Strong Markets; Accelerated Channel Consolidation & Convergence

SDM just published the SDM 100 report that had two primary themes. First is the continued strength of the market. The top 100 integrators reported \$3.77 billion in revenue, +14% over prior year. Apples to apples growth of the 80 integrators with no ownership changes, were up 34%! The integrators' outlook was summed up as "Demand is abundant and stemming from every market sector".

The second theme was the challenge to find, recruit & retain talent with several integrators saying that talent acquisition is the most important challenge they face.

Channel restructuring picked up pace in the commercial door & hardware systems markets.

Until recently, this channel had only one private equity player in the game. Cook & Boardman has been through three turns – Blue Point Capital was the original backer dating back to 2008, then Ridgemont Partners and in 2018 **Littlejohn & Co.** During this time, Cook & Boardman has grown into the largest door & hardware systems provider in the US with sales >\$500 million, 25+ locations and a stated objective being the first door & hardware systems company to reach \$1 billion in revenues. Cook & Boardman acquired \$50 million A3 Security in N Carolina in Q1 to add access control & video security competencies to their breadth of services and offer both division 8 & 28 products & services.

Last quarter I reported that **Kendell Door & Hardware**, MN, acquired **Washington Architectural Hardware** (WAH) in Seattle and that we had represented WAH in the transaction. In June Chicago based **Keystone Capital** took an equity position in Kendell with clear intentions of expanding their portfolio in this space.

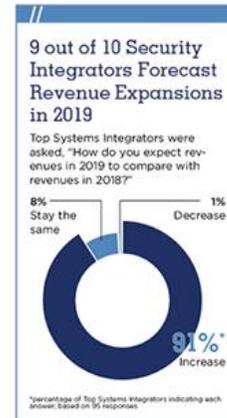
Over the past few years a group of independent distribution & product companies came together to form **Unified Door & Hardware Group** based in New Jersey. Unified consists of Commercial Hardware, Weinstein & Holtzman, Tru-Fit, and Next Door. The group services all of the mid-Atlantic markets. In July **Dunes Pointe Capital** took an equity position in Unified, also with the expressed interest in expanding their portfolio.

There is PE backed consolidation in the commercial door & hardware wholesale channel as well. **High Road Capital** has acquired Midwest Wholesale, Akron Hardware, HIS and in this quarter Berg Wholesale. The companies are now being marketed as **Banner Solutions**.

So, in the commercial door & hardware market, which flies under the radar of the physical security industry's headlines, the channel has undergone significant restructuring in short order. And with these PE players in the game and fundamental demographics creating transition opportunities we can only expect channel consolidation and convergence to accelerate.

9 out of 10 Security Integrators Forecast Revenue Expansions in 2019

Top Systems Integrators were asked, "How do you expect revenues in 2019 to compare with revenues in 2018?"

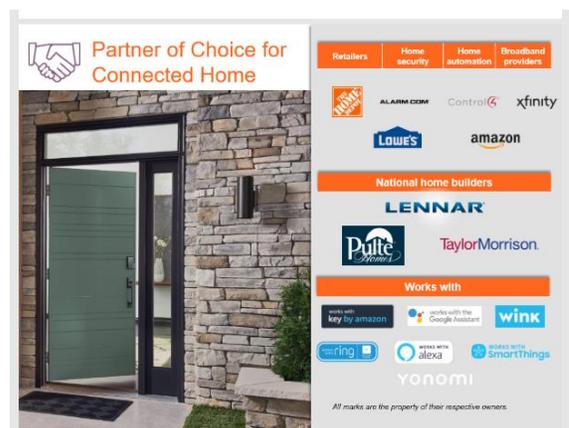


A self-serving business plug: The PE companies are aggressive in direct outreach to business owners in both the security integration and the commercial hardware markets. PE companies are professional deal makers whereas the sellers are usually one-time business sellers. Helping sellers' market their companies and navigate the complicated purchase / due diligence process is why we are here.

Q2 2019 Highlights from the Manufacturers

Allegion: Q2 growth slowed, missed revenue & earnings estimates. Stock dropped 3.7%

- Revenue was \$731 million, +3.8% v PY. +3.0% organic driven by price realization.
- Adjusted Operating Margin was up 20 bps at 21.5%
- Americas sales were \$545 million, +3.5%, 3.3% organic v PY. Mid-single digit growth in non-residential, and flat residential. Electromechanical products were up 9%.
- Americas' Operating Income was \$167 million, adjusted ebitda was up 20 bps to an impressive 31.5%!
- Like ASSA ABLOY, Allegion has increased focus on the residential market as highlighted in their connected home initiative.
- EMEIA revenue decreased 3.8% to \$142 million. Organic growth was +1.7%. OM decreased 5.8%, to 8%.
- Asia revenue was up 46%, +4.7% organically +47% acquisitive. OM increased 125% to 4.1%
- No change in 2019 forecast. EPS growth still projected to increase 7 – 9%.
- Allegion stock price haf increased 32% ytd but dropped 3.7% the day of their earnings release.



ASSA ABLOY: Organic growth slowed.

- Total Sales were 23.5 MESK (\$2.5billion) up 11% vPY. 3% organic, 4% acquisitive, 4% currency. EBIT increased 28%, EPS + 13%. Operating cash flow +27%.
- Very strong growth in the Americas. Strong growth in Global Tech & APAC. Electromechanical products up 30%.
- Americas - strong growth in US smart residential & architectural products. Revenue was up 15%. 6 % organic, 1% acquisitive, 8% currency. Operating margin was 20,5% helped by volume and price realization.
- Global Technology (HID & Ving) group's revenue increased 29%. 5% organically, 17% acq, 7% currency. Operating margin was 18.4%. Strong growth in citizen I.D., Secure Issuance & physical access control.

ASSA ABLOY Continued

- Entrance Systems group was up 7%. 1% organic, 1% acq. 5% currency. Sited growth in pedestrian & EU residential doors.
- Completed another 3 acquisitions in Q2, De La Rue a UK based Passport manufacturer with 200 employees, Door Controls Inc (DCI) and PTI Security Systems.

dormakaba: No financial information this quarter since they only release 6-month results

- dormakaba signed an agreement to acquire Alvarado Manufacturing Co. Inc., based in Chino, CA. Alvarado is a leading manufacturer of physical access solutions in North America such as speed gates, turnstiles and other admission devices with a focus on office, commercial and government buildings, as well as sports, leisure and entertainment facilities. Alvarado was founded in 1956 has 90 employees and \$33 million sales.

Stanley: Security sales down for the 4th consecutive quarter

- Net sales were \$3.8billion; up 4% vs PY, +5% organic.
- Tools & Storage +2%, Industrial was up 13% and Security declined 3%.
- Security reported sales of \$485 million, -3% v PY. Americas sales were flat.
- Security's Operating Margin improved from 10% to 11.2%. Tools OM 17%, Industrial OM 16.4%.

M&A Activity - in addition to those mentioned on page 1....

Vector Security, #4 on SDM's top 100 acquired **ADS Security**, # 15 on the list. Collectively the companies have \$20 million RMR, and over 400,000 subscribers. Vector Security obtained a fresh \$450 million credit agreement with PNC to swing the deal and support additional acquisitions.

Ascent Capital which owns Monitronics which operates as **Brinks Home Security** (#3 on the SDM 100) filed for bankruptcy protection to restructure \$885 million of debt. After restructuring the company is expected to have \$990 million of debt and \$41 million of RMR.

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. *Under LOI.*
- **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. *Under LOI.*
- **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 & Government / Defense contractors. \$250,000 Contracted RMR.
- 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 companies, systems integrators, door & hardware system integrators, and security product companies.

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