

Q3 2020 Physical Security Industry Update



Overall a solid quarter considering today's atmosphere....

Security product manufacturers reported better results than Q2 indicating an expected rebound and have raised their full year expectations, but still a year over year decline. Lower SG&A costs have helped the public companies maintain operating margins. The channel continues to enjoy strong business driven from large backlogs except in markets that were shut down. M&A activity which took a three month pause, is now back more aggressive than ever. The outlook for new construction is not great, and will impact physical security industry later in 2021, the question is obviously by how much?

It is interesting to see where spending is being diverted. Single home sales set an all time high in the quarter. Residential security products saw significant growth from the new home construction and security upgrades / updates as the DIY market has benefited from us staying home. Americans have renewed focus on their leisure time...just try to get a swimming pool. Pentair, a leading supplier of pool equipment reported Q3 sales increase of 46% v PY, and EPS +21%, and (Winnebago which owns Chris Craft boats) reported Q3 sales +39% and EPS +45%. And the obvious investment, Amazon which dipped to \$1807 per share on March 11th, is now trading at \$3,153. Consumer spending changed significantly shifting to a new economic model at least for the short term.

Unfortunately, on the flip side we have record unemployment and millions of folks struggling to get by - small businesses failing and entire industries like the hospitality, airline and restaurant businesses struggling to survive. Until we get that fixed, new construction is going to slow down, as indicated in this recent Dodge report.

Dodge Analytics - October 15th

Year-to-date through nine months, total nonresidential building starts were down 26%. Commercial starts declined 27%, while institutional starts were 18% lower. Manufacturing starts dropped a painful 56% compared to the first nine months of 2019. For the 12 months ending September 2020 total nonresidential building starts slid 19%. Institutional building starts were 16% lower, commercial starts down 19% and manufacturing starts plummeted 30% in the 12 months ending September 2020. Residential building starts lost 21% in September, falling to a seasonally adjusted annual rate of \$314.0 billion. Single family starts dropped 6% in the month as multifamily starts tumbled 54%.

The M&A market activity has totally recovered, the number of deals highlighted later show increased activity but the activity level of transactions in process, the volume of new money trying to get into the security market is the highest I've seen it in years or possibly ever.

For sellers, the amount of demand for quality businesses is high and some sellers have been nudged along by the risk of significant tax structure changes. The published Biden tax plan increases the tax on capital gains from 21% to 39% for gains over \$1 million. Owners considering selling may regret waiting.

Q3 2020 Highlights from the Manufacturers

Allegion: Solid cost management in difficult markets. Full year guidance raised from Q2 outlook.

- Total Q3 total revenue was \$728 million, down 2.7% v PY. -3.4% organically. Adjusted EPS increased 13.6%. Adjusted Operating Margin increased 20 bps to 23.3%.
- Americas sales were \$539 million, down 5.1% v PY, -4.6% organically. Good price realization. Residential product sales were up low double digits, commercial was down low double digits.
- Americas Operating Margin was \$166 million. Operating margin was flat at 30.9%, benefiting from cost management and material cost reductions.
- EMEIA continues its turnaround - revenue was \$148 million, up 7.7%, +2.9% organic. OM jumped 42% to 11.5%, driven by SimonsVoss and Portable Security sales.
- Asia revenue decreased 4.2%, -6.8% organically. Operating income slid 27% from 10.3% to 7.8%.
- Full year forecast was improved from total sales decline of -9 to -10% to now -6.0 to -6.5%.
- Repeating focus on seamless access products and applications.

Seamless Access Opportunities Grow

Investments in our strategic vision remain our priority

- Opportunities for seamless and healthy access across all environments – home, work and communities
- New suite of mobile-enabled Schlage locks and readers – with wave-to-open actuators – are meeting post-COVID needs in commercial and institutional markets
- Schlage Encode continues to gain momentum, leading in the residential new construction and retail markets
- Gaining ground: SimonsVoss recognized in Germany as the leading electronic locking system manufacturer; Gainsborough's new Freestyle Electronic T1000; Schlage Omnia fire-rated smart lock for ANZ
- Global accelerators: e-commerce, touchless access trends, increased visitor management and occupancy monitoring needs

Award-winning solutions | Leading brands | Digital innovation | Enhanced experiences

Third-Quarter 2020 Results
All numbers are in US dollars unless otherwise specified.

ASSA ABLOY: Recovering from Q2, but still COVID impacted. Cost management helps bottom line.

- Q3 total sales were 22.2 MESK (\$2.2 billion) down 8% vs PY. -5% organic, +4% acquisitive, -7% currency. EBIT & EPS were down 8% and 6%. Net headcount was reduced 5%.
- Americas – Revenues of \$488 million were down 5%. Strong sales in residential & smart home products. Significant declines in Access & High Security. Commercial architectural hardware declined. Operating margin was flat at 20.2%.
- EMEA at 21% of the total group sales dropped 2% organically. Operating margin was flat. Stable sales in the UK, Germany & Scandinavia, declines in the rest of their markets.
- Asia continues to struggle. Organic revenue was down 8%, Operating margin declined to 7.4% from 9.5%. All business units and markets declined.

ASSA ABLOY Continued

- Global Technology (HID & Ving) group was down 17%, operating margin declined from 20.3% to 16%. Experienced growth in secure issuance, all other segments declined.
- Entrance Systems was down 2%. OM was flat.
- Completed 4 acquisitions in the quarter, 9 YTD. No US impact.
- Announced aggressive “science-based” sustainability initiatives based on momentum from previous programs
- No change in Long term guidance
 - Attractive fundamentals of our industry are intact
 - Strong long-term growth drivers remain valid
 - Financial targets stay unchanged

Committing to science-based targets

ASSA ABLOY commits to science-based targets

- Halving greenhouse gas emissions by 2030
- Limiting global temperature rise to 1.5°C
- Reaching net-zero by 2050.

Increased sustainability focus provides incentives for sound economic and industrial development

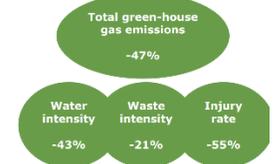
- Operational efficiency
- Innovation focus
- Performance of our products and solutions

New sustainability program

- New ambitious targets for 2025
- Builds on momentum from successive 5-year sustainability programs

BUSINESS AMBITION FOR 1.5°C 

Change 2015-2019



23

Public

ASSA ABLOY

dormakaba: Full year results, ending June 30th, 2020. Released Sept 3rd, 2020

- Note these results are full year vs Q3 only for Allegion & ASSA
- FY 2019/2020 was \$2.818 billion vs \$3.128 billion PY or a 6.9% reduction. EBITDA was \$360 million 12.8% vs \$497 million 15.9% PY,
- Americas – Revenue was \$838 million vs \$906 in the prior year. EBITDA was \$142 million, 17% vs \$186 million, 20.6%. Organic growth was down -8.1% on top of prior year being down -1.8%.
- EMEA (Europe) – Revenue was \$773 million vs \$864 million prior period. EBITDA was \$50 million, 6.5% vs \$63 million, 7.3%. Organic sales declined -5.7% vs a 1.9% growth in prior period.
- APAC (Asia) – Revenue was \$446 million vs \$512 million prior period. EBITDA was 13.6% vs 14.9%. Organic growth declined -8.5% vs a positive 3.7% growth in the prior period.
- Key & Wall Solutions – Revenue was \$390 million vs \$444 million prior period. EBITDA was \$56 million 14.4% vs \$70 million, 15.7%. Sales declined -8.9% organically vs 2.2% growth in the prior period. Good organic growth in FY 2019/20, especially based on a strong performance of the North American Modernfold and Skyfold businesses.
- Alex Houston – takes over as the COO Americas. “Industry expert with an outstanding track record over more than 15 years in various management and leadership positions at United Technologies Corporation (UTC)”

M&A Highlights – After a lull in activity, it is full speed ahead!

Mountain Alarm acquired Reno based **Burgarello Alarm** its fifth acquisition in 18 months.

Minuteman, Andover Mass. acquired Tampa based **Skynet**. With the acquisition of Skynet, Minuteman becomes Central Florida's largest independent full-service provider of integrated security, communication and life-safety systems, according to the announcement.

Allied Universal continues to push into security integration with the purchase of **Service Works Inc**, revenues of \$15 million and 35 employees. SWI operates in Manhattan and on Long Island.

Motorola acquired what's left of **Pelco** from PE firm **Transom Capital** for \$110 million. The French company, **Schneider Electric** paid \$1.5 billion for **Pelco** in 2007, and then sold it to **Transom Capital** in early 2019 for an undisclosed amount. **Aie!** (ouch in French)

We were proud to have represented **Architectural Door & Hardware of New York**, in their sale to New Jersey based **Unified Door & Hardware Group**. **Unified** and PE partner **Dunes Point Capital** continue to build out a portfolio of strong companies, with **ADH** adding breadth & depth.

Dominus Capital made an investment in Nicholasville, KY based **Lockmasters**. Lockmasters celebrated 65 years of business selling proprietary products, educational materials and specialty locking products to the government and security professional industries.

Open Gate Capital announced the acquisition of Birmingham, AL based **MegaMet Industries** designers and manufacturers of specialty custom hollow metal door systems. **Open Gate** entered the physical security industry with their acquisition of **Sargent & Greenleaf** in 2019.

Stanley takes first step in exiting the security business with the sale of their European & Asian business units to **Securitas** for \$64 million. 2019 Revenues were \$85 million, with 20 offices and 580 employees. Q3 organic sales were down -3% in N America and -2% in Europe.

See our complete listing of current business opportunities at <http://www.graybeardsrus.com/>

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