

Winter **2016** Edition[View this email in your browser](#)

Harding Security Services Inc (HSSI) – What we do!

Our mission is to service the security industry in Canada and US - **alarm, integration, fire, guard and locksmith companies** - with the best possible advice in 3 major areas. Our primary focus is to act as an intermediary to help owners of security companies- alarm, integration, fire and guard companies – to **sell their business**. Connected to this, we also do **valuations** of all kinds of security companies. Thirdly we provide consulting advice to companies regarding the design of **authorized dealer programs** in the security alarm field.

Service De Sécurité Harding Inc. (HSSI) – Que faisons nous!

Notre mission est de servir l'industrie de la sécurité au Canada et US, – incluant **Alarme, Intégration, Feu, Garde de sécurité et serruriers.**– avec notre savoir faire dans les 3 spheres majeures de l'industrie. Notre but premier est de pouvoir aider en tant que intermédiaire pour les propriétaire d'entreprise voulant **vendre leur entreprises**. Suite a cette démarche, Avec cela nous pouvons établir **l'évaluation** de votre entreprise. Troisièmement nous vous aidons a devenir **mandataire ou partenaire** suite a la vente de votre entreprise.

RECENT DEALS DONE BY HSSI



In June 2015, we closed the deal for the sale of **Trent Security** in Peterborough On to **API Alarms** of Toronto, On. API kept most of the Trent staff in place and

Recent developments in Mergers & Acquisitions in the Canadian Security Industry

Alarm Companies

We have fewer of the traditional, big buyers for alarm account bases now in Canada than we had 2 years ago. In Quebec I worry that there are not enough good buyers of medium to large deals in the market. In addition, a couple of the big buyers are either not competitive in their offerings or are not really set up yet to do multiple acquisitions of accounts outside their station. I realize now what a good system for

continues to run the business as Trent Security.

In July 2015, we closed a deal for the sale of **Fahrenheit 451**, a fire and security company based in Calgary AB to **Chubb Edwards**. Chubb-Edwards took over most of Fahrenheit's staff including the previous owner, Randy Brown.

Throughout May and June 2015, we advised on the sale of **Connolly Security** of **Charlottetown PEI** to **East link Communications** of **Halifax NS**.

We sold the shares of **Canadian Security Team** in **Ottawa** to **Alliance Security in Kingston On** in November of 2015. Alliance Security will continue to run Canadian Security Team.

We are in the process of closing a deal to sell the accounts of **Kitchener, ON** based company. This deal will close at the end of Feb or Mar 2016.

Over the last 6 months we have worked on the valuations of 3 major Ontario based security alarm companies. Through the first part of 2015, we entered into a new recurring monthly revenue field by doing a search for a larger Canadian company to help them buy a Canadian **Internet Service Provider**. We hope to do more work in this field.



3200 monitored accounts located mainly 70 miles east of Montreal in Quebec available for sale. Attractive features include almost 100% signed contracts,

handling multiple acquisitions we had at Protectron. Thankfully there are some new buyers on the scene who understand the value of monitoring RMR. As long as they establish good processes for assessing, completing and integrating deals we will be fine.

Multiples being paid for alarm accounts today vary anywhere from 28X for smaller bases to 40X for larger account bases where the accounts are on contract and a call forward line. The vast majority of accounts sold so far are either regular digital dialers or cellular. We have not seen many interactive accounts sold. We do know now that interactive accounts are generally produce lower attrition rates than normal digital accounts so theoretically they should be worth more. **Overall the RMR of alarm monitoring accounts generally produces the lowest churn of all the regular recurring revenue services such as cable, wireless and home phone.**

Overall, my list of potential alarm account buyers continues to grow and includes national and regional alarm companies,, telco's,, small private funds wanting to build an alarm account base, the bigger private equity players for the very large bases and even fire and guard companies. US buyers will show interest in Canadian monitoring RMR if the RMR is large enough.

Integration Companies

Integration companies are defined here as those companies where the majority of the companies' value is tied up in the installation of more complex, commercial systems rather than just in the monitoring RMR..**It remains tougher to sell small integration companies than monitoring RMR companies.** The list of buyers is smaller and the valuation of the businesses more difficult to arrive at a consensus on. **Please contact me if you are interested in buying small integration companies.**

Canada does not have many home grown mid-sized integration companies (\$10 million of annual revenue) who are eager to buy so when selling an integration company I mostly have to resort to the large multi-national companies or the very much smaller integration companies.To make things more difficult in the short term the

85% on call forward lines.

A well known, **bilingual ULC monitoring station** located SE of Montreal which has a sister company **4500 monitored accounts** located between Montreal and Sherbrooke.

A **very successful commercial integration company** located in south-western Ontario doing \$4 million annually.

A **small alarm company with 300 monitored accounts** based in cottage country that also does cottage checks on its customer base in the winter time.

A **Maritime based commercial installer of camera , access and intrusion systems** with 825 monitored accounts.

A **small, but fast-growing integration company** based in the north end of the GTA with 500 monitored accounts.

A **small fire protection company** located in the north east of the GTA that earns most of its revenue doing sprinkler service work on existing systems.

An **alarm and camera company** based on southern Saskatchewan.

A very profitable **fire protection company** based in central Alberta.

recently announced Securitas deal for Diebold and Johnson Controls offer for Tyco will probably take those companies out of the acquisition market for a while. Overall I would say it is difficult for smaller integration companies to get value for their installation revenue.

Fire Protection Companies

The fire protection market in Canada lags behind the alarm market in terms of consolidation. To my knowledge there are fewer buyers actively doing fold-in acquisitions in the fire protection market. There are hundreds of small and medium fire protection companies active in Canada if a consolidator should come along. **Please contact me if your company is interest in buying fire companies.**

Fire companies are generally valued based on a of EBITDA with the qualification that fire inspection revenue could be valued as a multiple of its RMR because the revenue truly recurs month after month and has a low churn rate

Guard Companies

Consolidation to some degree has already taken place in the 90's and 2000's in the guard industry. Garda remains the most active buyer of guard companies in Canada. There are others. I have recently uncovered at least 2 US buyers that would be interested in looking at Canadian guard revenue if the revenue was large enough.

Tips to keep in mind if you plan to sell your business!

1. Talk to your **accountant** in planning for your sale to sort out the tax angles of the deal and to determine whether it is best for you to **sell shares or assets**.
2. Get your **financial statements up to date** and the rest of the records that could be related to a sale in good order. **Know what your annual attrition is** and **address old outstanding accounts receivable**.
3. Prepare yourself for a sale process will probably take 6–12 months. Be prepared to stay somewhat engaged for another 1–2 months after the sale.
4. Don't gear your decision to sell completely around general economic conditions. **Good companies will sell at any time.**

5. **The only expert on selling your business is a business broker or M & A intermediary who has experience in the industry you are in and has done deals there.** Your lawyer or accountant is not likely to be an expert in selling your business.
6. **Understand that the more good buyers that see your business, the better the chances are that you will sell it and for a good price.**
7. **Remember that recurring monthly revenue (RMR) of almost any kind is easier to sell and more valuable than one-time installation or service revenue.**
8. **When selling monitoring RMR, buyers will pay more for the following kinds of RMR – RMR with higher average monitoring rates, RMR on signed contracts, RMR on a call forward line, RMR with low attrition rate and RMR being billed using PAP.**
9. **When calculating Owners Discretionary Earnings or Earnings Before taxes don't forget that buyers will adjust the earnings calculation up or down to allow for a normal General Manager's salary to be included in the calculation.**

Overall, the security industry is a growing industry in Canada when many are not and is an attractive industry to buy into.

Victor Harding – President
Harding Security Services Inc.
Toronto, ON M4T 1A3 CANADA
P: (416) 925-7474
E: victor@hardingsecurity.ca

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