



All the Services we offer:

Harding Security has expanded its services over the years. All the services below are now being offered to owners of **alarm, integration, fire or guard companies in Canada.**

1. **Selling your company - starting from scratch** – If you have finally decided to sell and want help all the way through the process, we can help you. This is our “bread and butter”.
2. **Selling your company but already has a buyer or offer in mind?** We can give you an expert opinion on the buyer or the offer and help you close the deal.
3. **Need a valuation done?** There are many reasons why people need valuations done. HSSI can value your company. We are often less expensive and more accurate than other valuers.
4. **Valuation Dispute?** We are used to express an opinion on valuation disputes in the industry.
5. **Looking for a company to buy** – We can help you do the search and close the deal. Here we charge a small monthly retainer to do the search and a fee if we close a deal.
6. **Looking to buy but already have a company in mind.** We are doing more and more of this. We can help you value the target company and close the deal.
7. **You are a Buyer looking for ongoing buying opportunities** – In certain cases we will enter into a Buyer’s Agreement with a big buyer to bring them deals exclusively.
8. **Designing an Authorized Dealer Program** – We can help you design or re-design an authorized dealer program.
9. **Choosing an Authorized Dealer Program to join** – We can also help a dealer choose the right dealer program for them and help negotiate their particular deal.
10. **Post acquisition Investment Advice** – We have a relationship with a certain Canadian chartered bank who can offer you various different kinds of investment advice.
11. **Looking for acquisition financing?** In certain circumstances with mid to large sized alarm companies, we may be able to help a dealer get financing to do acquisitions.

In this issue:

- Recent Developments in the Industry
- Businesses for SALE

- **Tips on why to use a broker**

Recent Developments in the Industry

Please note that it is much easier getting data on the US security industry than it is for Canada. Canada does not provide as good data on the various industries as the US. Secondly, I am more aware of the activity in the electronic side of the industry- alarms and integration companies - than with guards and fire. With guards and fire it is harder to get information on goings on and trends, etc.

Security Industry continues to experience growth

According to the 2017 Barnes Buchanan Annual Security Conference, the good news is all sections of the US security industry reported growth in 2016 a) *the installation (4%) and b) the monitoring and service (7%)*. The US security industry economy has definitely recovered from the 2009 recession. In talking to distributors and dealers in Canada, I don't get the sense the Canadian security industry or the economy in general has recovered as much although federal government infrastructure money is just starting to kick in now and the Canadian economy appears to be growing quite quickly right now.

Some parts of Canada are still hurting. Alberta and Saskatchewan have not fully recovered from the oil price drop. BC is being hurt by a lack of infrastructure spending (pipelines or LNG gas plants) and its current government. Ontario is suffering from high debt and stupidly high hydro rates. Finally, our Liberal government in Ottawa seems to be more interested in raising taxes on just about everything than doing what is necessary to build a strong economy.

As a footnote to this, all owners of small security companies should be paying very close attention to the proposed taxation changes coming from the Federal Government for small businesses. If you aren't aware of them, talk to your accountant. These changes are being introduced with too little time for consultation, are badly designed and far-reaching, and if implemented they will dramatically change the taxation of monies left in small businesses. In fact I urge you to speak up against this set of proposals.

Goings on in various parts of the industry, including M & A?

1. **The residential alarm market** – I don't run into many small or medium sized dealers today who focus on the residential market. It is simply too tough to make money focusing on this segment. However if you are active in the residential business, you probably should be offering your customers the new interactive technology - what is called *premise control and automation* - rather than just security. If you are not offering these features, you stand the risk of losing existing accounts and not getting new accounts. The benefits to the dealer are higher install and monitoring rates on these interactive accounts and potentially lower attrition down the road.

But know also that pricing on the installation of these new residential systems is being controlled and forced down by the high volume players like Fluent Home, Alarmforce, the authorized dealers of companies like ADT and SecurTek and the MSOs (Rogers) who are all giving away large amounts of equipment for next to nothing in exchange for a 3-5 year monitoring contract at anywhere from \$40-60/mth. It is difficult for a smaller player to compete against this pricing without being on a dealer program.

If I owned a large residential account base that did not have interactive panels or cellular

technology, I would be worried about their longer term value. Buyers are already starting to factor into their prices what they might have to spend to upgrade non-interactive panels.

As for the telcos in general, although a couple have gained traction in the US, the jury is still out in Canada. We don't know what Bell Canada will do its existing security businesses Bell Aliant and AAA. Rogers has been successful by industry standards with Smart Home Monitoring but when you consider they put on more than 80,000 wireless customers in their last quarter in 2017 alone, it makes you wonder how security can compete with those numbers. In my view Eastlink has been only somewhat successful in the Maritimes. SecurTek, the Sasktel security unit, keeps plugging away. It is tough for an outsider to know how they are doing. Finally, I have heard that at least one other Telco in Canada is looking at getting into security so there must be something attractive about our industry.

Regarding M & A deals for residential accounts, there is still lots of interest in them but ADT has made it clear recently they are not nearly as interested in buying residential accounts in either Canada or the US – and this definitely affects the market.

The number of buyers for alarm accounts has dropped over the years in Canada. VOXCOM was bought by Protectron and then Protectron by ADT. Now ADT is now focused on commercial accounts. This gap in the acquisition market presents the other national and regional players with an opportunity.

2. **Commercial security market** – This part of the security market seems to be “in vogue” these days. Most of the smaller and mid-sized security dealers I talk to spend much more time doing commercial systems particularly camera and access control systems. The advances in security technology – IP cameras and access control, new platforms for system integration – are energizing the commercial market. Within this market there is a gradual movement away from high installation costs to SAAS (Security as a Service) or lower install costs and higher RMR on most systems.

The camera/CCTV business is strong but very competitive on price because of the influx of China made cameras. Access control pricing is also very competitive. Video analytics are getting better every day and being used more frequently. The smart integrators are trying to develop niches or sectors that they can be very good at. The manufacturers are complying by developing products and services for particular niches.

Cyber security is now a serious concern for almost all businesses. It has been the biggest topic at all security trade shows and conferences over the couple of years.

Regarding the M & A market for commercial companies, it is a good time to be selling. Everybody seems to want commercial accounts and expertise. ADT is now focused almost entirely on buying integration businesses. Some of the other well known commercial companies in Canada like Tyco or Chubb Edwards, who you would think would be interested in buying, are not. Thankfully, other buyers are popping up to replace them both local and American.

Right now, **we have two big buyers looking to buy a multi- location platform on the integration side .**

3. **The Guard Sector** – Given that we were told years ago that guards would be replaced by technology, it is surprising how many active players there still are on the guard side including *new players wanting to buy into the guard industry*. After a raft of acquisitions done in the guarding industry about 10-15 years ago by Garda, Securitas and G4S, things have slowed down

somewhat. There is still room for more consolidation. It will be interesting to see how guarding companies in Ontario will be affected by the rapid rise in minimum wage being proposed for the province. Most of the bigger guard companies like Securitas and G4S are now doing electronic security as well.

Unfortunately, compared to players in the electronic side of the industry who tend to join associations like Canasa, SIA and ESA it is much harder to track down the names and contact points for guard companies. **If you own a guard company and do more than \$1.5-2 million in annual volume and you want to buy or sell, please contact me and let me know. I have buyers.**

Also, I have an **American guarding company looking to buy a bigger guard platform in Canada.**

4. **Fire service** – As most of the services that fire companies provide are mandated by law, most fire service companies I see are busy and making good money – even more so than electronic security companies. Fire inspection revenue and even parts of fire service revenue are now being valued as recurring monthly revenue. In addition, we know that fire monitored accounts are highly valued because of their lack of signal traffic and low attrition rate.

The fire service companies I have sold have been bought by smaller regional players rather than the bigger, national players. To my knowledge, there is not the same consolidation going on in the fire industry as there was with alarm accounts and integration companies. Frankly, I think this represents an opportunity for someone who wants to be a consolidator in the fire industry. **If you are either a buyer or seller of fire companies please let me know.**

5. **Monitoring stations** – Over the last 20 years there has been a decided move towards using wholesale monitoring stations and for good reason. Running your own monitoring station today makes no economic sense unless you have at least 10,000 accounts to monitor or a lot of accounts with very special monitoring requirements. In this latter case you had better be getting higher than normal monitoring rates from those customers. I can't believe the number of alarm players who own 750-3000 accounts who feel it important to have own station. Why? Local service? I don't think customers really care as long as the monitoring is done right. Better service? Possibly but certainly not a given and not better enough to justify the cost.

My view is that manning a station 24/7 and keeping up with monitoring demands and technology today simply takes owners away from the task of getting more overall business and is unlikely to be cost effective. The bigger stations today generally offer better technology, a broader array of services (video & PERS monitoring, managed services), a back-up station in the case of storms etc and rates that most small stations can't touch. Bigger stations also get better rates on the extra services like cellular and alarm.com which is becoming a bigger and bigger monthly expense for most dealers. If you have 2000 alarm accounts today in Canada, I feel certain you can get good monitoring at about \$3.50/acc/mth or less on a long term contract. Having run a small station in my past, I doubt that it can be run for that price.

Finally, as an owner of a small station wanting to sell your business, you should know buyers are not going to pay much or anything at all for your station equipment or software even if it is ULC approved. It will be strictly the RMR that will attract the value.

Having said all this, there are buyers for wholesale monitoring stations in Canada right now. **We have buyers interested in buying small to medium sized ULC monitoring stations**, bilingual or not. We also have an American buyer interested in buying a bigger monitoring platform in

Canada.

Businesses for S A L E

as of August 08 2017

- **Fire and Security Company in north western Ontario**
- **Alarm company 550 alarm accounts based in GTA**
- **Well established integrator based in New Brunswick**
- **Alarm company based in northern Ontario**

Tips Section – Why use a Broker to sell?

Here are the key points I use with prospective clients as to why they should use a broker:

- Owners usually don't know much about how to sell a company including the value of their business or who all the buyers might be. A good broker should know both.
- Sellers need to have someone "in their corner" when going through the process of selling. Buyers are almost always armed to the teeth with advisers working for them.
- To get the best price, sellers should always to get multiple offers for their business. A broker can do this easier than an owner on his or her own.
- Buying or selling a company takes a lot of time - too much time for most owners to be away from running the business.
- Brokers should bring some objectivity to the process. Owners can get emotional.
- Using a broker usually means there is a larger chance that the deal will actually get done, and usually faster and with less stress to the owner.

What HSSI does to stay in touch with the market?

- **We have joined the following organizations** – Canasa (Canadian Security Association), SIA (Security Industry Association), CFAA (Canadian Fire Alarm Association), ESA (Electronic Security Association), CASA (Canadian Automatic Sprinkler Association), and ASIS.
- **We attend at least 2 of the annual trade shows in Canada and the US** each year including the Canasta Shows, ISC West or East, ESX or ASIS.
- **We attend at least 2 of the security conferences each year** including Barnes-Buchanan, Security New Ground, the Imperial Capital Investment Conference or SPT's Security Summit.

- **We subscribe to most of the major security magazines** including Security System News, SDM, Security Sales and Integration and SPT News.
- **HSSI** constantly educates themselves on **valuation theory** and **how to be a good broker**.
- **We write a regular article for SPT News.**

If you are getting this newsletter

You are receiving this newsletter because you are in a senior position of a security company in Canada and I have talked to you or we have conducted business in the past. Alternatively, we could have Linked in together or, like me, you are a member of one of the following organizations: Canasa, CFAA, CASA, ESA or ASIS.

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