



## In this issue:

- The Services we offer
- Recent Industry Developments relating to Mergers and Acquisitions
- Deals recently Completed
- Businesses for SALE
- Selling Tips
- How Harding Security stays in touch with the market

## The Services we offer:

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

1. **Selling your company?**  
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 have a buyer 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 a valuation. HSSI can value your company. We are often less expensive and more accurate than other valuers. We have also been retained to give an opinion in valuation disputes.
4. **Looking for a company to buy?**  
We can help you do the search and close the deal. We charge a small monthly retainer to do the search and a success fee if we close a deal.
5. **Looking to buy and already have a company in mind?**  
We are doing more and more of this kind of work. We can help you value the target, and structure and close the deal. We can also provide most of the necessary forms.
6. **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.

7. **Designing an Authorized Dealer Program?**

We can help you design or re-design an authorized dealer program. We also help dealers choose the right dealer program for them and help negotiate their particular deal.

8. **Post acquisition Investment Advice?**

We have a relationship with a Canadian chartered bank which can offer you different types of investment advice.

9. **Looking for acquisition financing?**

In certain circumstances, we may be able to help a dealer obtain financing for acquisitions of mid to large sized alarm companies.

---

## **Recent Industry Developments relating to Mergers and Acquisitions**

From now on, my Newsletters will focus *strictly* on mergers and acquisitions in the various segments of the security industry. These are the areas where I have the most in-depth experience.

1. **The Alarm Market** – There will always be buyers for alarm accounts but the market is changing. There are not as many experienced, large buyers as there once were. Buyers like Protectron and VOXCOM are now gone. They have been replaced by ADT which is decidedly less active in buying alarm accounts. Counterforce has been virtually inactive in the alarm account market for the last 3 years. Stanley is doing alarm account deals and SecurTek, API and Securex Financial are all still very much open to buy. These larger buyers are important because they have experience in buying, have the necessary funds, can execute a deal fairly quickly and often pay the best multiples for accounts. However, these buyers often prefer to buy accounts (assets) and not the shares of an alarm company. Smaller buyers are often more flexible regarding shares.

Owners of alarm businesses should be aware that accounts are slowly starting to divide into two categories, namely new and old technology accounts. New technology has cellular or interactive capability whereas old technology accounts do not. They still rely on landlines. It is my sense that old technology accounts are slowly losing value because buyers feel they have to spend more after buying the accounts to *upgrade* the old technology.

Another important issue for buyers is having signed monitoring contracts for the accounts they buy. Five years ago I could sell a block of accounts in Canada without having signed contracts on the vast majority of accounts. This is not the case today. Buyers prefer written contracts containing a proper limitation of liability clause signed off by the customer. If you don't have signed contracts, I suggest you go out and get at least a signed properly constructed 1 year contract.

Something else we all need to pay an increasing amount of attention to is that police forces across the country are now demanding *verified response* on all alarms before

they respond. We are in the early days for this but I think that as this requirement works its way through the industry, it is going to require each monitored account has either guard response or cameras in place.

What does this all mean in terms of selling a block of alarm accounts and their value? There are still buyers out there – national, regional and local buyers. Multiples are generally holding up well, particularly with the larger buyers. However, there is no question buyers are a little more demanding in what they get.

Let me say a word about the recent entry of Bell Canada and Telus into the alarm market in Canada. The industry should be pleased to have these big telcos investing in our industry. There is no doubt that both companies will have an impact on the average independent alarm dealer by making it more difficult and expensive to acquire new accounts. Both Bell and Telus, like Rogers before them, are only selling the latest in interactive panels thus giving their customers home automation and control. This is a positive advancement for the industry. What is not so easy to understand are the prices that both Bell and Telus are paying for alarm accounts. It is hard to make sense of these multiples when you consider that both will have to spend more money on the newly purchased alarm accounts to upgrade them to add home automation. Even allowing for the possibility that the telcos assess their investment in alarm accounts differently from the rest of us, these multiples make me wonder if their model of doing business in the alarm industry is sustainable over the long term. In the meantime, the multiples they are paying distort the M & A market for the rest of us.

2. **Commercial integration market** – I am personally spending more time selling commercial integration companies. This is partly because there are more buyers expressing interest in this type of company and partly because of aging demographics. A higher percentage of owners are approaching retirement age. Good commercial integration businesses seem to be *en vogue* these days. Over the last few years several companies – ADT, Convergint – have been solely focused in Canada looking for commercial integration companies to buy.

My experience is, in terms of size, you need to have at least \$3.0 million in sales to get the attention of the bigger buyers and even that might be at the low end. Smaller buyers will look at businesses down to \$1.0 million in revenue. While an alarm company does not need to be profitable to sell its alarm accounts, commercial integrators do need to be profitable. As a guideline, I look for normalized earnings (or EBITDA) to be at least 5% - 10% of sales.

However, commercial integration companies take longer to sell. If you are an owner, you should be prepared for 9-12 months or longer. Also, instead of being valued as a multiple of RMR like alarm companies, they are valued as a multiple of "normalized EBITDA" where EBITDA is Earnings before Interest, Taxes, Depreciation and Amortization. The multiples of EBITDA vary between 3-7X and depend on things like

what percentage EBITDA is of Total Sales, how much RMR the business has, and what the company's growth potential is, i.e. how scalable is the business?

Most buyers of integration businesses will buy shares and most deals I have seen have the owner paid out within 2 years – with some receiving almost the entire amount at closing. Some buyers will ask for part of the purchase price to be paid as an earn-out which, in my experience, makes the deal considerably more risky. If you are a seller, another factor to take into consideration is that many buyers are using bank financing to complete the deal. Bank financing can delay the deal by a few months.

The Share Purchase Agreement usually takes longer in an integration transaction to come to an agreement partly because shares are being purchased and existing staff are being taken on by the purchaser.

3. **The Guard Sector** – Many of the comments in my last newsletter about the guard business are still relevant. It is surprising how many active players there are on the guard side across Canada, including new players wanting to buy into the guard industry. Although there has been some consolidation in the guard industry, there are still dozens and dozens of guard companies, many of them very small. Frankly, I am surprised there is not more consolidation occurring. I don't think that the big international guard companies like Garda, G4S and Securitas are buying as much in Canada as they used to, but they are still buying. As always, the guard company's contracts with its customers – written or not – are critical to its valuation. In the end, the price paid for a guard company will likely be a multiple of earnings of EBITDA.

Unfortunately, it is much harder to track down the names and contact points for guard companies because there are no active quality associations in the guard sector. However, if you own a guard company with more than \$1.5 – \$2.0 million in annual volume and want to buy or sell, please contact me as I have interested buyers. I also have an American guard company looking to buy a bigger guard platform in Canada.

4. **Fire & Sprinkler Service Companies** – I am going to repeat some of what I said about fire companies in my last newsletter. Most of the services that fire companies provide are mandated by law. Consequently, most fire service companies I see are very busy and making good money – more money than many electronic security companies. The fire industry does not discount their services as much as the alarm industry.

Despite there being hundreds of active fire companies in Canada, there are not that many fire and sprinkler companies being bought and sold. One private equity player I know spent several months canvassing the fire companies in the GTA looking for one to buy, only to come to the conclusion that there are some good companies but very few were interested in selling. Having said all this, I have sold 4 or 5 fire companies

over the past few years.

Fire inspection revenue and some fire service revenue are now generally being treated or valued as recurring monthly revenue, albeit at a lower multiple than monitoring revenue. Think more along the lines of 15-18X instead of 24 to 36X. Overall, the fire companies I have been involved with have been sold as a *multiple of normalized earnings*. In addition, buyers are not afraid to buy shares. It is difficult to understand why fire companies do not seek out the monitoring revenue from monitoring fire panels more than they do. I have seen many simply give this recurring monthly revenue away.

To my knowledge, there is not the same consolidation going on in the fire industry as there is with alarm and integration companies. 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** – In the past 10 years, Harding Security has sold 3 independent monitoring stations and almost sold one other. Monitoring stations are in demand among certain buyers for a number of good reasons. The wholesale revenue is steady. Stations are now making money off extra services such as cellular, Alarm.com, ULC, billing and even guard services. Buying a station is a source of future acquisitions. Existing stations spread out their monitoring load to make themselves less vulnerable to power outages or extreme monitoring loads in one location. Buyers can also grow their businesses by buying RMR and get closer to an entire segment of new customers in a different location. And recently, some are buying to be onside with the upcoming rules coming from ULC concerning redundant stations.

Despite some consolidation in this space, there are still several small monitoring stations in the country that I suspect are not very financially rewarding. Staying up to date with the latest monitoring equipment and software is expensive. I also think there are too many alarm dealers who own 1000-2500 accounts and still are doing their own monitoring. In my view, running a monitoring station for less than 10-15,000 accounts makes little financial sense.

I hear people talking about multiples of anywhere from 12 to 24X RMR for monitoring stations. This is a huge difference and partly depends on whether the buyer intends to close the station (easier to pay a higher multiple) or how badly they want or need the station.

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

Bottom line is there are currently buyers for wholesale monitoring stations in Canada. We also have an American buyer interested in buying a larger monitoring platform in Canada.

## Deals recently Completed



- **SOLD Monitor Security**, a long established alarm company, to API in Jan 2018
- **SOLD Bulldog Fire & Security**, an integration business in Kitchener ON, to Fire Monitoring of Canada in March 2018
- **SOLD Steele Security**, a security company based in Abbotsford BC, to Fraser Valley Fire in April 2018
- **SOLD Fireplan Strategies**, a Winnipeg company producing fire plans, to a local player in Winnipeg in April 2018
- **SOLD Watermark Security**, a security company based in Port Carling ON, to Avante Security in July 2018
- **SOLD Fire and Security**, based in Dryden ON, to Defendus Security in Aug 2018
- **Completed** numerous valuations of security companies

## Businesses for S A L E

*as of September 22 ,2018*

- **Security Company** in north western Ontario – cottage country, sizable block of monitored accounts
- **Well established integrator** based in New Brunswick
- Smaller **alarm and lock company** located 1 hour east of Toronto
- **Security technology company** based in western Canada producing tracking devices with accompanying software

---

## Tips for Sellers

If you perform a Google search for *selling a business*, there will be pages of tips from M & A advisers, brokers and investment bankers. I have over 20 years experience buying and selling security companies. Based on my experience, here is my checklist of things to consider or do if you are planning to sell:

1. **Ask yourself why you are selling?** If it is only for the money, chances are you may not be satisfied with what you get. I prefer to deal with individuals selling for other reasons – wanting to retire or move to another business.
2. **Before you sell, be sure to get a valuation done.** It is unlikely that you will know what your business is worth and how to sell it. Keep in mind that normal business valuers almost always undervalue the recurring monthly revenue in security companies.
3. If the valuation is not enough for you to accomplish your goals, then **ask your evaluator what can be done to improve the valuation.**
4. **Ask yourself what are your plans after selling.** In this day and age, we are living into our 80's and 90's – a long time if you sell in your early 60's.
5. **Hire an intermediary or broker to help you sell.** Brokers improve prices, give the seller a better chance of getting the deal done and make the process a lot easier and quicker for the seller.
6. **Talk to your tax accountant about the best way to avoid taxes** before you start the selling process.
7. **The intermediary or broker should show your business to several potential buyers, not just one or two.** Stats indicate a broad based search for sellers usually results in better prices.
8. **Make sure your financial books are in order.** Due diligence will be far more difficult if they are not.
9. **Have a lawyer on standby** to review the purchase and sale agreement.
10. **Be patient.** Deals take longer than you think.

---

## It's about staying in touch with the market

- **We are members of the following organizations** – Canasa (Canadian Security 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 various Canasa Shows, ISC West or East, ESX or ASIS.

- **We attend at least 2 of the annual 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.
- **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.

**If you do not wish to receive this newsletter in the future there is an UN-SUBSCRIBE option** at the bottom of this email. If you would like this newsletter delivered to another email address or if there is someone else in your organization who should be receiving this newsletter, please email me at [victor@hardingsecurity.ca](mailto:victor@hardingsecurity.ca).

**If you seller or a buyer of a security company . . .** please contact Victor Harding at (416) 925-7474 or via email: [victor@hardingsecurity.ca](mailto:victor@hardingsecurity.ca)



---

*Copyright © 2018 \*|LIST:COMPANY|\*, All rights reserved.*

Want to change how you receive these emails?

[unsubscribe from this list](#)

[update subscription preferences](#)

\*|HTML:LIST\_ADDRESS\_HTML|\*

\*|LIST:ADDRESS|\*