How Covid 19 has affected Day to Day Business and Deals in the industry

I have been asked by my editor to canvas dealers in various parts of the security industry to see how they have been affected by Covid 19. In addition I have added some comments about valuations and deals during this Covid 19 shut-down.

Effects of Covid 19 on day to day business

Based on my canvassing, it appears most parts of security industry will be hit from the Covid 19 shut-down- some parts harder than others. This is despite security being declared an essential service and most of us thinking security is immune to cyclical swings in the economy. Dealers I talked to in the industry said this year's revenue will be down anywhere from 15- 35%.

Residential service and installs in the alarm industry are virtually dead. Nobody wants anybody in their homes at this time. Some remote technical work is still being done where required and where possible. Alarm.com panels are valuable in these times. Regarding their monitored accounts, most dealers have experienced a sizable increase in calls from customers asking for extra time to pay and a general slowdown in payments. Interestingly enough those with customers on PAP are not being affected as much- something to note for the future. Some are reporting a small increase in cancellations partly because customers are at home and don't need the system as much and partly for financial reasons.

Residential door-knockers- companies like Vivent, Fluent Home and Liberty – I have heard will be hit hard. One door-knocker I talked to said he had done 20 installs in a period where he would normally do 120. Over the next 4-5 months he thinks he will lose 600-700 new installs. And he is no means the biggest of the door-knockers. The next few months – April to October- are the prime months for door-knocking. On top of all this, the call centers which provide leads to some of these door knockers are for the most part shut down.

Some residential dealers will use the Canadian federal gov't CEWS wage supplement program to keep some staff in place. Others will attempt to get the gov't backed loans of $40,000. Others will have their employees go on UI. $500/week from UI is not bad pay. Overall residential dealers are saying their business will be off a minimum of 15% to 35% this year. Nor is it clear that next year will see a return to pre Covid 19 numbers

Integrators generally rely on doing larger commercial jobs and have been hit hard as well. Work in process has been almost completely stopped *unless considered essential*. Essential service work is getting done with extra costs for the technicians working under Covid 19 conditions. POs for new jobs have dried up. In fact almost all new business has dried up. It was reported that one branch of Convergint in the US saw its business level drop 75% overnight. An integrator I talked to in Canada says his revenue in this fiscal year will be down

30-40%. It will likely take a couple of years here before integrator revenue gets back to pre Covid 19 levels. For some commercial jobs the supply chain of equipment from China has been disrupted.

On the positive side, at least there is some commercial work being done unlike with residential. Also apparently there are been an increase in break-ins to commercial spaces which may create some new business.

Monitoring stations have had to incur the expense of setting up the majority of their employees to work from home- not a bad thing for the future but a considerable expense. As an aside I think this Covid 19 shut-down will leave us with a greater % of people working from home more of the time. The problem for stations is they will not likely see the necessary immediate drop in revenue (30%) to qualify for the Canadian CEWS program. It will likely be 3-6 months before they see the effects.

Fire services have been deemed an essential service too; but still they have been hit as well. The ones I talked to have lain off a good % of their staff. Fire dealers are sending techs out only when they are absolutely called upon to do so. Fire installation jobs have the most part ceased completely while the annual test and inspects has merely been put on hold. The 2 fire dealers I talked to has laid off about 50% of their tech force and both intend to file for the CEWS program to help cover the rest. Both said their business will be down at least 25% this year.

With the guard business, business conditions look like it is a mixed bag. With so many businesses shut down any guards attached to these businesses are not working. On the other hand, may drug stores and grocery stores have hired new guards to control the traffic going into the store and inside the store. A lot of this new extra work is coming at higher than normal rates. For example the guard business I have for sale has doubled its normal revenue in March 2020.

For all those security businesses that have been really hurt, owners have cut back expenses to the bare minimum and perhaps for the first time are having to do some serious , short term cash flow forecasting.

How has Covid 19 affected Deals and Values in the Security Industry?

Valuations and deals will be affected negatively by the virus shut-down as well. On a macro level we have entered into a time of increased *financial risk*. Increased risk usually translates into lower valuations, less capital being made available and more expensive when it is offered, larger hold backs and perhaps longer pay-outs from buyers. On the flip side, as the virus shut down has the opportunity to do more damage, there will be those that may have to sell or those that just they have had enough. Well financed buyers may be to pick up some deals although my guess is that the Sellers here will be smaller players and maybe more alarm and guard companies than integrators or fire companies.

Although some deals are still closing, others have been delayed and others simply cancelled altogether. In fact, I am closing small alarm account deal today- kudos to both the Seller and Buyer. Offers I have seen coming in for alarm accounts are coming in with bigger holdbacks. Buyers are worried about increased cancellations. I have read the immediate future bodes better for smaller “tuck-in “deals than for the larger” platform” deals, which makes sense to me. Most companies will go through a period of lower or much lower revenues for the next year which for those wanting to sell after the shut-down is over will make it problematic. Buyers usually look carefully at the “trailing 12 months earnings”. This will force sellers to delay their plans to sell for at least a year or more.

Overall my information is that despite being an essential industry the security industry like so many others has been hit fairly hard and that it will take more than a year for most to recover. A special thanks to those those responded to my questions on this issue.

Victor Harding

Harding Security Services Inc

victor@hardingsecurity.ca