



In this issue:

- The Services Harding Security offers
- Recent Industry M & A Developments
- What to expect or do when you have decided to sell
- Recently Completed Deals
- Deals currently being work on
- What else you should know about Harding Security
- 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, PERS, integration, fire, guard and security distribution businesses across Canada including Quebec. In the last year we have just started to provide services to companies outside the security industry.

1. **Selling your company?**

If you have decided to sell and want help all the way through the process, we can look after you. This is our bread and butter.

2. **Selling your company and already have a buyer in mind?**

We will provide an expert opinion on the Buyer, their offer, and help you close the deal.

3. **Need a valuation done?**

We are performing more and more valuations every year. Although we are not Chartered Business Valuators, we are often more accurate when valuing the recurring monthly revenue in security companies. We are also less expensive. Unlike most valuations firms, we have the experience of actually having to sell the company connected to our valuation.

4. **Expert Opinion**

We have been retained to provide an expert opinion on security industry valuation issues.

5. **Looking for a company to buy?**

We can help you perform the search and close the deal. We charge a small monthly retainer to perform the search and a success fee if we close a deal.

6. **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 many of the required forms.

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 exclusively bring them deals. .

8. **Looking for acquisition financing?**

In certain circumstances, we can help a dealer obtain financing for acquisitions of small to mid-sized alarm companies.

9. **Designing or redesigning an Authorized Dealer Program?**

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

10. **Post acquisition Investment Advice?**

This is particularly useful to Sellers after they have sold – i.e. how to invest their purchase price. We have a relationship with a Canadian chartered bank which can offer you different types of investment advice.

M&A Activity in the Canadian Security Industry – Spring of 2022

Hopefully Covid 19 and its variants are mostly behind us. I have been amazed at how deals to buy and sell all kinds of companies across many industries have continued right through the pandemic. The same applies to the security industry. Tracking of security deals done in Canada and the US suggests that there are as many deals being closed now as there were before the pandemic hit us, which is amazing.

I have learned through this pandemic that business including M & A goes on come hell or high water. For potential sellers, please take note of this.

There are several factors helping to boost M & A activity these days:

- The “Baby Boom” generation is now in their late 60s / early 70’s and are retiring. This is probably the biggest factor bringing me business these days.
- Interest rates – Although they are starting to climb, rates are still low and this helps buyers. However, colleagues in the M & A field tell me just the small increases that have taken place already have lowered multiples a little on some deals.
- There is still large amounts of “dry powder” (money) held by Private Equity firms looking to be invested.
- Investing in small, privately owned companies appears to be a better bet than the stock market right now
- The big buyers in the alarm industry continue to believe that they can pay high multiples and make acquisitions work.
- Consolidation trends have started in the fire industry and continue in the guard sector. Both will continue for the next several years.

With the increased use of apps like Zoom and MS Teams, deals are being done *often without Buyers and Sellers ever meeting in person*. Although not preferable, I have done deals without ever meeting my clients or the buyer in person. I have been preaching that the use of new apps like Zoom is a godsend that we all should be using as much as possible. It saves valuable travel time and money. The conventional wisdom that you always have to meet in the flesh is simply not true.

Deal Activity in the Alarm industry

Activity around alarm accounts is busier for me than ever. Most of these deals are boomers wanting

to exit and retire. I have learned through experience that certain deals are made for certain buyers and don't fit with other buyers. A deal that might work for Telus might not work for API or Securtek. Contrary to what some sellers might think, in my 13 years working for myself, I have only had one deal that I would call a "slam dunk" - meaning easy to do and done inside 4 months. Why that deal? That was because the account base was over 1000 accounts, all on contract, all on call-forward lines, high % of PAP and high average monitoring rates and the buyer was a buyer that moves quickly. Most alarm deals take 6 months or more.

The good news is that multiples on the alarm side are consistently higher than I have seen them for years – at least for the better companies. I would define the better companies as those with:

- 1000 accounts or more.
- High monitoring rates – \$28.00/mth/acc and up.
- A high % of signed contracts
- Accounts on a call forward line
- Up-to-date panels that can take cellular & interactive.
- Accounts that high % of recent test signals.

Other points to note:

- Monitoring rates are much more important than many think in pricing a deal. Low rates (under \$25/mth) will result in lower multiples.
- Deals outside the major metropolitan areas are definitely tougher to sell.
- So are smaller account bases. I.e. less than 500 accounts.
- It is still tough to find buyers who will buy shares particularly amongst the bigger buyers.

Guard Companies

For some reason, smaller guard companies (under \$5 million in revenue) are also coming on the market for me more than normal recently. This is not all about boomers wanting to get out (as with alarm companies) but rather younger owners wanting to move onto other industries. I have 3 smaller guard companies that I am selling right now. See below for details.

Covid helped some guard companies and hurt others. In general, staff turnover in guard companies increased during covid and today I am hearing it is much tougher to find new guards. Also there is an ongoing challenge to increase rates to match the increased hourly rates guard companies are

having to pay.

My experience is that to get the attention of the big, international guard company buyers, you have to have \$10 million in annual revenue.

Other factors beyond annual volume to keep in mind regarding guard deals:

- Having a high % of your annual volume on contracts definitely help get a company sold.
- Contracts with a high # of hours per week billed also helps.
- Higher guard contract rates (\$23/hour and above) increase the chance of a sale.
- Minimizing staff turnover helps an owner when selling.
- Guarding for events appears to be far less attractive than other contracts.

Of note, in terms of bigger Canadian guard deals, SCC from Saskatchewan has recently bought the entire guard business of Avante Logixx Security for \$24 million in cash leaving just the high-end alarm business for Avante with its founder Manny Mounouchos back as CEO.

Fire Companies

The pandemic slowed down the sale of fire companies for me although there were some larger fire deals done. Onyx Fire one of the largest fire companies in the GTA was bought by private equity player Torquest Partners. Classic and Forest City Fire Protection merged their businesses.

Private equity is very active in buying into the fire sector. They like the recurring revenue and that the work is mandated by law. My sense is most fire companies have recovered from the business they may have lost in the pandemic. Owners in this market don't seem to be as anxious to cash out as they are in the alarm market.

Integration Companies

The simple fact is Canada simply does not have that many decent sized (\$5 million in annual revenue and up) integration companies. Along with this, it is much tougher finding buyers for those integration companies that do come on the market. I have found it difficult to get the large strategic buyers like Johnsons Controls, Siemens or Chubb even interested in buying smaller integrators. Convergent is still buying although the target needs to be a compelling target in Canada in order to get them interested. As a result, it generally takes much longer to sell an integration company.

What to Do and Expect when deciding to Sell your Business

Here are some tips related to selling your company:

- You should always get a valuation done before you start the selling process.
- Secondly, it is important that the valuation be done by someone who understands your industry and ideally has done deals in that industry. The recurring monthly revenue attached to many security companies often has special value which is lost on most valuers.
- It takes more time and there is more work involved in selling any business than most owners think. I very seldom sell a business in under 6 months.
- Before you sell, gather around you a good team of the skills that you will need – your accountant, a lawyer who has done M & A deals, and lastly a broker or intermediary.
- A good broker is worth their commission. They should tell you what your business is worth beforehand. They should do most of the work of selling the company while you are left to run the company. They should increase the selling price for your business by creating an attractive selling package and finding several potential buyers. Also the stats show that deals done with brokers have a better chance of actually getting done and are usually done sooner. Brokers also should weed out the “tire kickers” from the serious buyers.
- Know that your recurring monthly revenue will be worth more, dollar for dollar, than your installation or service revenue.
- Big quantities of monthly service revenue can also increase the price paid for a business. It is interesting that in alarm circles, M & A types show monitoring and service together.
- If you are selling shares, know that there will be a discussion on how much working capital (Current Assets less Current Liabilities) you will have to leave in the business.
- Finally, getting the deal closed is only two-thirds of the battle. The last third is connected to making sure the buyer integrates your company properly.

Recently Completed Deals

As of May 2022



- **SOLD** – 1400 alarm accounts sold in the Hamilton/Wentworth area in a share deal to Securex Financial in May 2021
- **SOLD** – 250 alarm accounts belonging to Maco Systems in Toronto sold to Allfine Security in Aug 2021
- **SOLD** – 1200 accounts belonging to Trilex Security in Ottawa sold to ADT/Telus in an asset deal in Dec 2021
- **SOLD** – 220 accounts belonging to Northern Alarms in Vancouver sold to Liberty Security in Edmonton in Nov 2021
- **SOLD** – HHD Imports, a wine importing business was sold to Henry of Pelham in a share deal in Nov 2021
- **SOLD** – 2600 accounts belonging to Ensign Alarm in Welland ON sold to API Alarms in Mar 2022
- **SOLD** – Kawartha Guard Servicer was sold in a share deal to Maxama Protection in Peterborough in Feb 2022
- **SOLD** – Network Security's 810 accounts in Kingston sold to ADT/Telus in April 2022

HSSI is currently working on the following

As of May 2022

- **Selling a GTA-based Alarm Company with 1200 alarm accounts.** A Letter of Intent has been signed. Deal to close end of June 2022.
- **Selling a GTA based small integration business with 1000 accounts.** Letter of Intent has been signed. Deal likely to close shortly.
- **Selling a GTA based Alarm Company with its own monitoring station.** Letter of Intent likely to be signed by in June 2022.

- **Selling a central Ontario based small integrator.** Letter of Intent signed in May 2022.
- **Selling a GTA guard company focused on servicing the condo market** doing \$4 million in annual revenue. Selling package to be ready for distribution about June 15/22.
- **Selling another GTA-based Guard Company doing \$5 million in revenue.** Selling package will be ready in June 22.
- **Security Alarm Company based on north-western Ontario** likely to be sold this fall.
- We recently got the contract to **sell a welding and machine company in Saskatchewan.**

Please contact us at **416-925-7474** or at victor@hardingsecurity.ca to discuss selling your business.

What else you should know about Harding Security (HSSI)

1. We are a *fully independent* M & A Advisory firm based in Toronto, Canada which has been in business now for 13 years.
2. Harding Security's principal, Victor Harding, has been in the security industry in Canada now for over 25 years. He is a CA by training and has had significant large and small company experience before getting into the security industry
3. We are the only M & A advisory firm doing deals across Canada in all parts of the security industry.
4. Although HSSI is primarily focused on the security industry (alarm, integration, fire and guard companies), recently we have been taking deals in other industries.
5. We pride ourselves on getting the deal done. As an intermediary, we have had a high closing ratio on deals
6. Harding Security has recently aligned itself with a larger M & A Advisory firm, Norton McMullen Corporate Finance, to help it do larger deals in the industry.

7. We suggest you go to our website at www.hardingsecurity.ca or visit our LinkedIn page at <https://www.linkedin.com/in/cmvharding> to learn more.

Harding Security stays in touch with the security market

- **We are members of the following security related organizations** – Canasa (Canadian Security Association), CFAA (Canadian Fire Alarm Association), and CASA (Canadian Automatic Sprinkler Association).
- **We are also members of the following M&A related organizations** – ACG (Association for Corporate Growth) and the M & A Club. We constantly attend seminars put on by these organizations.
- **We try to attend at least 2 of the Annual Trade Shows in Canada and the US** each year including the various regional Canasa Shows or ISC West or East,
- **We usually 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 have been the moderator and the main speaker on webinars connected to M & A deals in the security industry in Canada.
- **We write a regular bi-monthly article for SPT New.**

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If you are a seller or buyer of a security company or wish to have your business valued . . . please contact Victor Harding at (416) 925-7474 or via email: victor@hardingsecurity.ca



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