

A Tribute to Prices Alarms - More Tips on Buying and Selling Monitored Accounts

I first want to pay tribute to the Price family of Victoria British Columbia- Bob, Peggy, and Kevin- for the truly amazing job they did in building Price's Alarms over many, many years into one of the premier alarm companies in Canada. As many of you now know, for family reasons the Price family has sold Prices in the last couple of months to Telus. Before they sold, Price's was one of the largest independent alarm companies in Canada and would have stacked up against many large US independents. On top of that, they were an active buyer of alarm accounts.

For me as a broker in the security industry, Price's was always a potential buyer for any block of accounts I had for sale on Vancouver Island, any part of the British Columbia lower mainland, and even into the interior of BC. What was good about dealing with Price's is they were keen to buy if the accounts made sense for them. Most importantly they knew how to buy, they had the money to buy, and they were not afraid to pay a full price for a good set of accounts. In my field, these are all important factors.

Aside from the attributes above, there are other things for buyers to learn from Price's approach to acquisitions. Bob Price once told me they often bought in order to take Price's into a new market or establish a new office. This I am sure was the plan when they first came to the BC lower mainland from Vancouver Island. On the island where they were a dominant player, Bob told me they were motivated by the opportunity to "enhance our current base" or build density. It did not hurt that they were also taking out a competitor.

The multiples Price's paid varied between 30- 40X RMR and depended not so much on the mix between residential and commercial or on the monitoring rate but "on the strategic importance of establishing a new market or gaining dominance in an existing market". Bob indicated that in the earlier years, acquisitions really contributed to Price's growth, but in later years, acquisitions were needed because organic growth was not able to stay ahead of normal attrition. This I find is a common situation amongst alarm dealers.

Switching gears, I have been quite busy these days doing alarm account deals despite the pandemic. I have some more advice for those that still own monitored accounts and think that they might want to eventually sell them.

As mentioned above, alarm accounts are still selling despite the pandemic and so far at prices close to what they have always sold at. In the US the market for alarm accounts has cooled off but not because of the pandemic. My take is multiples just got too high and attrition started to climb. Whether that trend will come to Canada remains to be seen. Certainly, the market for alarm accounts in Canada is not as crazy as it used to be 5-10 years ago. Buyers are being more discriminating.

I have noticed it is much harder today to sell smaller blocks of accounts. i.e. blocks under 350 accounts. Most of the bigger buyers won't touch anything under 500 accounts. The transaction costs are too high.

There is also a real divide starting to show in the market between what I will call "old" and "new" accounts. Old monitored accounts tend to be priced lower (average price < \$25/mth), are on older panels, and do not have cell or alarm.com service on them. New accounts tend to be higher priced (\$30/mth or higher), have newer panels, and are much more likely to have cell or alarm.com installed on them. Many dealers today will not install a new account without cell or alarm.com.

Amazingly enough, in these times where people change their laptops, cell phone, and TVs every 3-4 years, some dealers still think they can install an alarm panel, not touch it for 15-20 years and expect the account to hold its value. More and more this simply not going to happen. If you want a competitive multiple for your accounts, upgrade your panels.

Here are some other trends. For several reasons, commercial accounts definitely seem to be in more demand than residential. Why? The telcos in Canada (unlike in the US) like Telus, Rogers, and Bell, are dominating the residential market more and more with every day offers that independent dealers cannot touch. Commercial accounts generate more service revenue and are easier to get into service.

If you don't have signed contracts on your accounts (the contract could have been signed years ago), don't bother trying to sell them. If your accounts are programmed to your station's line- and not yours- be prepared to have to move them to the buyer's station before the buyer closes the deal. If they are priced under \$25/mth be prepared for a lower price.

As for the billing function, it is amazing to me that more alarm dealers have not moved their customers to monthly Pre-authorized Payment (PAP) and still bill their accounts annually by invoice! Not only is PAP a less expensive way to go, but the stats also show that there is less attrition with PAP and buyers love PAP accounts. Finally, annual billing is a pain when it comes time to selling because the Seller almost always thinks the resulting large deferred revenue deduction is unfair.

My final 2 tips are about price expectations and getting advice. Too many dealers have unrealistic expectations of what their accounts are worth. If you are selling 400 accounts, don't expect a multiple of 35-36X RMR. Think 30X and be pleasantly surprised when you get 32X. If you are selling 1000 accounts don't expect a multiple of 40X. Think 35-36X. Even Telus these days is being more sensible about what they are paying for alarm accounts.

Finally, there is a lot more to selling a block of alarm accounts than some dealers think. No deal is done in under 3 months. There are some “tricks to the trade”. I am amazed that there are still dealers that think they can handle a sale of 1000 accounts themselves. First, to get the best possible deal, the stats show you need to canvass several buyers, not just one or two. This is true when selling any business. You should try to create a mini-auction. You need to know which buyers pay the best prices, which buyers look for more reasonable holdbacks, which buyers will offer your employees jobs after which buyers will buy shares, how to protect your attrition holdback and whether there are ways to get around issues like deferred revenue and much more. I have been buying and selling alarm accounts now for 20 years and every deal presents new challenges.

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