



### In this issue:

- Our Mission Statement at Harding Security
- The Services Harding Security Offers
- Recent Industry M & A Developments
- Recently Completed Deals
- Companies Currently for Sale
- What else you should know about Harding Security
- How Harding Security stays in touch with the market

### Our Mission Statement at Harding Security

We formed Harding Security to make it easier for buyers and sellers in all sectors of the Canadian security industry (including owners of alarm, integration, fire, guard, audio-visual, and equipment distributors) to get acquisition deals done. In particular, we believed owners needed someone "in their corner" when it came time to sell. At the same time, we wanted to make it easier for buyers to get the information they needed from sellers to complete a deal. Directly coinciding with this M & A help, we realized owners of security companies, particularly those with recurring monthly revenue, needed someone to value their company accurately because other valuers were simply not getting it right. We are focused on the Canadian security industry to this day.

### 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, Audio-visual, and Security Distribution businesses across Canada including Quebec. In the last year, we have even started providing services to companies outside the security industry.

#### 1. Selling your company?

If you have decided to sell and want help through the entire process, we can look after you. This is what we are best at. We mainly work for Sellers.

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

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

#### 3. Need a valuation done?

We are performing more valuations every year. Although we are not Chartered Business Valuator, we are often more accurate when valuing the recurring monthly revenue in security companies. We are also almost always less expensive. Unlike most valuation firms, we have the experience of actually selling the companies we value.

#### 4. Expert Opinion

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

#### 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 successfully close the deal.

#### 6. Looking to buy and already have a company in mind?

We are doing more of this kind of work. We can help you value the target, and then structure and close the deal. We can also provide many of the required forms.

#### 7. Looking for acquisition financing?

In certain circumstances, we can help a dealer obtain financing for acquisitions of small to mid-sized alarm companies through either a particular Chartered Bank connection or a Canadian-based alarm finance company.

#### 8. 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 that can offer you different types of investment advice and even an investment advisor.

### M&A Activity in the Canadian Security Industry – Summer of 2023

Acquisition activity amongst large companies in Canada has slowed in the first half of 2023. This is due to higher interest rates and a slowing economy. But interestingly enough, the stats indicate deals closed involving smaller companies are actually up. The large strategic buyers in the different sectors of the security industry are still looking to buy and prices have not dropped significantly.

The Bank of Canada grossly underestimated the inflation spike that hit us in 2021-2022 and has resorted to the only tool they have which is to hike interest rates which are now sitting at a prime rate of 5%. The rate increases appear to be working as inflation is coming down.

Although we may suffer a mild recession, I don't think the security industry will be dramatically affected and deals will continue to get done in 2023 and 2024. Why do I say this? Firstly, there is still a strong economic case for consolidation deals to be done in various parts of the security industry. The ROI on these deals still makes sense. Secondly, plenty of baby boomers in all parts of the industry still want to retire. Most of my deals come from boomers wanting to retire.

### The Alarm industry - What's Happening with Deals in this sector

The number of alarm deals has dropped overall mainly because there are fewer companies out there to buy. However, I am still doing more deals in this segment than in all the others.

In my last newsletter, I listed the bigger deals that happened in the alarm industry in 2022: Telus buying Vivent and Brinks Canada, API buying Fluent Home, API Group in the US buying Chubb Fire and Security, and Avant Garde buying Armstrong. In the last 6 months, there have not been many big deals closed in Canada.

Smaller alarm account deals are still being done in Canada by the usual industry's bigger buyers. Harding Security usually gets its share. I don't see this consolidation process slowing up in 2023 and 2024, although there are fewer decent-sized alarm companies available to buy.

As mentioned in my last newsletter, the multiples on the alarm side remain slightly higher than I have seen them in the recent past – 40X RMR is not unusual. Although Telus was the original driver of these higher multiples, they are being more restrained these days.

It is worthwhile to review what these larger buyers are typically looking for if a seller wants to attract these good multiples.

- Usually has to have account bases with at least 750 accounts or more.
- The accounts should have high average monitoring rates – at least \$30.00/mth/acc.
- A base with a high % of signed monitoring contracts – 90+%.
- Accounts mostly programmed to the Seller's call-forward line.
- A high % of up-to-date panels that can take both cellular and interactive services.
- A high percentage of pre-authorized billing – preferably drawn from a bank.
- Low annual attrition rate. Less than 7%.

When I review the last 3 deals I have done in the alarm segment, I am more convinced than ever that **Harding Security provided real value to each deal.** Here is how Harding Security broker can help:

- **We help the Seller value what they have**  
We tell the Seller what they can expect to get when they sell.
- **We tell the Seller what they have to do to complete a deal**  
We approach several prospective buyers and set up a mini-auction for your company.
- **We know how the bigger buyers do their deals**  
Each of the larger buyers has a different way of valuing an alarm account base.
- **We help get the deal done faster**  
Deals can drift without a broker pushing through the log jams. This past winter I look over a file on a small block of accounts in Western Canada. The initial brokerage firm was a good firm but they did not know the buyers in the security market or how alarm accounts were valued. We helped to get the deal done in 3 months.
- **In some cases we can help find a share deal for the Seller**  
Share deals are usually financially better for Sellers because of the tax advantages. But not many buyers in this market will buy shares. We are better equipped to find and do a share deal for the Seller.

### Guard Companies

In general, guard companies have been through a tough time recently, first from covid, where staff turnover increased significantly and guard companies lost business, and now from demands for higher wages from their guards because of inflationary pressures. One challenge for most guard companies is to able to pass the higher wage costs in the form of higher billing rates to their customers. This is not always easy.

Guard companies are generally valued as a multiple of adjusted earnings. Like alarm companies, larger guard companies (\$8-\$10+ million in annual revenue) are easier to sell and sell at higher multiples than smaller ones. In Canada, there are several buyers of guard companies comprised of either larger guard companies, electronic security players, or even private equity.

But guard company buyers can be particular about what type of end-customer they are buying. Some don't like event guarding as it can be cumbersome to manage. Others stay away from guard companies with condo customers because the margin in that segment can be thin.

Average billing rates are important. Contracted rates below \$25/hour are more difficult to sell.

Here are some other factors beyond annual volume, billing rates, and the type of customer which are important when selling a guard company:

- Expiry dates on guard contracts – when do the bulk of the guard contracts end - the further out the better?
- Is there a good management team in place and will they stay after a deal is done?
- How much unbilled overtime does the guard company typically produce?
- Having a high % of your annual revenue on signed contracts helps get a company sold.
- Contracts with a high number of hours billed each week also helps.

I helped sell a guard company in Quebec in the last 6 months.

### Fire Companies

For some reason, it seems harder to find sellers in the fire business than in the other sectors of the security industry. The two types of buyers I come across are either large fire companies like Oxyx or private equity. Over the last 3 years or so, private equity has been very keen on fire companies. They like the recurring revenue the inspection revenue generates and also that fire work is mostly mandated by law. But these buyers are not finding many companies to buy. I fear many of the PE firms looking for fire companies will be disappointed.

### Integration Companies

I define an integration company as a company getting the bulk of its revenue from large multi-faceted installations with a combination of access control, CCTV, intrusion, and fire all combined in one. The truth is there are not that many large integration companies in Canada. I.e. companies doing more than \$8-\$10 million in annual revenue. Like guard and fire companies, integration companies are valued as a multiple of average adjusted earnings. In addition, compared to the US, there are not nearly as many buyers for integration companies. It has been surprising to me that the bigger integration companies like Johnsons Controls, Chubb Fire, and ADT do not seem to be interested in buying smaller Canadian integration companies. As a result, it is tougher to sell an integration company in Canada and it can take much longer.

In terms of bigger deals getting done, Bosch recently announced they are buying Paladin Technologies, the electronic security part of Paladin which grew mostly by acquisition.

### Monitoring Stations

In my mind, there are still way too many small monitoring stations in Canada. Most of them are even ULC-approved. Experienced monitoring station people tell me that you can't make a ULC monitoring station pay today with less than 50,000 accounts. That would mean that the bulk of the stations operating in Canada are not profitable. Owners of these small stations will tell you they get better quality monitoring for their own accounts by owning their own station. That may be so, but at what cost? And do they really think they can keep up with the new technology and services that large wholesale stations are providing today or match the rates from a large wholesale station? **Plus the new ULC rule coming into effect in 2025 will demand that every station have a backup station.** This is going present a major problem for many stand-alone stations. As someone who has experience running a small wholesale station, I would be looking at selling my monitoring station. And there are buyers out there.

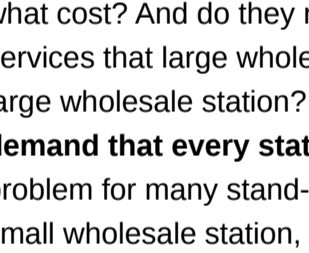
### Is now a good time to sell your security business?

Although financing is getting more expensive these days for buyers and there is the threat of a small recession, I would argue that if you have a good company, it will sell in good times and bad. Moreover, if deals were done throughout the Covid lockdowns - and they were - then deals can and will be done in 2023.

Certainly, in the alarm industry, multiples/prices are higher right now in Canada than they have been in years. If I were an owner of 500 alarm accounts or more and was undecided as to whether to sell or not, I would say **capitalize on today's multiples.** Who knows how long they will last? Similarly in the guard business. There are now more buyers in Canada than 5 years ago and they are being fairly aggressive.

### Recently Completed Deals

For the period from January 2023 – July 2023



- **SOLD** – a Montreal based guard company doing about \$8 million in annual revenue.
- **SOLD** – a small account base in south eastern BC to Telus in an asset deal. Owners family is staying on to help service the accounts.
- **SOLD** – Small integration business with 300 accounts based in Collingwood, Ontario sold in a share deal in Aug 2022 to Huronia Fire and Security.
- Aside from these deals in the past 6 months, Harding Security acted as an expert witness for a large Canadian player and has done several valuations.

### HSSI is currently working on the following

As of July 2023

- **Selling a GTA based alarm company with 700 alarm accounts.**
- **Letter of Intent signed for an alarm company in Western Canada**  
Deal to close at the end of Sept. 2023.
- **Looking for a buyer for another Montreal-based small guard company doing \$2.4 million in revenue.**
- **Soon to be selling a security company based in northwestern Ontario**  
A major player in its market with 650 alarm accounts.
- **Selling a Canadian-based video monitoring company doing \$140,000 in recurring monthly billing.**
- **Selling a Welding and Machining company based in Saskatchewan with \$1.5 million in annual revenue.**

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, Ontario. We provide our services Canada-wide. We have been in business now for 14 years.
2. Before starting Harding Security, Victor Harding worked for VOXCOM and Protection helping them to buy small alarm companies and develop their authorized dealer programs. Before that Victor had his own security firm with a partner, Alliance Security.
3. Victor is a CPA by training and had many years of large and small company experience before getting into the security industry in 1994.
4. We are the only M & A advisory firm doing deals across Canada in all sectors of the security industry. We also do valuations of all types of security companies.
5. Harding Security has aligned itself with a larger M & A Advisory firm, Norton McMullen Corporate Finance, based in Markham On to help us do larger deals.
6. We pay a Finder's Fee of 10% of any Success Fee we get from a sale to anyone who refers a lead to us that we did not already have.
7. Although HSSI is primarily focused on the security industry (alarm, integration, fire and guard companies), recently we have been taking deals in other industries.
8. To see more details on Harding Security go to our website at [www.hardingsecurity.ca](http://www.hardingsecurity.ca) or visit our LinkedIn page at <https://www.linkedin.com/company/harding> 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** – ACC (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 Security Trade Shows in Canada and the US** including the various regional Canasa Shows and ISC West.
- **We try to attend 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 write a regular bi-monthly article for SPT News** on M & A issues in the security industry.
- **We have been the moderator and the main speaker** on several webinars connected to M & A deals in the security industry in Canada sponsored mainly by SPT.

### If you are getting this newsletter . . . .

You are receiving this newsletter because you are in a senior position of a security company in Canada or the United States or I have talked to you or we have conducted business in the past. Alternatively, we may have connected through LinkedIn or you are a member of one of the following organizations: Canasa, CFAA, CAsA, SIA 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 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](mailto:victor@hardingsecurity.ca)

