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HSSI – Winter 2023 Newsletter



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## 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 primarily to make it easier for buyers and sellers in all sectors of the security industry in Canada to get acquisition deals done. We believed owners needed someone "in their corner" when it came time to sell. At the same time, we thought we could make it easier for buyers to get the information they

needed from sellers to complete a deal. Hand in hand with this M & A help, we soon realized that owners of security companies, particularly those with recurring monthly revenue, needed someone to value their company accurately because other valuators were not getting it right. 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 started providing 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 cán look after you. This is our bread and butter. 2. Selling your company and already have a buyer in mind? We can provide an expert opinion on the Buyer, 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 Valuators, 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 having to sell the company that we valued.
  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 the 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 then structure and close the deal. We can also provide many of the 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 through a Chartered Bank connection we have established. 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 and negotiate their particular deals. 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 that can offer you different types of investment advice.
- **M&A Activity in the Canadian Security Industry Winter of 2023** Although 2022 was a slightly slower year than 2021 for deals in almost all industries, many deals closed in all of the main sectors of the security industry. This is good news for all of us because it suggests that investors (companies, PE funds, and individual investors) like our industry and want to invest money in it. This generally only happens in industries with a good future. Sometimes we take this for granted.

By far the biggest security buyers in 2022 again were other industry players or what we call "strategic" buyers as opposed to "financial" buyers. The great thing about strategic buyers is they usually pay the best prices, they generally have the financing place, and they usually have done deals before; all of which helps owners who are

Although interest rates will probably continue to climb a little more in 2023 and 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. You can argue that a strong economic case for consolidation still exists in order of the major sectors of the

security industry- alarm, integration, man-guards, and fire services. In addition, the baby boom generation will continue to retire giving us more deals. If you have a good

company there should be no economic reason not to sell.

The Alarm industry - Deals done and What to look out for

wholesale stations in Canada based in the Maritimes.

The amazing thing to me was how deals continue to be closed (all through the pandemic and beyond) in almost all industries often without buyers and sellers ever

meeting each other in the flesh.

There were some big deals done in this sector: Telus bought the Vivent accounts in Canada. Vivent is a large, US-based, publicly traded, smart home alarm company. Frankly, I was surprised they sold their Canadian operation. ADT did the same thing 3 years ago.
API Monitoring furthered their acquisition of Fluent Home's accounts in both the US and Canada. This was a big deal for API and definitely makes them a major player in both wholesale and retail market sectors.
UTC, the large publicly traded US-based conglomerate sold the Chubb Fire and Security operations worldwide to the API Group based out of Minnesota – not to be confused with API Monitoring based in Toronto. I was not surprised that Chubb was sold. I have not been impressed by what has been going on at Chubb Canada for years. Chubb Canada for years. Garda World expanded its electronic security business in English Canada by buying Liberty Security out of Edmonton, AB over a year ago and is embarking on a growth path in English Canada.
Avante Garde Monitoring, part of the US-based Becklar private equity group, came out of nowhere to buy Armstrong's Communications, one of the best

As seems to always be the case, there were lots of smaller alarm account deals done by the usual industry buyers and Harding Security got its share. I don't see this consolidation process slowing up in 2023 although there is less and less out there to

The good news is that multiples on the alarm side are higher than I have seen them for years, at least for the better companies, i.e. those companies with:

 750 accounts or more. Attractive monitoring rates – Average \$28.00/mth/acc and up.
A high % of signed contracts – 90% Accounts all programmed to a call forward line
Up-to-date panels that can take both cellular & interactive services. Accounts that have high % of recent test signals. Other points to note about doing deals for alarm accounts in Canada:

recently upped their game to match Telus.

guarantee.

of a sale dramatically.

**Integration Companies** 

strategic buyers from the guard industry.

Monitoring rates are important to most Canadian buyers, but not all. Average lower rates (under \$25/mth) can result in lower multiples.

• Smaller account bases (under 400 accounts) can definitely be sold but probably at a lower multiple and probably to regional or smaller players.

• It is still very tough to find buyers who will buy shares, particularly amongst the bigger buyérs. **Guard Companies** 

For a sector that some thought would be replaced by technology years ago, the guard sector is certainly very much "alive and kicking". I am now doing almost as much guard business as alarm business.

The good news for owners of guard companies is there appear to be more active buyers in the guarding market in Canada now. However, to get the bigger

Telus is the buyer driving multiples higher. Some of the other buyers have

Telus tends to just want to buy your accounts. They don't show much interest in the shares of your company, your people, vehicles, inventory, or your space.
Each of the major buyers in Canada does deals slightly differently in regard to

the calculation of purchase price, the payment schedule, and the attrition

companies' interest it helps to be doing at least \$5 million in annual revenue -\$7-\$10 million would be better. US-based Allied Universal increased its ranking among the largest guard companies in the world by closing the deal to buy G4S worldwide. Canada's own Garda World was left "at the alter" on that deal. I am hoping Allied will be more interested in doing other guard deals in Canada as a result. Security Services Corp based in Sask bought Logixx Security, the large guard division of Avante Logixx just over a year ago. Both are publicly traded companies

In general, staff turnover in guard companies increased during covid. In today's very tight labour market, it is much tougher to find new, good guards. Also, there is an

traded on the TSX Venture. This puts SSC on the map in the guard industry in Canada. I like what Doug Emsley, the CEO of SSC, is saying and doing.

ongoing challenge for guarding companies to increase rates to match the

increased hourly pay rates they are having to pay. Other factors beyond your annual volume that appear to be important when selling a guard company: The type of guard business you are in is important. Event guarding is not attractive to many buyers. The condo business, if it is low priced, is in the • Expiry dates on guard contracts, the existing management team, and the

amount of unbilled overtime are all important issues to smart buyers of quard

Higher quard contract rates (\$27/hour and above) should increase the chance

Having a high % of your annual revenue on contracts helps get a company

 Contracts with a high number of hours billed each week also help. • Again, similar to the alarm industry, the buyers in most guard deals are

Fire Companies Not much new to report here. The pandemic slowed my fire business down. My experience is it is harder in general to find sellers in the fire business than in the other sectors of security. Not sure why. I do know that private equity in Canada is very keen to buy into the fire sector. 20 years ago, private equity was keen on the alarm industry. Not so much now. Private equity likes the recurring revenue the inspection revenue generates and that fire work is mostly mandated by law. My guess is that many of the search funds and private equity funds looking for fire guess is that many of the search funds and private equity funds looking for fire businesses are góing to be disappointed and not be ablé to close deals. Who knows where they will look next?

I define an integration company as a company getting the bulk of its revenue from large multi-faceted installations that could have a combination of access control, CCTV intrusion, and fire all combined in one. Integration companies were perhaps

hit the hardest by the covid lockdowns and the related supply chain bottlenecks. Installation jobs literally had to be stopped in some cases due to equipment shortages. The number of new jobs approved also dropped.

Based on what I know, Canada simply does not have that many decent-sized (\$5 million in annual revenue and up) integration companies. In addition, It is proving much tougher to find buyers for those integration companies that do come on the market. For example, none of the large, national integration companies in Canada like Johnsons Controls, Siemens, ADT, or Chubb have seemed interested in buying smaller integrators. Convergint is still buying although the target in Canada needs to be a compelling target in order to get them interested. As a result, it generally takes be a compelling target in order to get them interested. As a result, it generally takes much longer to sell an integration company. There is some good news in this space. The new owners of Chubb Fire and Security (API Group out of the US) and also Garda World may well become active buyers in the integration space in Canada. 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 about 40,000 accounts. That would mean that the bulk of the stations operating in Canada are not economically viable. 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 but at what cost? And do they really think they can keep up with the new may be 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 they could get from a large wholesale station? I doubt it. On top of this, the ULC new rule coming into effect in 2025 will demand every station to have a backup

station. This is going present a major problem for many stand-alone stations. As someone who has run a small wholesale station at one point in my career, I would be looking at getting rid of my small monitoring station. And there are now buyers out 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 more buyers now in Canada than 5 years ago and they are being fairly aggressive.

If you have a good company and if you have planned for your exit by having your books and your business in order, and if you have talked to your accountant about your plans, there is no reason why 2023 can't be a good year to sell. But keep in

mind it always takes longer to complete a sale than you might think. Even the simplest small block of alarm accounts can take upwards of 6 months to sell.

Recently **Completed Deals** For the period of July 2022 – January 2023

## • **SOLD** – 1150 alarm accounts belonging to Canaforce Group based in GTA sold in an asset deal to API Monitoring in Sept 2022.

in July of 2022

 SOLD – 1000 accounts belonging to Cairn Control in Mississauga, ON

sold in a share deal to Garda World

- Selling a GTA based alarm company with 700 alarm accounts.
- **HSSI** is currently working on the following As of January 2023

and Security.

• **SOLD** – 1400 accounts including a

• **SOLD** – Small integration business with 300 accounts based in

Collingwood, ON sold in a share

deal in Aug 2022 to Huronia Fire

Monitoring in an asset deal.

ULC station sold in Dec 2022 to API

doing \$3.0 million in annual revenue. Selling a fast-growing Montreal-based guard company doing \$9 million in Looking for a buyer for another Montreal-based small guard company

Selling a GTA guard company focused on servicing the condo market

- doing \$2.4 million in revenue. Security Alarm Company based in north-western Ontario – Selling package ready by the end of January 2023. • Selling a Welding and machining company doing \$1.5 million in revenue
- based 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 beholden to no one and we have been in business now for 14 years.

2. Before starting Harding Security, Victor Harding worked for VOXCOM and Protectron helping them to buy small alarm companies and develop their authorized dealer program. Victor is a CPA by training and has had many years 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 sectors of the security industry.* We also do valuations of security 4. Although HSSI is primarily focused on the security industry (alarm, integration, fire and guard companies), recently we have been taking 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 aligned itself with a larger M & A Advisory firm, Norton McMullen Corporate Finance, based in Markham On to help us do 7. We pay for referrals. If we are successful in getting the business that you referred us to, we will pay you a small % of our fees. 8. To see more details on Harding Security go to our website at <a href="https://www.linkedin.com/in/cmvharding">www.hardingsecurity.ca</a> or visit our LinkedIn page at <a href="https://www.linkedin.com/in/cmvharding">https://www.linkedin.com/in/cmvharding</a> 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), CASA (Canadian Automatic Sprinkler Association) and ASIS

## We are also members of the following M&A related organizations – ACG (Association for Corporate Growth) and the M & A Club. We constantly attend

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at victor@hardingsecurity.ca.

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. • 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.

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

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