

Is now a good time to sell your security business?

Conventional wisdom might tell us that with covid-19 still very much hanging around and with the economy shattered by the shut down now might not be a good time to sell your security business. If I were an owner of a profitable security business that wanted to sell, I would certainly be concerned. Is my business in good enough shape to sell? Are there any buyers out there? Will I get full value for my company? Can we even complete the deal? These are all legitimate questions that would make owners pause before putting their company on the market right now.

However on the other side of the ledger, amazingly enough, there are several “forces at work” that suggest that now could actually be a good time to sell your business.

Before we list out these “forces at work”, we should first review what I think are some basic requirements that every seller should have in place before even considering the effect of the virus.

First, it has to be the right time for you personally to sell. You need to be emotionally ready. From my experience, most owners know when it is time. It is however worth noting you can tarnish both your reputation and your company’s to go all the way through the selling process only to realize that you are not really ready to sell- and as a result you back off.

Secondly, when selling any business you should have at least 2 years (3 would be even better) of good financial results behind you and a decent forecast for the next 12 months. This is paramount. If the virus has put a dent in your immediate results, then it is up to you to show buyers that whatever revenue you may have lost will be picked in future months and that your business has not been permanently damaged. In earlier articles and below I talk about the new variable which is being factored into all new valuations using a calculation of normalized EBITDA. They call this new variable EBITDAC where the C is for the effect of the virus. And more than before the virus, you need to be able to show buyers a good forecast for the next 12 months ahead. Buyers are paying more attention to these forecasts than in the past

Thirdly, you need to have a realistic idea of what your business is worth. That probably means getting your business valued fairly close to when you put it on the market. A footnote here is to be wary of those valuers that have not worked with or don’t understand the value of recurring monthly revenue (RMR) which is often a significant part of the value of a security company.

If all three of these issues are a go then I think you are in a position to consider a sale, despite covid-19. Next, you should be able to explain clearly the effect of the covid shut down on your business. It may be nothing, a little, or a lot. If as with some integration businesses it has seriously damaged your financial results for the current year then perhaps it is better to wait for a year or so until you have a good year’s results under your belt. But if you own an alarm company where your attrition has not been affected too much or a guard company where your business actually improved or at least held its own under covid, you can proceed towards a sale without fear of being devalued by the times we are in. I am currently selling several alarm companies.

If you are reached this point and everything still looks good, I noted above that there are some forces working in your favor if you want to sell your business.

Firstly, because the virus has scared some sellers off, there may not be very many other businesses in your market for sale. That helps you. To get a feel for what's going on in the market I suggest you talk to some other industry players or even a broker who works in your field. Make some calls.

Secondly, and I have mentioned this in earlier articles, some companies are buying now because their "organic" growth has dried up. They need to replace new organic accounts with acquisition accounts. Many alarm companies still can't get into homes to install new systems. Re commercial security installations, many companies have been affected badly by the virus and are simply not spending money upgrading their security systems. I have run into two smaller players both of whom are now looking at acquisitions to boost their growth.

Thirdly, Private Equity, which is proving to be a much bigger factor in security industry deals these days has lots of "dry powder" (un-deployed capital) looking to be invested. They don't appear to be slowing up on their pursuit of deals. They along with anyone else who is doing deals are finding ways to work around the virus.

As for the regular bigger buyers in the alarm market, they seem to be carrying on trying to do deals almost as if there had been no virus shut-down. This is partly due to the fact that alarm monitoring RMR does not appear to have been too affected by the virus. In fact, it has been surprising to me how many buyers I have talked to in the various segments of the security industry that are considering these times as "business as normal".

Then there are the opportunistic buyers. So far I have seen two kinds- those that are attempting to take advantage of the times to get some "deals" on businesses for sale. Deals here mean deals priced lower than normal. The 2nd kind of opportunistic buyers are those that are buying because they want to get the jump on their competition.

So put all this together and my point is that if you can get through the 3 basic hurdles mentioned above, The M & A market for security companies appears to be almost as active as ever.

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