

## **Some Reminders About Selling Alarm Accounts During Covid Times**

Despite the virus shutdowns, the market for selling alarm accounts is quite active today in Canada. But along with this activity comes the need to remind sellers about a few important points.

It is critical that as a seller you pass on accurate information about your account base to the buyer. When it comes time to sell, don't just ballpark your number of accounts and their RMR. Look at your most recent wholesale monitoring bill and your last 12 months' monitoring revenue to get at your RMR. I see sellers over-estimating their alarm account total and their RMR by as much as 15%. Over-estimating accounts/amount of RMR by five percent may not seem like a big deal, but when you are multiplying the actual RMR by something like 36X, a \$2,500 difference in the account base RMR equates to \$90,000.

Holdback percentages most likely will be higher these days. We are still in the midst of a pandemic here in Canada. Fifteen percent (as opposed to the standard 10 percent) is a reasonable holdback to expect these days. Why? Contrary to what you may read, most dealers are losing more accounts in these times than they normally would. Secondly, for the buyer, it is all about risk. When times are riskier, holdbacks will go up!

Your average monitoring rates are critical. Higher average rate accounts mean higher gross margin per account. Higher gross margins mean the buyer can pay more and get their money back faster. Do the math. If your average rate on your account base is below \$20/month you will not get the best multiple when you sell. In some cases, the buyer may pass all together.

Which panels you have installed matters more than ever. Buyers do not want to buy old "clunkers," regardless of how well they work! They want panels that can take cellular and interactive service because that is the way the industry is going. If a buyer sees a bunch of older panels in your base, they immediately think upgrade costs and that will likely mean a lower price or no deal at all. In addition, a buyer will place extra value on downloadable panels that are actually being actively downloaded. Who wants to roll a truck today if they don't have to? Finally, as alluded to above today an account base with 50 percent cell or interactive service on them is worth more than an account base with only 20 percent.

Very few alarm account bases these days are growing. In fact, based on what I am seeing, many account bases are actually shrinking. This could be partly due to the pandemic, although I think this trend started before the virus hit. Shrinking bases mean less money when you sell because you have fewer accounts to sell but also because buyers don't like to buy shrinking bases so they pay less. Unless you are a high-volume door-knocker or are very good at selling custom-designed smart home security, it is tough to grow an alarm account base today. Also the telcos like Rogers, Telus and Bell are making it more and more difficult to compete as well. Note to dealers: compare your alarm account base today to what you had a year ago and ask yourself if this pattern is going to continue. My guess is that it is only getting worse as the telcos step up their campaigns. If I had a shrinking account base, I would give serious consideration to selling.

Commercial accounts are more attractive than residential these days. For the most part, commercial accounts have higher rates, generate more service and upgrade revenue and are less likely to cancel. There is a premium price placed on commercial accounts today in Canada. Moreover, in Canada, the telcos are making it almost impossible to compete in the residential market. If I had a middle-of-the-road-priced residential account base today, I would definitely be thinking of selling.

Every seller of alarm accounts has to produce a detailed listing of their accounts, with all the monitoring and billing info on it. This seems like an obvious point to make but you would be surprised at the dealers that balk at having to prepare this list for various reasons. Here are the facts. That accounts list is what you are selling. So be prepared to compile such a list no matter how big or small you are. I call this list the Acquisition Spreadsheet. Each buyer has their own format for this spreadsheet but they all get at the same information. This spreadsheet not only helps calculate the purchase price but also gives the buyer all the billing info for the accounts once they take them over. This list is critical to every deal. It must be done completely and accurately- and it does take a whack of time to complete.

Finally, be realistic on the multiple you will get. The facts are multiples in Canada are simply not as high as they were 18-24 months ago. This is partly due to the pandemic, but also partly just a general pullback coming from buyers. I am not seeing any crazy high multiples from any of the bigger buyers. For example, to get to 40 X, you would have to have a minimum of 1500 accounts, all on contract, with a high average rate, along with a high % of cell accounts and a decent rate of attrition- i.e. 7% annually or less- and the buyer must really want your base!

Alarm accounts still hold great value and are very saleable and deals are being done. However, if you are a seller be reasonable about your expectations on price and terms.

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