

# SYSTEMS INTEGRATOR GROWTH DRIVEN BY RAPID TECHNOLOGY EVOLUTION

SECURITY SOLUTIONS SECTOR UPDATE | JULY 2023



**CAPSTONE  
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# Security Solutions

## Systems Integrator Growth Driven by Rapid Technology Evolution

### KEY SECTOR TAKEAWAYS

Capstone Partners' Aerospace, Defense, Government, & Security (ADGS) Group is pleased to share its Security Solutions report. Despite merger and acquisition (M&A) volume in the sector moderating year-over-year (YOY), Security Solutions M&A growth has outpaced the broader market, buoyed by a robust spate of private equity add-ons. Several key takeaways are outlined below.

1. Deal volume through year-to-date (YTD) 2023 has declined, however, product versatility has allowed for increased scalability for many businesses, providing a healthy forecast for dealmaking.
2. The rise of digitized solutions connected to the Internet of Things (IoT) has created an ecosystem of companies leveraging interconnected systems with physical security devices.
3. Systems integrators have evolved their service offerings to keep pace with advances in more complex security environments, garnering M&A attention from both strategic and financial buyers.
4. Public equity valuations in the sector have remained strong through YTD, particularly in the Video Solutions and Alarm Monitoring segments.

Capstone Partners has developed a full suite of corporate finance solutions, including M&A advisory, debt advisory, financial advisory, and equity capital financing to help privately owned businesses and private equity firms through each stage of the company's lifecycle, ranging from growth to an ultimate exit transaction.

To learn more about Capstone's wide range of advisory services and Security Solutions sector knowledge, please [contact us](#).

## CRIME INCREASES AND PRODUCT VERSATILITY DRIVE DEMAND

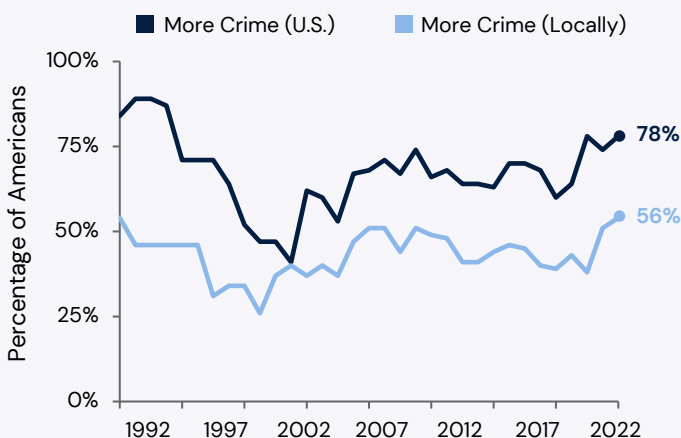
The digitization of physical security services has provided businesses in the Security Solutions sector with new opportunities to package services and offer comprehensive products across the IoT. Both business end users and consumers now expect security products with video and access control versatility, integration with IoT networks, and intuitive functionality. Demand for interconnected security systems is expected to remain healthy across Residential and Commercial end markets.

Residential segment growth has been driven by the perception of increased crime and requisite need for robust security solutions. Notably, 56% percent of Americans believe that crime increased in their neighborhood in 2022, while 78% of Americans believe that there was more crime nationally compared to the year prior, according to Gallup.<sup>1</sup> Entrenched consumer sentiment around crime is expected to fuel security investment in 2023 and benefit sector players.

Robust top line growth among public companies has been driven by IoT-connected solutions, capitalizing on the persistent demand for accessible security products. Swedish access control provider ASSA ABLOY (OM:ASSA B) reported a 3% year-over-year (YOY) increase in organic sales growth in its Entrance Systems business, where the company has heavily invested in IoT-connected door control products, according to its Q1 2023 earnings report.<sup>2</sup> Additionally, electronic security provider Allegion (NYSE:ALLE) acquired Yonomi, an IoT cloud home integration platform provider, in January 2021 for an undisclosed sum. Yonomi was incorporated into the Allegion Americas business unit, which reported a 42% YOY revenue increase, according to the company's Q1 2023 earnings report.<sup>3</sup>

With the expansion of product capabilities, additional security risks for business end users and consumers have also risen. The expansion of IoT devices and network infrastructure has created increased cybersecurity vulnerabilities which can lead to physical security compromise. However, integrated physical security technologies have also improved cyber threat identification and data collection, allowing for more efficient protection of servers and critical infrastructure. For example, Amazon's (Nasdaq:AMZN) Ring product line has been one of the most prominent IoT integrated video surveillance platforms for residential customers, allowing end users to track live video footage from their mobile devices. Access control provider Entrust is another leading player in the IoT-integrated Physical Security space offering a streamlined ID issuance platform which secures physical access points and protects against unauthorized entrances. Providers who have integrated the IoT and cybersecurity protections with their physical security products are expected to help propel sector growth in the future.

**Majority of Americans Polled Believe Crime Has Risen Year-Over-Year**



Source: Gallup

**Leading IoT-Connected Physical Security Providers**



Source: Capstone Partners



## SYSTEM INTEGRATORS GROW INTERCONNECTED SERVICE OFFERINGS

The advent of more complex security technologies has forced systems integrators across the Security Solutions sector to evolve their capabilities. This has driven significant acquirer activity in the Physical Security and Fire & Life Safety segments. Integrators which have historically installed localized, analog hardware devices including access control systems, video surveillance, and fire/life safety systems, are now connecting devices to the internet. Legacy, air gapped, analog systems now reside on a common network, providing more versatile functionality and comprehensive solutions for addressing multiple security vulnerabilities. This complex new environment has also required different skillsets with a premium for talented, IT savvy technicians.

Packaged service models, that include product, integration, maintenance, and monitoring services may create incremental, recurring revenue (ARR/MRR) streams for systems integrators. For example, Video Surveillance-as-a-Service (VSaaS) and Access Control-as-a-Service (ACaaS) offer high margin, recurring revenue streams for businesses once project dependent. The visibility

and foresight in sales has fueled optimistic forecasts for the space. The global VSaaS market was valued at \$2.5 billion in 2022 and is projected to grow to \$8 billion by 2030 at a compound annual growth rate (CAGR) of 15.9%, according to Research and Markets.<sup>4</sup>

New integrators that have adapted their service offerings to modern security product models have outpaced legacy integrators. These integrators have drawn significant M&A attention from strategics and sponsor-backed buyers. Of note, Access Holdings-backed Zeus Fire & Safety acquired PASS Security in May for an undisclosed sum. PASS provides security infrastructure to the Industrial, Commercial, and Residential end markets, including access control and video surveillance systems. The company specializes in the installation of physical security with digital security systems that link access control with surveillance cameras, live monitoring, and intrusion burglar alarms. PASS' comprehensive approach to security integration garnered the company recognition as a top 50 security integrator in the U.S. in 2022, according to SDM Magazine.<sup>5</sup>

### Select Systems Integrators Transactions

Date	Target	Acquirer	Target Business Description	Segment
05/25/23	PASS Security	Zeus Fire & Security	Provides enterprise-scale integrated security solutions across the greater midwestern U.S.	Video Surveillance
04/19/23	Traffic Land	SmartCTY Technologies	Integrates and hosts live traffic video surveillance systems for the Department of Transportation.	Video Surveillance
04/13/23	VP Access Gate	Guardian Access Solutions	Installs custom gate systems.	Access Control
04/06/23	ASSET Private Security	JPT Group	Provides alarm system integration.	Alarm Monitoring
03/07/23	Netronix Integration	Pavion	Offers access control, IP video, intrusion detection, identity management, and smart-card technology.	Access Control
03/06/23	Bellingham Lock & Safe	AVI Integrators	Provides security products for local homes and protects people, property, and assets.	Access Control
01/31/23	PV Labs	Civitanavi (BIT:CNS)	Operates as an image analytics company for the Security and Surveillance sectors.	Video Surveillance
01/30/23	Openpath Security	Arize	Provides security solutions for offices.	Access Control

Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

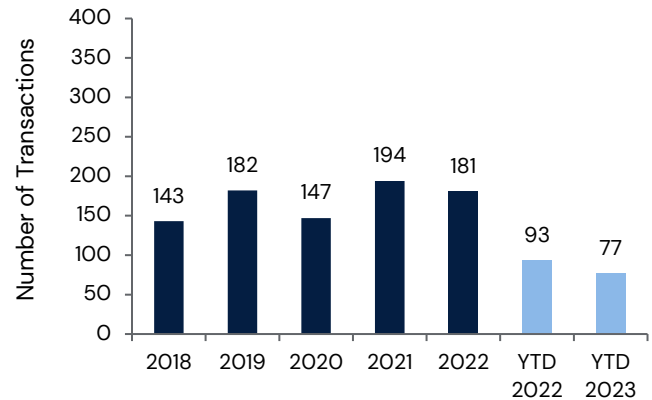
## SCALABLE TARGETS POSITION SECTOR FOR M&A REBOUND

M&A volume in the Security Solutions sector has declined through YTD with 77 transactions announced or completed, compared to 93 in YTD 2022. However, sector M&A volume has shown greater resilience than the broader M&A market. Through Q1 2023, sector deal volume declined 19.6% YOY, compared to a 25.2% YOY drop in the broader M&A market, according to [Capstone's Q1 2023 Capital Markets Update](#). Despite the moderation in deal activity, new private equity entrants have buoyed M&A volume in the sector. Financial buyers have accounted for 57.1% of all transactions through YTD, almost exclusively opting to acquire businesses through established portfolio companies (51.9% of all transactions). Historically high interest rates have restricted private equity appetite for large-scale buyouts.

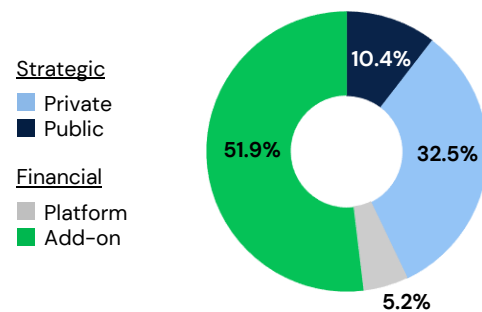
Capstone expects consolidation activity to remain healthy through year-end as both private and public strategic buyers have emphasized target scalability. Several of the completed transactions through YTD 2023 have already validated buyer sentiment regarding the effectiveness of inorganic growth in the sector. In particular, Bowman Consulting (Nasdaq:BWMN) expects its acquisition of Fisher Engineering (May 2023, undisclosed) to be immediately accretive to earnings, contributing \$5 million of annualized net service billing even before revenue synergies, according to a press release.<sup>6</sup> "Fisher has built a great platform from which we can expand a national and international fire protection and life safety practice," said Bowman CEO Gary Bowman, in the press release. Additionally, deal activity among both public and private strategic buyers may also tick up in the second half of 2023 due to scalable targets allowing for increased revenue synergies. In an unpredictable economic environment, businesses that offer relief to cost pressures are expected to be highly valued.

The Fire & Life Safety segment has experienced healthy consolidation through YTD with 29 acquisitions, comprising 37.7% of total deal volume in the sector. The Fire & Life Safety segment has been largely insulated from macroeconomic headwinds that have impacted other areas of the market. As demand for fire protection has remained highly recession resistant, consolidation in the segment is expected to remain robust through year-end.

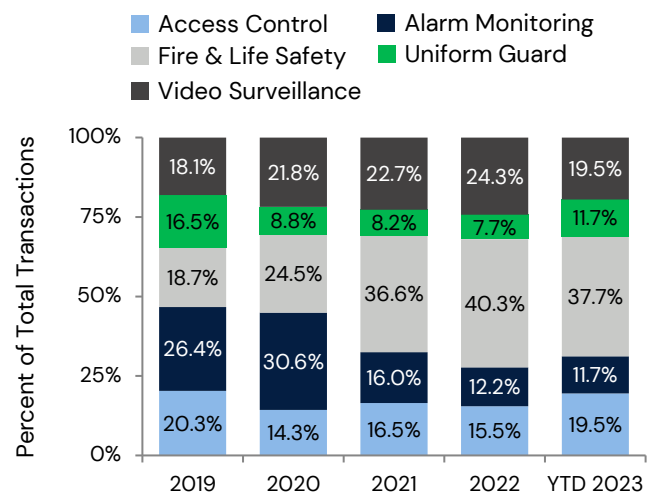
### Security Services M&A Moderates Year-Over-Year



### Private Equity Buyers Have Rapidly Pursued Add-On Acquisitions Through YTD



### Fire & Life Safety Targets Continue to Constitute a Majority



Year-to-date (YTD) ended June 9  
Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

## NOTABLE M&A TRANSACTIONS BY SEGMENT

### Access Control



In March, Pavion completed its acquisition of Netronix Integration. Terms of the transaction were not disclosed. Netronix provides security integration technology and services for customers in the Education, Healthcare, Technology, and Critical Infrastructure sectors. Pavion, a leading provider of fire safety and security solutions, expects the acquisition to bolster its security integration offerings, according to a press release.<sup>7</sup>

### Fire & Life Safety



Bowman acquired Fisher Engineering in May for an undisclosed sum. Fisher provides extensive technical services around fire safety analysis. The company provides serves customers across the U.S. in seven states. Bowman expects the acquisition to contribute approximately \$5.0 million of annualized net service billings before revenue synergies and be immediately accretive, according to the transaction press release.

### Alarm Monitoring



Eastern Communications completed its acquisition of RACOM in February for an undisclosed sum. Based in Iowa, RACOM operates as an emergency communications service and technology provider. Together, the companies are expected to comprise one of the largest service platforms in the Critical Communications industry with a national presence spanning 16 service locations, according to a press release.<sup>8</sup>

### Uniformed Guard



Trilogy Capital-backed Scarlet Security & Risk Group (SSRG) announced its acquisition of Fusion Security in April for an undisclosed sum. Fusion's service offerings include providing security personnel and mobile patrol. The transaction represents SSRG's second accretive acquisition since Trilogy Capital's investment. SSRG seeks to be a major consolidator of quality firms that may lack the scale to compete on larger enterprise and national contracts, according to a press release.<sup>9</sup>

### Fire & Life Safety



AE Industrial Partners-backed Altus Fire & Life Safety, a full-service fire safety platform, completed its acquisition of Priority Fire and Security in June for an undisclosed sum. Priority specializes in the sale of fire detection, protection and mitigation systems, including alarm and sprinklers. This transaction marks AE Industrial Partners' 10<sup>th</sup> company added to its Utility Services platform, according to a press release.<sup>10</sup>

### Video Surveillance



Pye-Barker Fire & Safety completed its acquisition of Amherst Alarm in March for an undisclosed sum. Amherst Alarm, is an industry leading security and monitoring provider. Pye-Barker has rapidly consolidated in the Security Solutions space to gain market dominance in the Northeast U.S. The company's aggressive acquisition strategy is expected to expand the company's reach in New York outside of Long Island and New York City.



## SELECT TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV/LTM Revenue	EBITDA
06/01/23	Priority Fire and Security	Altus Fire and Life Safety	Provides installation, monitoring, maintenance, and repair services for fire and security systems.	-	-	-
05/16/23	Automatic Fire Sprinklers	Pye-Barker Fire & Safety	Operates as a fire protection service company that provides fire sprinkler installation system services.	-	-	-
05/15/23	Fisher Engineering	Bowman Consulting (Nasdaq:BWMN)	Provides fire protection engineering services.	-	-	-
05/10/23	Premier Security Solutions	Pavion	Offers commercial and industrial electronic security and fire alarm systems.	-	-	-
05/05/23	AMS Security Plus	Doyle Security Systems	Provides security services to businesses.	-	-	-
05/05/23	Yorkana Fire	Southern Area Fire Emergency Rescue	Distributes fire protection services.	-	-	-
04/26/23	PHALANX Solutions	Unified Solutions	Provides technology, security, and compliance solutions to businesses.	-	-	-
04/25/23	SchoolPass	Raptor Technologies	Secures student arrival and dismissal at PK-12 schools.	-	-	-
04/21/23	Fusion Security	Scarlet Security & Risk Group	Provides security personnel, mobile patrol and response, private investigation, and consulting.	-	-	-
04/15/23	Automated Systems Design	RAF Equity	Offers access control solutions, audio video systems, sound solutions, and surveillance solutions.	-	-	-
04/13/23	Archer Technologies	Cinven Group	Enables highly regulated companies to reduce enterprise risks.	-	-	-
04/13/23	Alarm Computer Technology	OMNI Resource Management	Offers security systems contracting solutions that include burglar alarm systems and video surveillance.	-	-	-
04/12/23	TESSCO (Nasdaq:TESS)	Lee Equity Partners	Manufactures technology products and solutions for residential and commercial security.	\$162.9	0.4x	-
04/12/23	The Hartline Company	Pye-Barker Fire & Safety	Maintains, repairs, and installs fire and safety equipment including fire sprinklers.	-	-	-
04/11/23	Elite Tactical Security Solutions	MSA Security	Provides specialized security solutions to hospitality and entertainment clients.	-	-	-
04/06/23	Cameron Engineering & Associates	IMEG	Offers mechanical, electrical, plumbing and fire protection services.	-	-	-
04/06/23	ASSET Private Security	JPT Group	Provides on-site armed and unarmed officer coverage, and alarm system integration.	-	-	-
04/03/23	eAgile	CCL Industries (TSX:CCLB)	Manufactures Internet of Things and radio frequency identification products.	\$53.0	-	-
04/03/23	Coastal Security Group	Central Security Group-Nationwide	Provides security system installation and alarm monitoring services.	-	-	-
03/31/23	Red Alert Alarms	Wayne Alarm Systems	Develops security systems and monitoring services.	-	-	-
03/31/23	Caliber Communications	Stealth Monitoring	Specializes in redefining security industry standards with leading edge technologies.	-	-	-
03/15/23	Shiver Security Systems	Pye-Barker Fire & Safety	Provides security and fire safety solutions.	-	-	-
03/14/23	Meredean	Marmic Fire & Safety	Manufactures and distributes fire extinguishers.	-	-	-

Source: Capital IQ, PitchBook, FactSet, and Capstone Partners

## PUBLIC COMPANY DATA BY SEGMENT

### ACCESS CONTROL

Company	Price	% 52 Wk	Market	Enterprise	LTM			EV / LTM	
	06/22/23	High	Cap	Value	Revenue	EBITDA	Margin	Revenue	EBITDA
Allegion plc	\$119.42	96.7%	\$10,502.6	\$12,472.4	\$3,471.3	\$823.1	23.7%	3.6x	15.2x
ASSA ABLOY AB	\$23.10	91.7%	\$25,657.9	\$28,263.3	\$12,224.8	\$2,239.0	18.3%	2.3x	12.6x
dormakaba Holding AG	\$439.97	84.7%	\$1,838.4	\$2,668.3	\$3,057.4	\$334.1	10.9%	0.9x	8.0x
Mean							17.7%	2.3x	11.9x
Median							18.3%	2.3x	12.6x
Harmonic Mean							15.9%	1.6x	11.1x

EV = enterprise value; LTM = last twelve months  
\$ in millions, except per share data  
NM = Not Meaningful, above 30x EV/EBITDA

### ALARM MONITORING

Company	Price	% 52 Wk	Market	Enterprise	LTM			EV / LTM	
	06/22/23	High	Cap	Value	Revenue	EBITDA	Margin	Revenue	EBITDA
ADT Inc.	\$6.11	60.5%	\$5,573.9	\$15,286.5	\$6,462.9	\$2,634.2	40.8%	2.4x	5.8x
Alarm.com Holdings, Inc.	\$50.73	64.2%	\$2,528.4	\$2,480.3	\$846.8	\$98.4	11.6%	2.9x	25.2x
Arlo Technologies, Inc.	\$9.26	91.5%	\$850.5	\$753.8	\$476.7	NM	NA	1.6x	NM
Mean							26.2%	2.3x	15.5x
Median							26.2%	2.4x	15.5x
Harmonic Mean							18.1%	2.1x	9.4x

### DIVERSIFIED IT SERVICES & INTEGRATION

Company	Price	% 52 Wk	Market	Enterprise	LTM			EV / LTM	
	06/22/23	High	Cap	Value	Revenue	EBITDA	Margin	Revenue	EBITDA
Diebold Nixdorf, Incorporated	\$0.05	0.9%	\$3.8	\$2,407.8	\$3,489.0	\$247.1	7.1%	0.7x	9.7x
Honeywell International Inc.	\$201.80	91.3%	\$134,284.0	\$147,758.0	\$35,954.0	\$8,712.3	24.2%	4.1x	17.0x
Johnson Controls International	\$66.48	95.5%	\$45,611.9	\$56,644.9	\$26,093.0	\$4,087.5	15.7%	2.2x	13.9x
Kratos Defense & Security	\$15.49	95.4%	\$1,976.6	\$2,294.9	\$933.9	\$52.1	5.6%	2.5x	NM
SoundThinking, Inc.	\$21.90	55.5%	\$268.2	\$265.9	\$80.4	\$4.7	5.9%	3.3x	NM
Stanley Black & Decker, Inc.	\$88.58	74.8%	\$13,565.4	\$21,560.3	\$16,431.2	\$1,317.6	8.0%	1.3x	16.4x
Mean							11.1%	2.3x	14.0x
Median							7.6%	2.2x	14.7x
Harmonic Mean							8.3%	1.6x	13.4x

Source: Capital IQ as of June 22, 2023

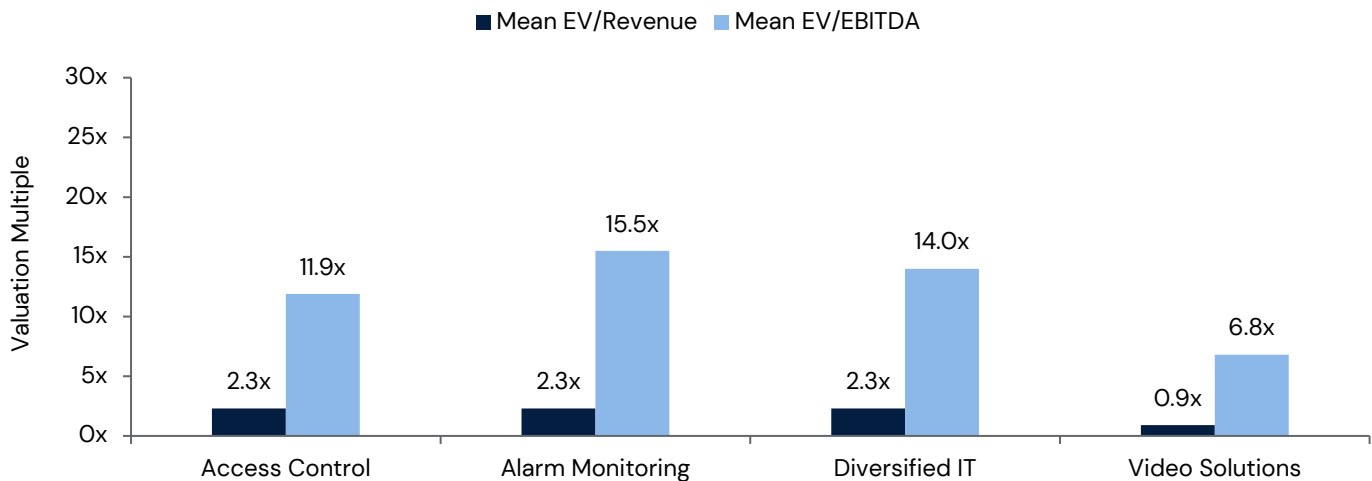
## PUBLIC COMPANY DATA BY SEGMENT (CONTINUED)

### VIDEO SOLUTIONS

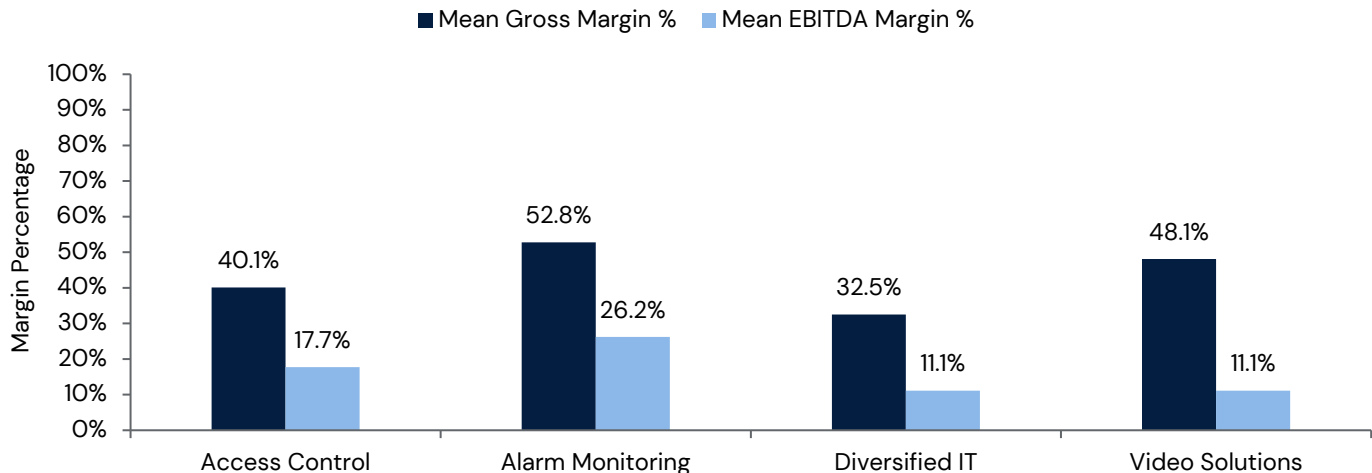
Company	Price	% 52 Wk	Market	Enterprise	LTM			EV / LTM	
	06/22/23	High	Cap	Value	Revenue	EBITDA	Margin	Revenue	EBITDA
Canon Inc.	\$27.21	98.8%	\$27,240.9	\$29,416.8	\$31,016.8	\$5,065.4	16.3%	0.9x	5.8x
Mobotix AG	\$3.24	68.5%	\$44.1	\$84.7	\$71.1	NM	NA	1.2x	NM
Synectics plc	\$1.37	76.0%	\$23.1	\$21.3	\$46.7	\$2.7	5.8%	0.5x	7.8x
							Mean	11.1%	0.9x
							Median	11.1%	0.9x
							Harmonic Mean	8.6%	0.7x

EV = enterprise value; LTM = last twelve months  
\$ in millions, except per share data  
NM = Not Meaningful, above 30x EV/EBITDA

### Last Twelve-Month Revenue and EBITDA Multiples By Segment



### Last Twelve-Month Margin Performance By Segment



Source: Capital IQ as of June 22, 2023



## BUYER UNIVERSE

Capstone has built relationships with and tracked buyers that have been highly acquisitive in the Security Solutions sector, particularly those that have completed notable M&A transactions. Our sector knowledge and network provides us with unique insights into this buyer universe and sector and growth drivers for the companies within it.

### Contract Security Services



### Systems Integration – Security



### Leading Financial Buyers



Source: Capstone Partners

## SECURITY SOLUTIONS REPORT CONTRIBUTORS

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Tom joined Capstone Partners in 2011 and brings over 20 years of investment banking experience for clients' benefit. He has an impressive track record of completed transactions with cyber security, physical security, compliance and risk management related companies. Mergers, acquisitions, and capital raise engagements with founder-owned, private equity-backed and public corporations across the United States and internationally, demonstrate the depth of his sector knowledge and transaction acumen.

Throughout his career, Tom has also believed in the importance of giving back to the community and has been recognized for his professional accomplishments and leadership. He co-founded Colorado Cyber with the mission of connecting private and public sector leaders in the cybersecurity ecosystem, stimulating discussion on critical issues, and supporting economic growth. Tom has also served on numerous nonprofit boards including the Breckenridge Outdoor Education Center, Griffith Centers for Children, Supervisory Committee to the Board of Directors for Bellco Credit Union and the Denver Advisory Board. In his spare time, he enjoys coaching his son's athletic teams.

**Joe Collins**

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Joe is a Market Intelligence Analyst at Capstone Partners primarily focusing on the Aerospace, Defense, Government & Security (ADGS) and Healthcare industries. Prior to joining Capstone's Market Intelligence Team, Joe was an intern at Recount Media Inc., a digital media and political news company. At Recount Media he worked on client outreach, social media strategy, and database management for content produced by the company's slate of news podcasts. Joe has a BA in Politics from Bates College.



## FIRM TRACK RECORD

Capstone Partners maintains an active Business Services practice in the middle market, with Security Solutions being an important vertical within our focus. This market presence allows Capstone Partners to provide security companies with experienced, up-to-date market data and access to key decision makers among the sector's most active acquirers and investors.

<p><b>CONFIDENTIAL</b></p> <p>Corporate Sale (In Process)</p> <p>MANAGED SECURITY SERVICES PROVIDER</p>	<p> <b>ROOK SECURITY</b></p> <p>HAS BEEN ACQUIRED BY</p> <p><b>SOPHOS</b></p>	<p> <b>SIGNET</b> <i>The Power of One</i></p> <p>HAS SOLD ITS FIRE ALARM DIVISION TO</p> <p> <b>encore</b> FIRE PROTECTION</p>
<p> <b>SAFE</b> ELECTRONICS INC. <small>PROTECTING LIVES SINCE 1984</small></p> <p>HAS BEEN ACQUIRED BY</p> <p>AN UNDISCLOSED STRATEGIC BUYER</p>	<p><b>STRATOZEN</b></p> <p>HAS BEEN ACQUIRED BY</p> <p> <b>ConnectWise</b></p>	<p> <b>REVOLUTIONARY SECURITY</b></p> <p>HAS BEEN ACQUIRED BY</p> <p> <b>accenture</b></p>
<p> <b>GC&amp;E</b> SYSTEMS GROUP</p> <p>HAS BEEN ACQUIRED BY</p> <p> <b>Bristol Bay</b> NATIVE CORPORATION</p>	<p> <b>Security Integrations</b> <small>A Division of SI Technologies, Inc.</small></p> <p>HAS BEEN ACQUIRED BY</p> <p><b>Convergent</b> TECHNOLOGIES</p>	<p> <b>NMC</b> <small>NATIONAL MONITORING CENTER</small></p> <p>HAS MERGED TO FORM</p> <p> <b>netwatch</b> GROUP</p> <p> <b>Riverside</b></p>

*Note: Deals also include Cybersecurity sector clients*



## ENDNOTES

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