

CONSOLIDATION LIKELY TO TRANSFORM SYSTEMS INTEGRATORS IN THE SECURITY SOLUTIONS MARKET

SECURITY SOLUTIONS SECTOR UPDATE | SEPTEMBER 2024



**CAPSTONE
PARTNERS**

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Security Solutions

Consolidation Likely to Transform Systems Integrators in the Security Solutions Market

KEY SECTOR TAKEAWAYS

Capstone Partners' Aerospace, Defense, Government, & Security (ADGS) Group is pleased to share its Security Solutions report. Following a bounce-back year for merger and acquisition (M&A) activity in the Security Solutions sector during 2023, transaction volume through year-to-date (YTD) 2024 has softened marginally, while maintaining solid deal flow. Several key takeaways are outlined below.

1. Deal volume through YTD 2024 has declined 4% year-over-year (YOY), as private equity platform deals continue to lag in an M&A market dominated by roll-up acquisition strategies.
2. The rise of service-focused sector businesses has been supported by robust demand for subscription-based physical security offerings, stemming from current consumer preferences.
3. Systems integrators, offering both installation and monitoring, have utilized the subscription model to become one-stop-shops for the Residential and Commercial end markets, with integrators projected to control the future Security Solutions market.
4. The Fire & Life Safety segment has continued to be favored among consolidators in the sector, with regional businesses in the segment offering enticing scale potential for sponsor-backed buyers.
5. Despite the year-to-date softness in deal volume, we anticipate the emergence of a very robust transaction environment in the quarters ahead as interest rates moderate, economic growth continues, and the Presidential election comes to a head. We continue to see widespread interest in the security sector from private equity and that will fuel continued sector consolidation.

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](#).

SALES GROWTH AMONG SERVICE-BASED PLAYERS HIGHLIGHTS DEMAND

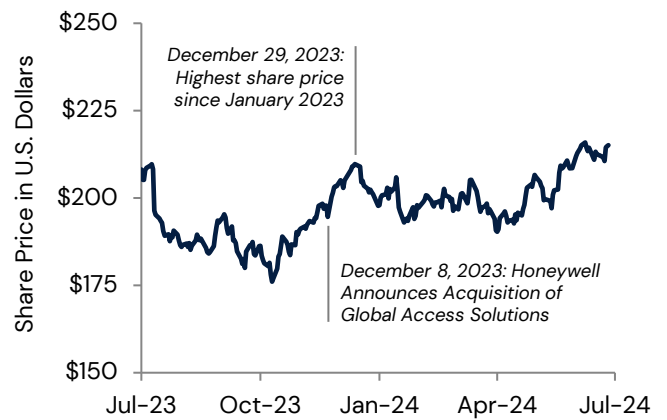
Consistent revenue growth among leading public companies has catalyzed significant confidence in the health of the Security Solutions sector. Publicly traded market participants have begun transitioning to primarily service-based protection offerings to sustain long-term growth with annual recurring revenue (ARR). The shift toward a one-stop-shop business model for integrated physical security has complemented current consumer spending habits, which have tended to favor subscription-based services over one-off retail purchases. This sentiment has been emphasized by the 86% of U.S. consumers who are active subscribers to at least one service, according to The Subscription Trade Association (SUBTA).¹ Notably, Arlo Technologies (NYSE:ARLO), an integrated security system platform provider, posted double-digit YOY revenue growth in Q1 2024. Arlo reported a 24% increase in ARR driven by a successful Q4 2023 for the company in direct subscription sales, according to an investor presentation.² In 2024 Arlo has seen continued revenue growth, reporting an 11.9% increase YOY in its Q1 revenue to \$124.2 million, driven by a subscriber base of more than 3.2 million paid accounts. Other leading public companies in the sector with similar models reported strong revenue growth in Q1 2024. Motorola Solutions (NYSE:MSI) saw a 10% YOY increase in Q1, while Alarm.com (Nasdaq:ALRM) experienced a 6.5% increase YOY, according to regulatory filings.^{3,4}



Tom McConnell
Managing Director

"We are seeing the model for security companies of the future take shape. Common characteristics for this emerging class of leaders include forward thinking management, technology savvy team, customer focused mindset, subscription based revenue stream, and global ambitions."

Honeywell Acquisition Improves Equity Value



Source: Capital IQ and Capstone Partners

Active buyers in the space have capitalized on strong levels of sector demand by making large accretive acquisitions to improve equity value. Of note, Honeywell (Nasdaq:HON), an industrial conglomerate, acquired Carrier's (NYSE:CARR) Global Access Solutions business in December 2023 for an enterprise value of \$4.9 billion. The acquisition is expected to strengthen Honeywell's Building Automation business segment with the addition of the LenelS2, Onity, and Supra brands. The transaction is also projected to be accretive to Honeywell's adjusted earnings per share (EPS) by \$0.50 in the first full year of ownership, according to a press release.⁵ Following the announcement of the acquisition on December 8, 2023, Honeywell's share price dropped 1.6% to \$194.61 per share, typical for when a public company announces a deal of this size. However, Honeywell's share price reached \$209.71 per share on December 29, 98% of the company's 52-week high. Because share price performance is likely to be a priority for public company buyers, sector players with strong margin profiles are expected to receive M&A interest.

Company	Ticker	Q1 2024 Revenue (U.S. Dollars in Thousands)	Q1 2023 Revenue (U.S. Dollars in Thousands)	Delta Δ (Percent Change YOY)
ADT	NYSE:ADT	\$1,189,672*	\$1,132,476	+5.1%
Alarm.com	Nasdaq:ALRM	\$223,283	\$209,716	+6.5%
Arlo Technologies	NYSE:ARLO	\$124,200	\$111,004	+11.9%
Motorola Solutions	NYSE:MSI	\$2,389,000	\$2,171,000	+10.0%

Note: *ADT revenue excludes Solar product and installation revenue
Source: Investor Presentations, 10-Qs, FactSet, and Capstone Partners



SUPER INTEGRATOR OF THE FUTURE EMPHASIZES NEED FOR M&A

The future of the Security Solutions sector is likely to be led by full-service systems integrators or “super integrators.” An increased need for residential and commercial security systems has pushed customers to demand better security at a lower total cost of ownership and higher return-on-investment (ROI). In turn, the demand for sector players offering one-stop-shop services that include installation, monitoring, maintenance, and integration is likely set to increase.

The leading systems integrator of the future is likely to have several defining qualities that will offer customers an unrivaled experience. As a tech savvy, service driven organization a highly trained and motivated team will be crucial for success. Cloud based services (Video Surveillance-as-a-Service, Access Control as-a-Service, etc.) and a recurring revenue billing model will be table stakes. While proprietary solutions may not be the norm, in order to take market share and be a major player a clever data analytics, customer dashboard, or other insightful intellectual property (IP), may be required. It will also be important to be able to bridge the divide from security operations to operating benefits to fully capture customer wallet share. With this expanded solution set, the cybersecurity vulnerabilities also grow so being able to provide not just physical but also cybersecurity defense-in-depth will be highly relevant. Of course, this is all overlaid by the need to be able to move efficiently at scale with the speed of innovation and accelerating pace of changing technology.

To enable the depth of resources and talent to deliver at this level and create a customer value proposition to enable a high margin business, substantial scale and organizational depth may be required. Given the level of maturity already present in the industry, it’s unlikely to grow a business like this from scratch so adeptness with M&A coupled with a deep pocketed financial backer may contribute to the winning formula. Putting all of these pieces together, should enable a global business with the opportunity to strategically contribute to the risk management discussion at the Board level of major enterprises.

The obvious question is who can possibly meet this incredibly high standard and truly be an industry leader? It’s clear that the largest industry

consolidators backed by well funded private equity groups are setting their sights high with hopes of achieving success. For example, Convergent Technologies, a portfolio company of Ares Private Equity Group represents an interesting case study. Convergent generates more than \$2.5 billion in annual revenue and has developed a full suite of solutions along with a deep bench of talent through more than 50 acquisitions since 2015., according to the company’s website.⁶ The company serves customers domestically and internationally with a full-service solution and forward thinking approach. Including subscription models for a cloud-integrated physical security service. Convergent also expects M&A to continue to play an outsized role in its growth strategy. In a February 2024 company announcement, Convergent CEO, Ann Fandozzi, noted: “If it’s M&A in a certain part of the globe where a customer says ‘hey, I need you here,’ we are open and interested.”⁷

The next ten years will be a transformative time for the Security Solutions sector. With many baby boomer founders continuing to exit and ambitious next generation entrepreneurs bringing new ideas and capital to make them happen, it will surely be a dynamic environment.

The Super Integrator



Source: Capstone Partners



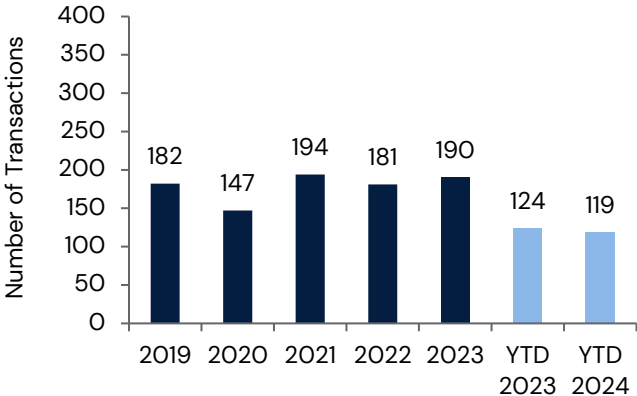
CONSOLIDATION STRATEGIES CONTINUE TO DOMINATE DEAL MARKET

Merger and acquisition volume in the Security Solutions sector has reached 119 transactions through August 16, a 4% decline compared to the prior year period as a lack of sponsor-led platform transaction activity has subdued overall deal flow. Accounting for only 5.9% of total deals and equivalent to seven transactions through YTD, platform acquisition activity in the sector has mirrored sentiment across the broader M&A market. However, sponsor-backed strategic buyers have continued to deploy aggressive roll-up acquisition strategies to consolidate the regionally fragmented Fire & Life Safety market. Atlas Partners-backed Pye-Barker Fire & Life Safety has continued its acquisitive streak through YTD with 19 deals; while Rapid Safety & Security, with backing from Concentric Equity Partners, has completed four acquisitions YTD after making zero deals in the prior year period. The roll-up strategies seen through YTD and since 2019 highlights the scalable nature of segment players.

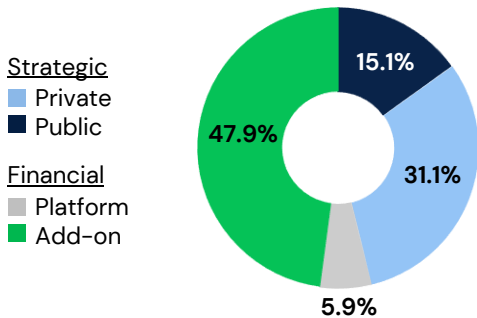
Although valuation information has remained sparse in the private company-laden Security Solutions sector, businesses in the space have attracted robust middle market purchase prices. Notably, Vitaprotech announced the acquisition of Identiv's (Nasdaq:INVE) Physical Security business in April for an enterprise value of \$145 million. Additionally, Axon (Nasdaq:AXON) acquired Fusus, an alarm monitoring platform for law enforcement agencies, in February for an enterprise value of \$300 million.

Security systems integrators have received robust M&A attention across the sector's five main segments through YTD. In the Access Control segment, Linx Partners acquired Black Creek Integrated Systems (May, undisclosed), a systems integrator for correctional facilities. Pye-Barker Fire & Life Safety acquired Alarm Specialists (April, undisclosed), an integrator in the Alarm Monitoring segment, while ADT Commercial acquired video surveillance integrator, DIGIOP, in March for an undisclosed sum. 360 Protective Solutions' merger with WSO Worldwide Options (July, undisclosed) stood out in the Uniform Guard segment due to the target company's capabilities integrating physical security details with precise 24-hour video surveillance. In the Fire & Life Safety segment, there have been eight acquisitions of integrators to-date.

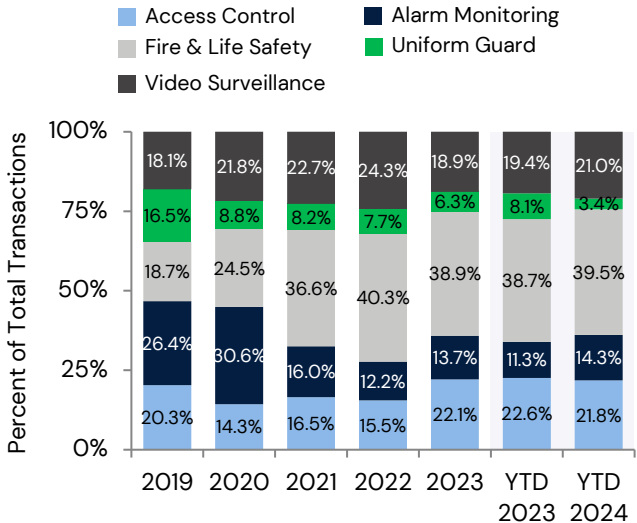
Security Solutions M&A Softens Year-Over-Year



Sponsor-Backed Buyers Rapidly Pursue Roll-Up Deals To-Date



Access Control, Alarm Monitoring, and Video Surveillance Segments Gain Ground



Year-to-date (YTD) ended August 16
 Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

NOTABLE M&A TRANSACTIONS BY SEGMENT

Access Control



Linx Partners, a private equity firm that invests in lower middle market U.S. businesses, acquired Black Creek Integrated Systems in May for an undisclosed sum. Black Creek provides fully integrated facility access control systems to high security correctional environments. The transaction fits into Linx’s acquisition thesis of industrial services companies, with Black Creek operating in the Security Solutions sector.

Fire & Life Safety



Atlas Partners-backed Pye-Barker Fire & Safety acquired AlarmTech in June for an undisclosed sum. Washington-based AlarmTech provides commercial customers with the design and installation of 24-hour emergency fire alarms. This acquisition expands Pye-Barker’s vast portfolio of Fire & Life Safety businesses across the U.S. The transaction also represents Pye-Barker’s 13th acquisition through YTD.

Alarm Monitoring



Pye-Barker Fire & Safety also acquired California-based First Trust Alarm Company in May for an undisclosed sum. As experts of 30-years in alarm monitoring, First Trust specializes in fire alarm systems for commercial and multi-family projects. “Selling the business was not an easy decision, but I have trust in Pye-Barker to carry on the legacy we’ve built here, one of commitment to quality work and a job done right,” said Joe Bowman, CEO of First Trust, in a press release.⁸

Systems Integrators



Cobalt service Partners, a portfolio company of Alpine Management, acquired Toepfer Security in April for an undisclosed sum. Founded in 1862, Toepfer Security provides installation of security systems across the Milwaukee area of Wisconsin. This transaction represents Cobalt’s fourth acquisition in the Security Solutions sector in April 2024. Cobalt is expected to continue looking for systems integrators and access control providers for commercial businesses.

Uniform Guard



Kansas-based private equity firm, Great Range Capital, acquired Citadel Security Group in June for an undisclosed sum. Citadel offers event security and patrol services to Government, Infrastructure, and Healthcare end markets. The acquisition also provides the capital needed for Citadel to make a concurrent purchase of Denver-based Metropolitan Protective Services, which also operates in the Uniform Guard segment.

Video Surveillance



Siris Capital-backed BearCom, an integrator of data communications products, acquired The Surveillance Shop in April for an undisclosed sum. The Surveillance Shop is a Calgary-based provider of fully integrated security camera systems serving customers across North America. This transaction represents BearCom’s first acquisition since its purchase by Siris, as the firm looks to execute its strategy of expanding into video security.

SELECT TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Transaction Segment
07/02/24	Cox Fire Protection	Pye-Barker Fire & Life Safety	Specializes in fire sprinkler system installation.	Fire & Life Safety
07/02/24	SWIR Vision Systems	ON Semiconductor (Nasdaq:ON)	Manufactures short-wave infrared cameras for security system applications.	Video Surveillance
07/02/24	WSO Worldwide Security Options	360 Protective Services	Provides corporate security solutions intended for national and multinational companies worldwide.	Uniform Guard
07/01/24	Digicorp	WIN Technology	Offers video surveillance services.	Video Surveillance
07/01/24	Clinton Electric	Mid-Am Building Solutions	Manufactures and maintains fire alarm systems.	Alarm Monitoring
06/26/24	AlarmTech	Pye-Barker Fire & Life Safety	Specializes in security and fire alarm systems.	Fire & Life Safety
06/25/24	Citadel Security Group	Great Range Capital	Provides guarding, event security, and patrol services.	Uniform Guard
06/25/24	Wesko Locks	ASSA ABLOY (OM:ASSA B)	Offers locks products.	Access Control
06/24/24	Hello Tech	Latch (OTCPK:LTCH)	Provides in-home installation services for smart locks.	Access Control
06/20/24	Harris Fire Protection	Guardian Fire Protection Services	Operates a business specializing in fire extinguishing services.	Fire & Life Safety
06/19/24	Vytis Security Systems	LOUD Security Systems	Provides monitored security solutions for small to large and multi-location businesses.	Video Surveillance
06/18/24	Centurytel Security Systems	Pye-Barker Fire & Life Safety	Inspects and services fire safety systems.	Fire & Life Safety
06/18/24	Theft Detective	Global Connect	Manufactures video monitoring system products.	Video Surveillance
06/12/24	Southport Self Storage	goHomePort	Offers 24-hour video surveillance for recreational vehicle parking lots.	Video Surveillance
06/11/24	Bates Security	Pye-Barker Fire & Life Safety	Provides security solutions to homes and businesses in Kentucky.	Video Surveillance
06/11/24	SAS Security Services	Wayne Alarm Systems	Offers customized intrusion and access control installation services in Massachusetts.	Access Control
06/06/24	Elite Detective Services	Frasco	Operates as a security and alarm services company.	Alarm Monitoring
05/26/24	Security Services	Pye-Barker Fire & Life Safety	Provides security, alarms, and surveillance systems.	Video Surveillance
05/22/24	Hicks Safes & Locks	Anderson Lock & Safe	Distributes locks intended for commercial and residential sectors.	Access Control
05/22/24	GAR Engineering	Ferguson (NYSE:FERG)	Provides fire protection engineering services such as plumbing, fire suppression, and evacuation planning.	Fire & Life Safety
05/22/24	Vermillion Systems	Pye-Barker Fire & Life Safety	Offers security and protection services.	Access Control

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

PUBLIC COMPANY DATA BY SEGMENT

ACCESS CONTROL

Company	Price 08/16/24	% 52 Wk High	Market Cap	Enterprise Value	LTM			EV / LTM	
					Revenue	EBITDA	Margin	Revenue	EBITDA
Allegion plc	\$132.95	93.6%	\$11,583.7	\$13,393.2	\$3,674.8	\$925.7	25.2%	3.6x	14.5x
ASSA ABLOY AB	\$29.63	95.3%	\$32,916.5	\$39,305.1	\$13,871.1	\$2,754.0	19.9%	2.8x	14.3x
dormakaba Holding AG	\$593.58	96.6%	\$2,485.0	\$3,227.9	\$3,331.7	\$356.4	10.7%	1.0x	9.1x
Fortune Brands Innovations, Inc.	\$77.47	91.2%	\$9,614.6	\$12,297.3	\$4,772.0	\$1,004.5	21.0%	2.6x	12.2x
Motorola Solutions, Inc.	\$421.94	99.4%	\$70,396.9	\$75,883.9	\$10,421.0	\$3,245.0	31.1%	NM	23.4x
Mean							21.6%	2.5x	14.7x
Median							21.0%	2.7x	14.3x
Harmonic Mean							19.0%	2.0x	13.4x

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

ALARM MONITORING

Company	Price 08/16/24	% 52 Wk High	Market Cap	Enterprise Value	LTM			EV / LTM	
					Revenue	EBITDA	Margin	Revenue	EBITDA
ADT Inc.	\$7.36	92.9%	\$6,643.4	\$14,434.0	\$5,076.3	\$2,496.5	49.2%	2.8x	5.8x
Alarm.com Holdings, Inc.	\$60.32	78.0%	\$2,970.7	\$2,914.7	\$905.2	\$124.5	13.7%	3.2x	23.4x
Arlo Technologies, Inc.	\$12.15	68.9%	\$1,214.2	\$1,089.5	\$516.7	NM	NA	2.1x	NM
Mean							31.5%	2.7x	14.6x
Median							31.5%	2.8x	14.6x
Harmonic Mean							21.5%	2.6x	9.3x

SYSTEMS INTEGRATORS

Company	Price 08/16/24	% 52 Wk High	Market Cap	Enterprise Value	LTM			EV / LTM	
					Revenue	EBITDA	Margin	Revenue	EBITDA
Diebold Nixdorf, Incorporated	\$40.45	89.6%	\$1,519.6	\$2,346.8	\$3,815.3	\$475.1	12.5%	0.6x	4.9x
Honeywell International Inc.	\$198.46	89.9%	\$128,933.7	\$148,726.7	\$37,334.0	\$9,388.0	25.1%	4.0x	15.8x
Johnson Controls International	\$69.76	92.6%	\$46,600.6	\$58,539.6	\$26,930.0	\$4,317.0	16.0%	2.2x	13.6x
Securitas AB	\$10.82	95.7%	\$6,197.0	\$10,302.7	\$15,047.5	\$1,290.8	8.6%	0.7x	8.0x
The Brink's Company	\$100.61	88.5%	\$4,440.7	\$7,368.7	\$4,962.2	\$1,007.1	20.3%	1.5x	7.3x
Mean							16.5%	1.8x	9.9x
Median							16.0%	1.5x	8.0x
Harmonic Mean							14.4%	1.1x	8.3x

Source: Capital IQ and Capstone Partners as of August 16, 2024



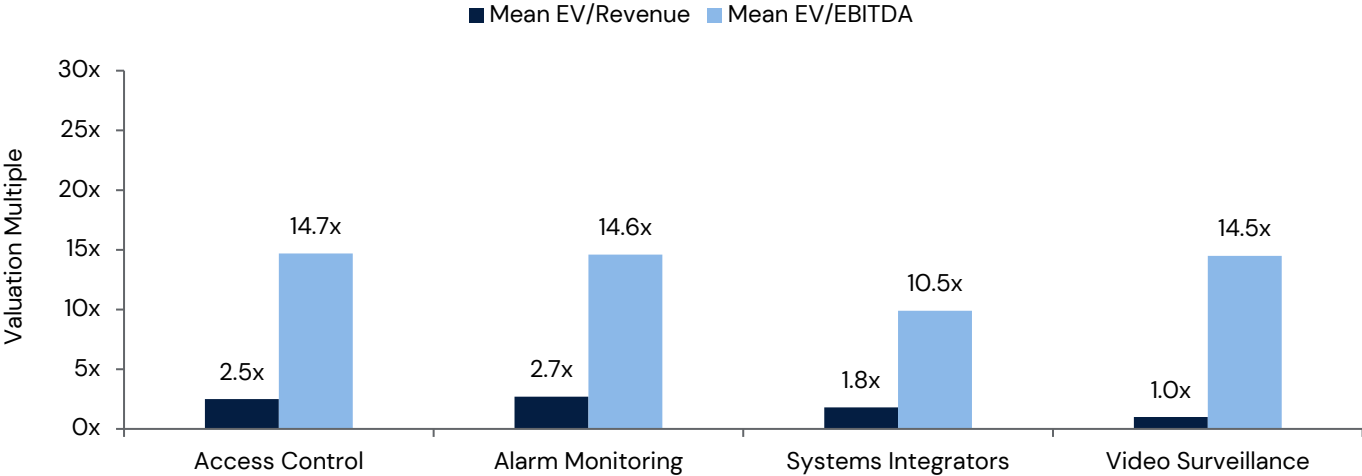
PUBLIC COMPANY DATA BY SEGMENT (CONTINUED)

VIDEO SURVEILLANCE

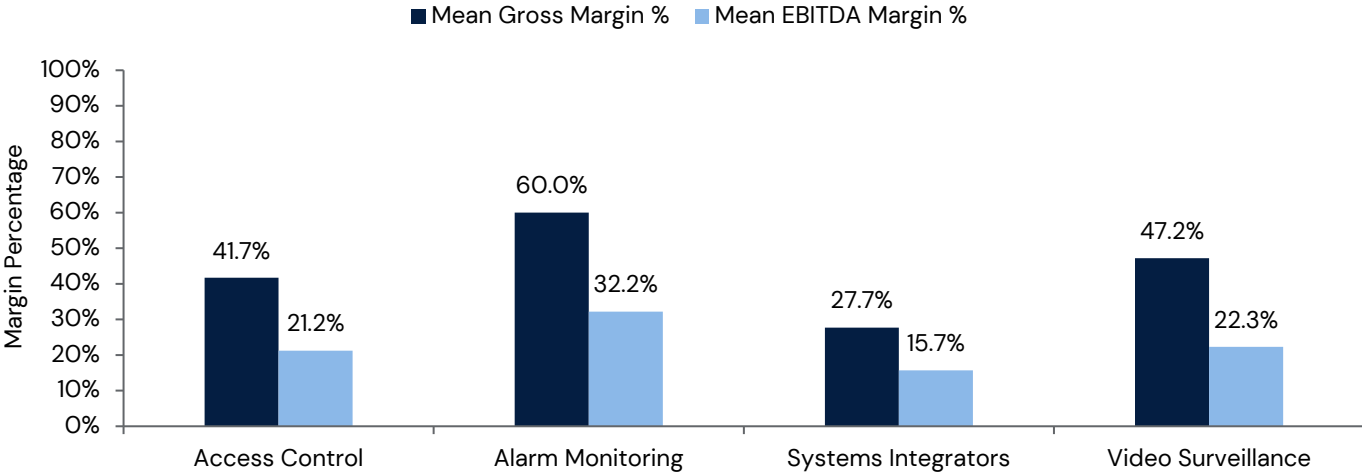
Company	Price 08/16/24	% 52 Wk High	Market Cap	Enterprise Value	LTM			EV / LTM	
					Revenue	EBITDA	Margin	Revenue	EBITDA
Canon Inc.	\$31.72	98.8%	\$30,611.0	\$33,605.9	\$27,011.7	\$4,438.2	16.4%	1.2x	7.6x
Mobotix AG	\$0.55	13.9%	\$8.0	\$46.4	\$61.9	NM	NA	0.7x	NM
Ubiquiti Inc.	\$177.63	93.9%	\$10,739.8	\$11,564.3	\$1,912.1	\$540.4	28.3%	NM	21.4x
Mean							22.3%	1.0x	14.5x
Median							22.3%	1.0x	14.5x
Harmonic Mean							20.8%	0.9x	11.2x

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 and Capstone Partners as of August 16, 2024

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.



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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's Aerospace, Defense, Government & Security Group maintains an active presence in the Security Solutions sector with in-depth knowledge of the buyer universe and business characteristics that drive premium valuations in an M&A process. Our frequent conversations with sector participants provide us with increased transparency into market trends and buyer preferences. A sampling of Capstone's closed deals are outlined below.

 <p>HAS ACQUIRED</p> 	 <p>HAS BEEN ACQUIRED BY</p>  <p>A portfolio company of</p> 	 <p>A portfolio company of</p>  <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS BEEN ACQUIRED BY</p> <p>AN UNDISCLOSED STRATEGIC BUYER</p>
 <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS BEEN ACQUIRED BY</p> 
 <p>HAS SOLD ITS FIRE ALARM DIVISION TO</p> 	 <p>HAS BEEN ACQUIRED BY</p> 	 <p>A Division of SI Technologies, Inc.</p> <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS MERGED TO FORM</p>  

Note: Deals also include Cybersecurity sector clients



CAPSTONE’S PROPRIETARY RESEARCH REVEALS TOP SERVICES IN DEMAND

The current stage and initiatives of a business often dictates which financial services are in demand. As the majority of CEOs polled in Capstone’s 2023 Middle Market Business Owners Survey indicated growth strategies are a priority for 2024, the lion’s share (31.5%) of owners anticipate a need for growth strategy support services. Similarly, 28.5% of owners require accounting and audit support to shore-up cash flows and establish financial stability. In addition, more than one-fourth of CEOs demonstrated an interest in accessing relevant industry research to keep up with emerging industry trends, complete competitor analyses, and track capital markets activity in their space.

Capstone has developed a full suite of [corporate finance solutions](#) 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. In addition, we developed a specialty consulting practice to provide financial advisory services to companies experiencing distress or performance challenges. All of these capabilities are supported by 16 industry groups, an active sponsor coverage group, and a dedicated market intelligence team.

Top Financial Services Required by Business Owners in 2024



Question: Have you ever had, or do you anticipate having, a need for any of the following services?
Source: Capstone Partners’ Middle Market Business Owner Survey, Total Sample Size (N): 435



ENDNOTES

1. Subscribers Trade Association, "2024 State of the Subscription Commerce Industry Outlook," https://21921350.fs1.hubspotusercontent-na1.net/hubfs/21921350/SubSummit_AnnualReport2024.pdf?__hstc=200453361.f87eff445df2f4a84c4888cab6d7e13.1721064542375.1721064542375.1721064542375.1&__hssc=200453361.1.1721064542375&__hsfp=3523199817, accessed July 8, 2024.
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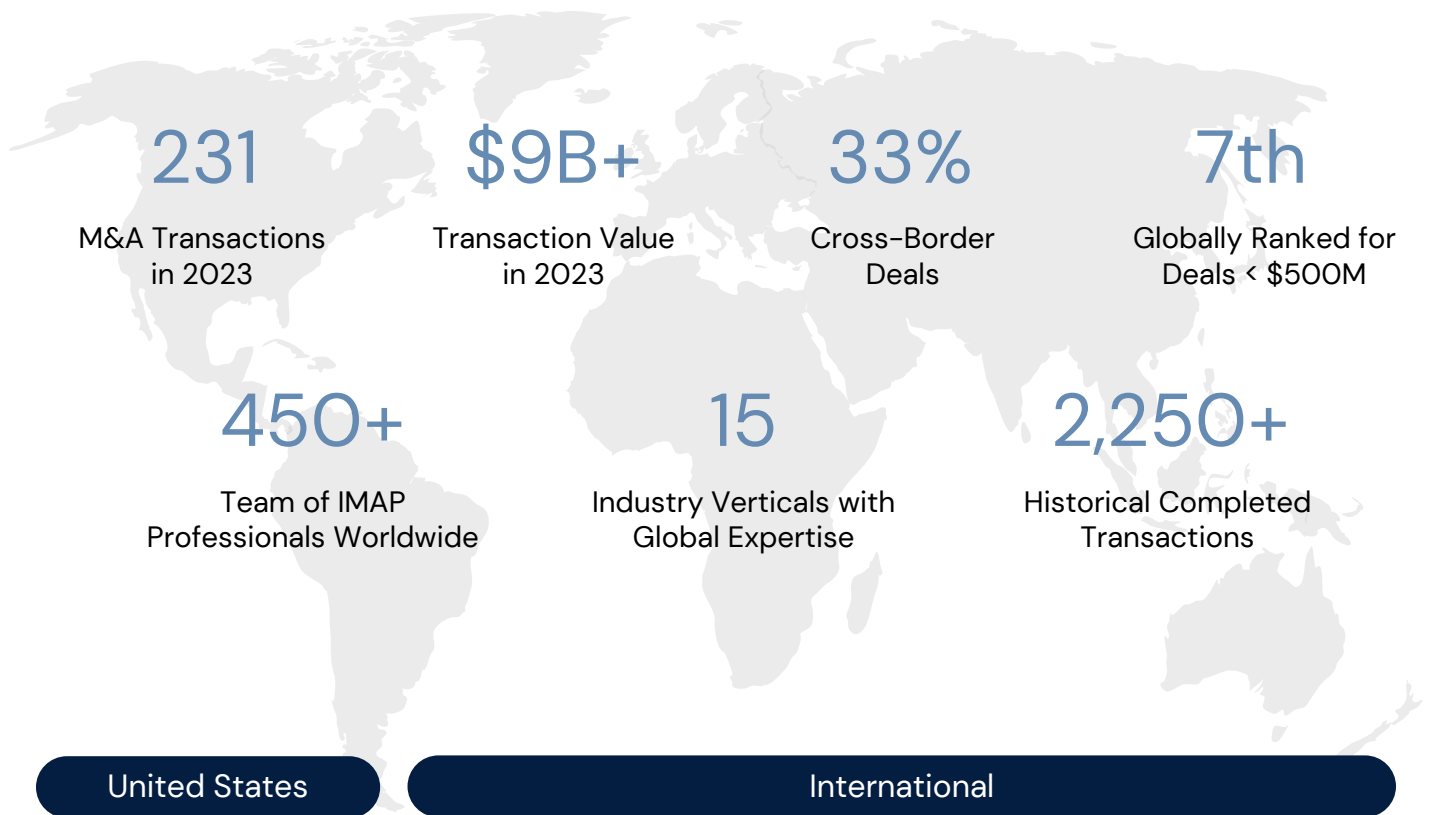
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