

## Q3 2019 Physical Security Industry Update



### AIA Architectural Project Backlog Slowing, M&A Accelerating

Our market continues to drive forward; major manufactures again posted large organic growth and nearly all channel buzz is about strong backlogs and continued growth, and money keeps flowing into our industry driving M&A activities.

While there seems to be no end to this economic expansion, we need to pay attention to the AIA (architectural billings activities) which have slowed down significantly, AIA billings are the best indicator of non-res, new project activity which suggests that the expansion since mid-2010 is slowing. The August indicator fell again to 47.2 continuing the decline which began in February and was the largest contraction the US has seen in the past two years. New project slow down will most likely be regional, and should not impact the majority of our businesses at least until 2021.

I believe that the physical security industry has such strong business drivers that it can continue to thrive during slow downs in new construction cycles, but a slow down in new construction will surely challenge continued growth in our industry. Fortunately security will remain at the top of the list for investment spending decisions.

Last quarter the big deals were ADT buying Red Hawk and Allied Universal buying Securadyne both big steps to expanding the acquiring company's business model. The story again this quarter is about the volume and strategic importance of the M&A activities, a few deals range from strategic to curious.

Strategic: Alarm.com's acquisition of Open Eye to push into commercial applications

Opportunistic: Assa Abloy's acquisition of upstart Life Safety Power

Failed: UTC's decision to shut down Interlogix. Clearly lost inside the corporate machine

Curious: ADT's acquisition of Fusion Fire Protection - a fire sprinkler / suppression business??

We were fortunate to have been busy ourselves, closing five transactions in the quarter. More on those later!

### Q3 2019 Highlights from the Manufacturers

Regarding the public manufacturer's comments, this will be my last summary of Stanley's security business. Stanley doesn't want to be in the security business and make so few comments that we can't learn much from their earnings releases. Similarly I don't comment on Honeywell or UTC because they do not provide any specific information on their security related businesses. I am going to add Alarm.com to the summary as they expand from residential into commercial security space, and their business model continues to be more and more interesting.

**Allegion:** Impressive financial quarter, but seems to be just focused on stock price. Innovation??

- Revenue of \$748 million, +5.2% v PY. +6.4% organically. EPS jumped 20%.
- Adjusted Operating Margin increased an impressive 220 bps to 23.1%.
- Americas sales were \$568 million, +7.1%, 7.2% organic vs PY. High single digit growth in both Res and non Res products. Electromechanical products +10%.
- Americas Operating Income was \$175 million. Adjusted ebitda was up 13.8% to 32.4%!
- EMEIA revenue was \$138 million, +2.5%, +6.9% organic. OM at 8.7% increased 17.6%.
- Asia revenue decreased 9%, -7% organically. OM increased 37% to 10.3%.
- No change in 2019 full year forecast.
- Allegion stock did pop 9% after their earnings call.

**ASSA ABLOY:** Another strong quarter, 13% growth, 10 acquisitions ytd.

- Total Sales were 24 MESK (\$2.7billion) up 13% vs PY. 4% organic, 4% acquisitive, 5% currency. EBIT was up 14%, EPS + 13%. Operating cash flow increased 47%. Driven by Americas & Global Technologies.
- Americas - strong growth in US residential & electromechanical products. Revenue was up 17%. 6% organic, 9% currency, 2% acquisitive. Operating margin was 20.5% helped by volume and price realization.
- Global Technology (HID & Ving) group was up 33%; 5% organic, 9% currency, 18% acquisitive. Operating margin was 20.3%. Strong growth in Secure ID Issuance & global solutions.
- Entrance Systems was up 9%, 3% organic, 6% currency. Sited growth in residential and high performance doors.
- Completed 4 acquisitions, 10 ytd. the most significant in N America was **Life Safety Power** (\$32 million revenue, 65 employees) a relatively new company already giving Altronic a run for the money. Also **Placard**, Australia - Secure ID Cards, (\$46 million revenue 170 employees) and **LUX - 1**, Czech Rep manufacturer of RFID components (\$20 million, 145 employees).

**dormakaba:** Only release results every 6 months, these results are for the full year ending 9/31/19

- Revenues were \$2.8 billion, +1.3% organic, -1% acquisitive, -1.1% currency. Ebitda was 15.9%.
- Americas revenues were \$817 million, -1.8% organic. Ebitda was 20.6%. Electronic products and Glass Systems delivered double digit growth in the quarter. Performance was negatively impacted by Latin America, slower hospitality sales due to project completions, and by a problematic ERP implementation at Mesker hollow metal doors.
- Key Systems and Wall Solutions sales were \$402 million, up 2.2% organically, 15.9% ebitda.
- EMEA had sales of \$778 million, organic growth of 1.9% and ebitda of 7.3%

## Stanley

- Total sales were \$3.6 billion, up 4% organically. Operating margins were flat at 14.5%, offsetting \$90 million of tariff related costs.
- Security sales were \$466 million, down 4% due to the sale of Sargent & Greenleaf.
- Americas sales were up 3% organically driven by auto doors & electronic security.

## Alarm.com

- Acquired **Open Eye**, a leading provider of cloud-managed video surveillance solutions for the commercial market. OpenEye is optimized for enterprise-level commercial customers. Alarm.com claim to now have a best-in-class solution to accommodate commercial accounts of any size.

## Other M&A Highlights

**Convergint** announced the acquisition of **Life Safety Solutions**, based in Virginia with 125 associates.

**Allied Universal** now #6 on the SMD top 100 continued their string with the acquisitions with **Mid State Security** #37 SDM, based in Wyoming MI, sales >\$20 million & 89 associates, and Phoenix based **Shelter Security Services** with \$22 million revenues & 525 armed and unarmed security services personnel.

**ADT Commercial.** ADT re-launched their Commercial division at the recent GSX (ASIS) conference and have set up a separate organization to drive commercial growth. Phil Aronson was named Senior VP Enterprise Solutions as part of the re-org. We represented Phil and his company ASG in the sale to ADT a couple of years ago. We are proud that Phil has become a part of their leadership team. ADT acquired **I-View Now**, an alarm verification solution a strategic step to alarm verification capabilities, **Systems Group** in Denver, one of CO's largest commercial fire alarm detection & inspection providers, and **Fusion Fire Protection** in Hanover, MD. a sprinkler / suppression system business....a curious addition to the portfolio.

**SnapAV & Control4** completed their \$680 million mega-company mergers. SnapAV manufactures AV, surveillance, networking & remote management products and Control4 is a leading global provider of smart home solutions.

We **DMAG / 3SE LLC** had a busy quarter, representing the sellers in each of these transactions:

- **Specialized Builders Hardware** (SBH) a market leader in Southern California was acquired by **High Road Capital** as part of their **Banner Solutions'** wholesale security hardware businesses.
- **Pasek Security** in Boston was acquired by **DH Pace Company** which establishes a significant operational footprint for DH Pace on the east coast. Pasek's legacy of servicing Boston and New England customers with both mechanical & electronic security systems & services fits perfectly with DH Paces's business philosophy.

- **Huron Capital / Sciens Building Solutions** acquired Matlin FL based **SmartWatch Inc.** a full-service systems integrator serving many of the iconic businesses in the Orlando market.
- Albuquerque based **Access Technologies** was acquired by **Twin City Hardware (TCH)** to expand their geographical presence and increase their overall security systems capabilities.
- **American Alarm & Audio** was acquired by **Redwire** and brings over 25 years of service to northern FL residential & commercial customers to enhance Redwire's south eastern market.

See our complete listing of current business opportunities at <http://www.graybeardsrus.com/>

*3SE Corp's Dave Sylvester works exclusively with Davis Mergers & Acquisitions Group to increase our collective presence and involvement in the Physical Security Industry. We focus 100% of our energies on representing sellers of alarm dealers, systems integrators, door & hardware system integrators, and security product companies.*

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