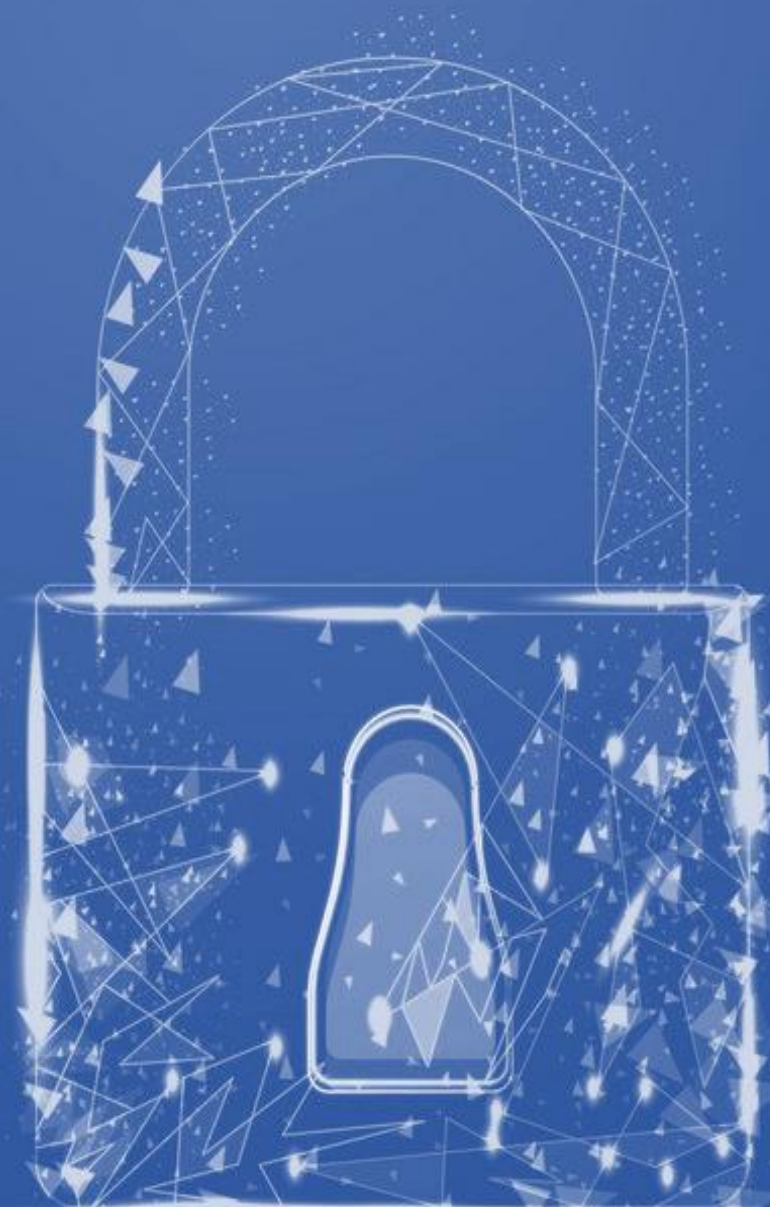


Security Systems
Services
Industry Report
Q2 2022



SECURITY SYSTEMS INDUSTRY KEY TAKEAWAYS

❑ Security Alarm Services

- Revenue for the **Security Alarm Services** industry currently stands at \$51.8 billion in Q2 2022 and is expected increase at an annualized rate of 2.9% over the next five years.

❑ Industry Demand Drivers

- **Public Safety:** Increasing public concerns over security and safety have led to growth in private security spending.
- **Innovation:** The emergence of digital sensors, broadband technology and mobile access has enabled new operators to enter the industry. The increase in developing technologies and strategic partnerships will likely lead to more industry mergers and acquisitions.
- **Small Businesses:** As more small businesses re-open over the next five years, the demand for security and alarm services will increase. Downstream commercial demand for security alarm services will also likely be bolstered by new technologies.

❑ Cyber Security

- The **global cyber security market** size was valued at USD 156.5 billion in 2019 and is expected to expand at a compound annual growth rate (CAGR) of 10.0% from 2020 to 2027.
- Cyber security has become a vital service as **frauds, cybercrimes, and other virtual threats** becoming increasingly common amongst organizations across the U.S.
- North America accounted for **36.7%** of the **global cyber security revenue share** in 2019.

INDUSTRY AT A GLANCE

Key Statistics



\$51.8bn Revenue

- Annual Growth 2017 – 2022 3.4%
- Annual Growth 2022 – 2027 2.9%



\$3.1bn Profit

- Annual Growth 2017 – 2022 0.2%



5.9% Profit Margin

- Annual Growth 2017 – 2022 -1.0pp



11,719 Businesses

- Annual Growth 2017 – 2022 1.8%
- Annual Growth 2022 – 2027 2.2%



991k Employment

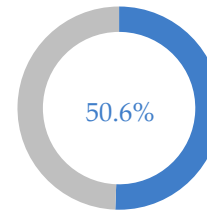
- Annual Growth 2017 – 2022 4.1%
- Annual Growth 2022 – 2027 2.9%



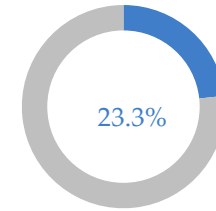
\$30.0bn Wages

- Annual Growth 2017 – 2021 3.4%
- Annual Growth 2022 – 2027 2.9%

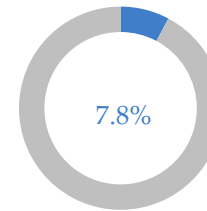
Segments



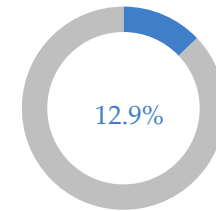
Residential security with monitoring



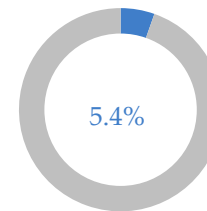
Nonresidential security with monitoring



Residential security without monitoring



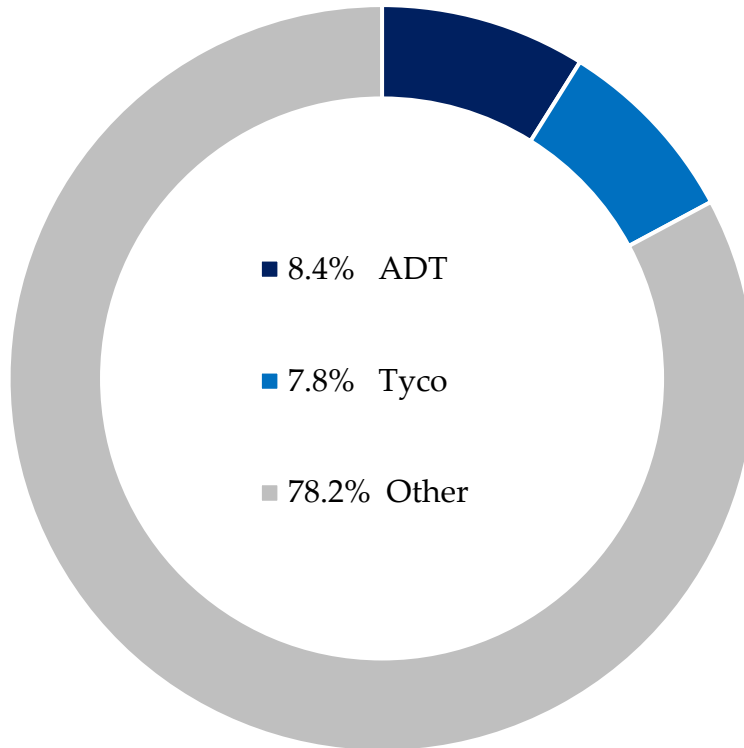
Nonresidential security without monitoring



All Other Services

INDUSTRY AT A GLANCE

Major Players



SWOT Analysis

S

STRENGTHS

- Low & Increasing Level of Assistance
- Growth Life Cycle Stage
- Low Imports
- High Revenue per Employee
- Low Capital Requirements

W

WEAKNESSES

- Low & Increasing Barriers to Entry
- Low Profit vs. Sector Average
- High Customer Class Concentration
- High Product/Service Concentration

O

OPPORTUNITIES

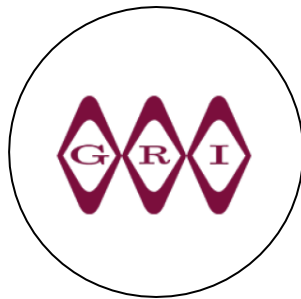
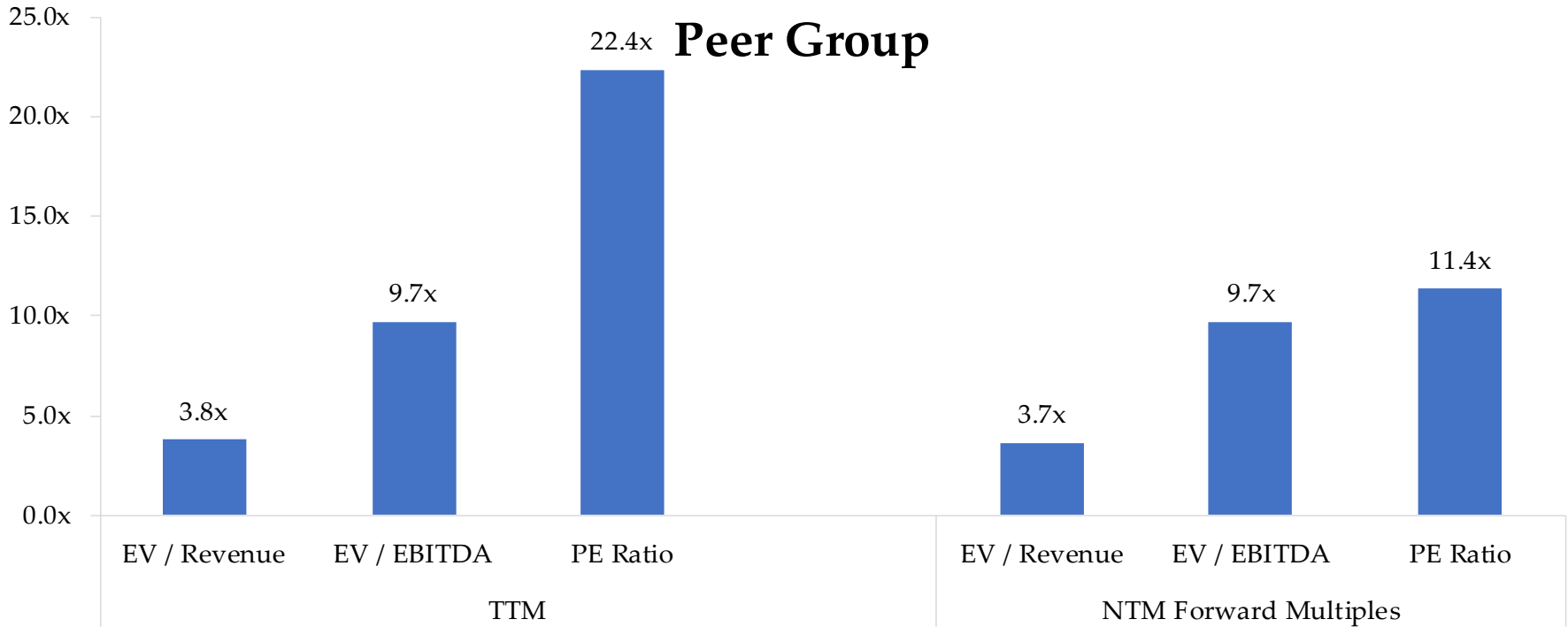
- High Revenue Growth
- High Revenue Growth
- Private investment in computers and software

T

THREATS

- Low Revenue Growth
- Low Outlier Growth
- Low Performance Drivers
- Value of private nonresidential construction

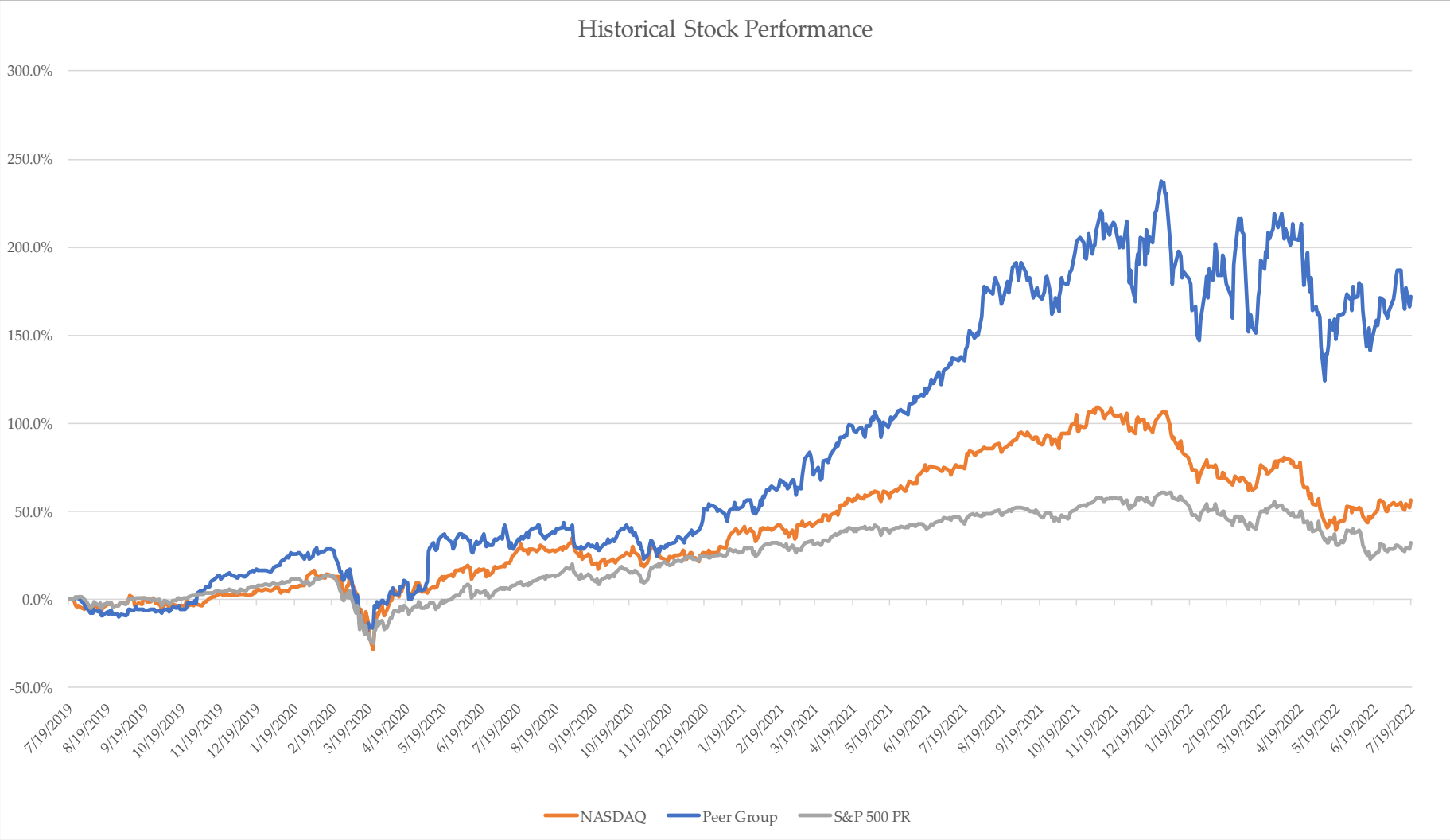
PUBLIC COMPS



PUBLIC COMPS

\$ in Millions	Fortinet	Napco Security Technologies	Fortune Brands Home & Security	Risk George Industries	OpenText	
Ticker	FTNT	NSSC	FBHS	RSKIA	OTEX	
Total Revenue	\$3,587	\$136	\$7,802	\$20	\$3,485	
Gross Profit	2,707	56	2,782	10	2,420	
EBIT	661	21	1,099	9	742	
Net Income	\$638	\$18	\$776	\$7	\$476	
EBITDA (Normalized)	965	20	1,297	7	1,266	
Total Debt	989	7	3,519	#N/A	4,483	
EV	45,416	836	11,397	17	13,218	
Employees	10,860	1,102	28,056	195	15,000	
Ratio Analysis						Median
Revenue/Employee	\$330,267	\$123,224	\$278,101	\$104,769	\$232,328	\$232,328
EV/Revenue	12.66x	6.15x	1.46x	0.81x	3.79x	3.79x
Debt/EBITDA	1.32x	0.39x	2.30x	0.00x	3.30x	1.32x
EV/EBITDA (Normalized)	57.36x	30.13x	9.35x	3.77x	11.34x	11.34x
Market Cap/EBITDA	75.99x	33.22x	7.69x	4.82x	9.16x	9.16x
Market Cap (mm)	46,553	876	8,257	56	10,368	
Close Price	59.20	24.93	65.41	11.36	39.34	
52 Week Low	48.73	15.39	56.86	11.02	35.24	
52 Week High	74.35	26.00	109.23	15.84	55.34	
Gross Margin	75.5%	41.0%	35.7%	48.8%	69.4%	48.8%
EBIT	18.4%	15.1%	14.1%	43.1%	21.3%	18.4%
EBITDA	21.0%	16.4%	16.5%	45.2%	35.8%	21.0%
Acct. Receivable Days	70	66	42	65	43	65
Inventory Days	69	131	82	221	#N/A	#N/A
Acct. Payable Days	60	38	53	98	47	53
Revenue Growth	0	0	0	0	0	0

SECURITY SYSTEMS INDEX Vs. S&P 500



DCA Security Systems Index: FTNT, NSSC, FBHS, ZIXI, RSKIA

RECENT PRIVATE TRANSACTIONS

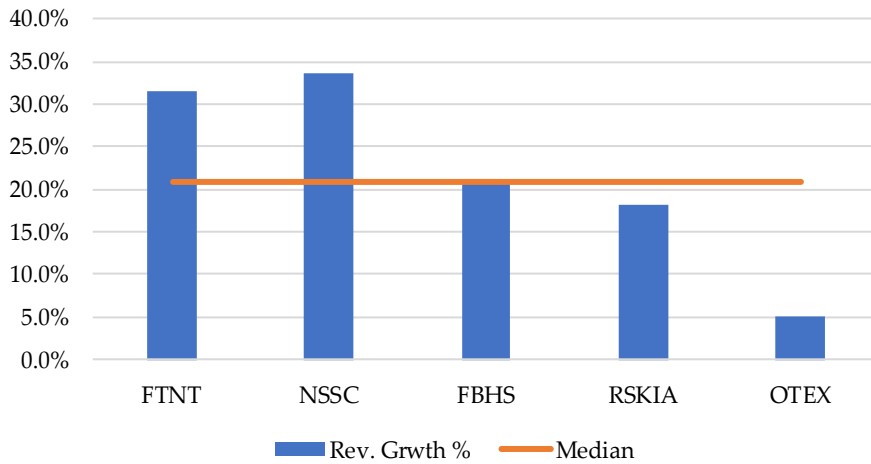
Deal Date	Target	Acquirer	Deal Synopsis
20-Jun-2022	Levl	Comcast (NAS: CMCSA)	The company reached a definitive agreement to be acquired by Comcast (NAS: CMCSA) for approximately \$50 million on June 20, 2022.
25-May-2022	Summit7	WestView Capital Partners	The company was acquired by WestView Capital Partners through an LBO on May 25, 2022 for an undisclosed amount. The funds will be used to to expand its growth strategies.
06-May-2022	Zimperium	Liberty Strategic Capital	The company was acquired by Liberty Strategic Capital through a \$525 million LBO on May 6, 2022.
29-Apr-2022	Radiflow	Dx Technology Services and Investment	The company reached a definitive agreement to be acquired by Dx Technology Services and Investment for \$45 million on April 29, 2022. The acquisition will help the company to continue its growth in the fast-growing OT Security market and get an unique position in the OT security market.
28-Apr-2022	Graha Teknologi Nusantara	EdgeConneX	The company was acquired by EdgeConneX, via its financial sponsor EQT, through an LBO on April 28, 2022 for an undisclosed amount.
13-Apr-2022	Abissi	Metrika SGR	The company was acquired by Metrika SGR through an LBO on April 13, 2022 for an undisclosed amount.

RECENT PUBLIC TRANSACTIONS

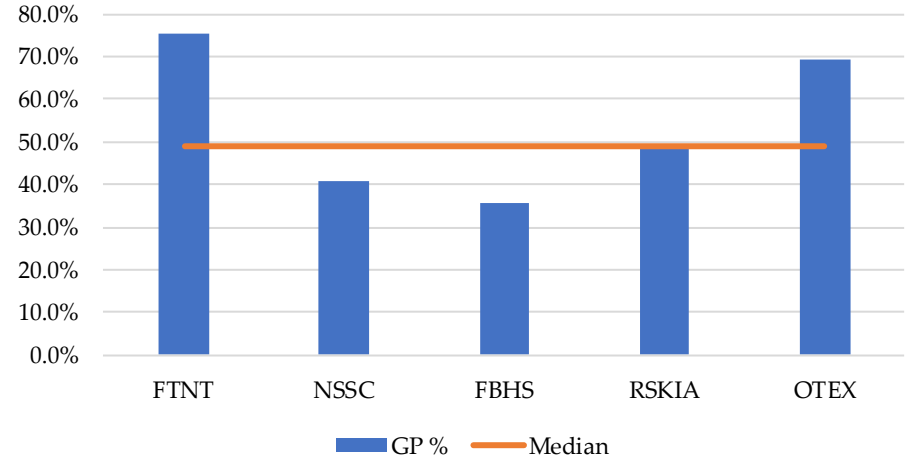
Deal Date	Target Companies	Investors	Deal Synopsis
01-Jun-2022	Emudhra (BOM: 543533)		The company raised INR 4.13 billion in its initial public offering on the Bombay Stock Exchange under the ticker symbol of 543533 on June 1, 2022. A total of 16,124,456 shares were sold at a price of INR 256 per share. After the offering, there was a total of 78,072,371 outstanding shares (excluding the over-allotment option) priced at INR 256 per share, valuing the company at INR 19.99 billion. The total proceeds, before expenses, to the company was INR 1.61 billion and to the selling shareholders was INR 2.52 billion. In the offering, the company sold 6,289,062 shares and the selling shareholders sold 9,835,394 shares.
23-May-2022	CynergisTek (ASE: CTEK)	Altaris Capital Partners, Clearwater Compliance(Steve Cagle)	The company entered into a definitive agreement to be acquired by Clearwater Compliance, via its financial sponsor Altaris Capital Partners, through an estimated \$17.7 million public-to-private LBO on May 23, 2022. As a part of this transaction, the company will be delisted.
19-Apr-2022	Nexwise Intelligence China (SHE: 301248)		The company raised CNY 1.00 billion in its initial public offering on the Shenzhen Stock Exchange under the ticker symbol of 301248 on April 19, 2022. A total of 25,620,000 shares were sold at CNY 39.07 per share. After the offering, there was a total of 102,470,000 outstanding shares at CNY 39.07 per share, valuing the company at CNY 4.00 billion.
14-Apr-2022	VerifyMe (NAS: VRME)		The company (NAS: VRME) received \$5 million of development capital from undisclosed investors on April 14, 2022 through a private placement.
06-Apr-2022	Zedcor Security (TSX: ZDC)		The company (TSX: ZDC) received CAD 350,000 amounts of development capital from undisclosed investors on March 30, 2022, through a private placement. The funds will be used to support growth initiatives, reduce indebtedness under its credit facility which was incurred to expand its fleet of MobileyeZ security towers and for general working capital purposes.
05-Apr-2022	Tufin (NYS: TUFN)	Turn/River Capital(Dominic Ang)	The company entered into a definitive agreement to be acquired by Turn/River Capital through an estimated \$570 million public-to-private LBO on April 5, 2022.

OPERATING METRICS

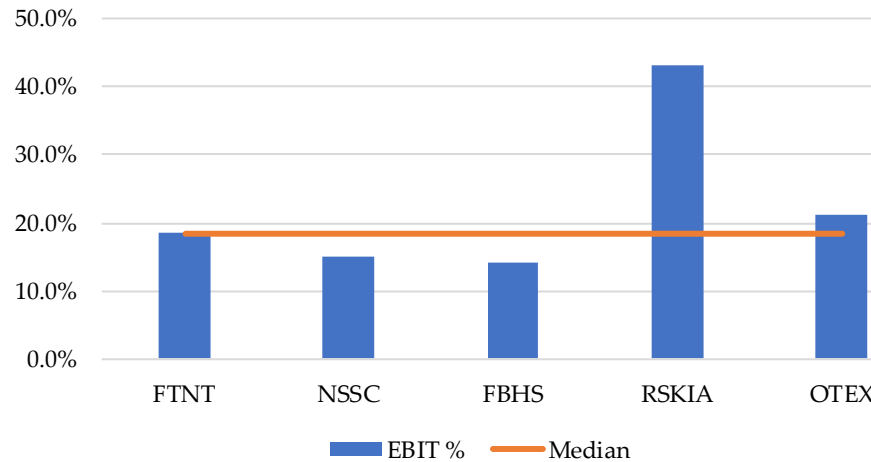
Revenue Growth



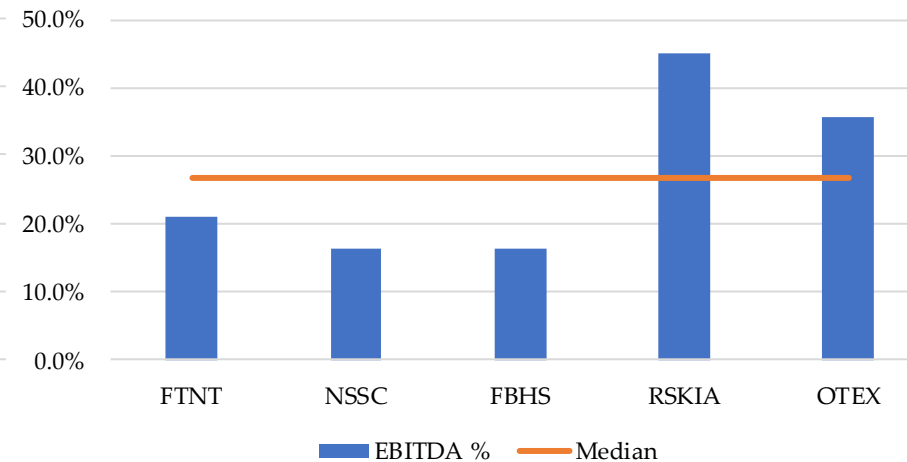
Gross Profit Margin



EBIT Margin

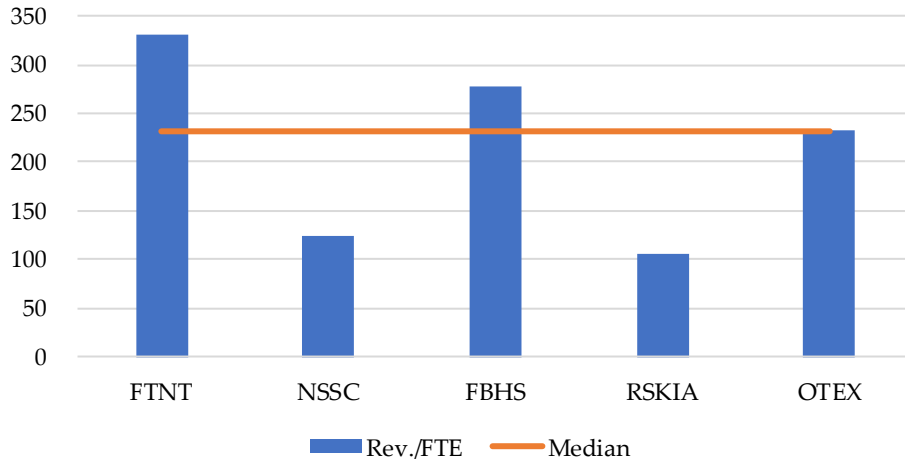


EBITDA Margin

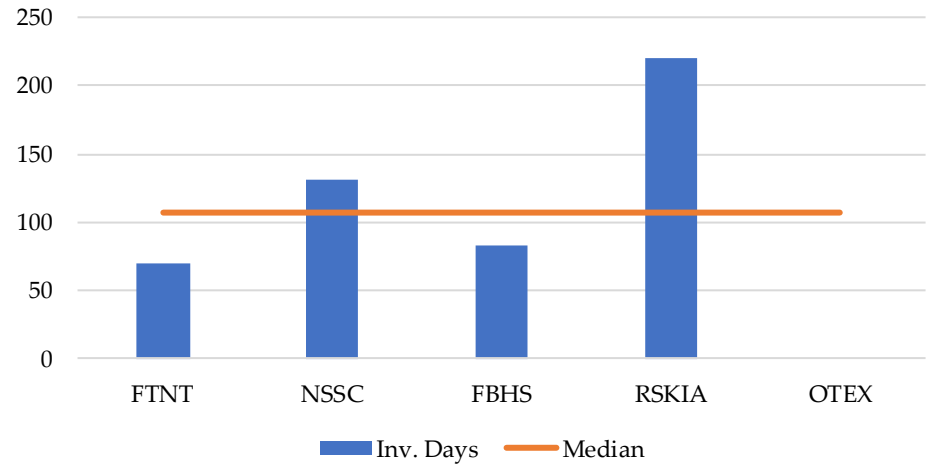


RATIO ANALYSIS

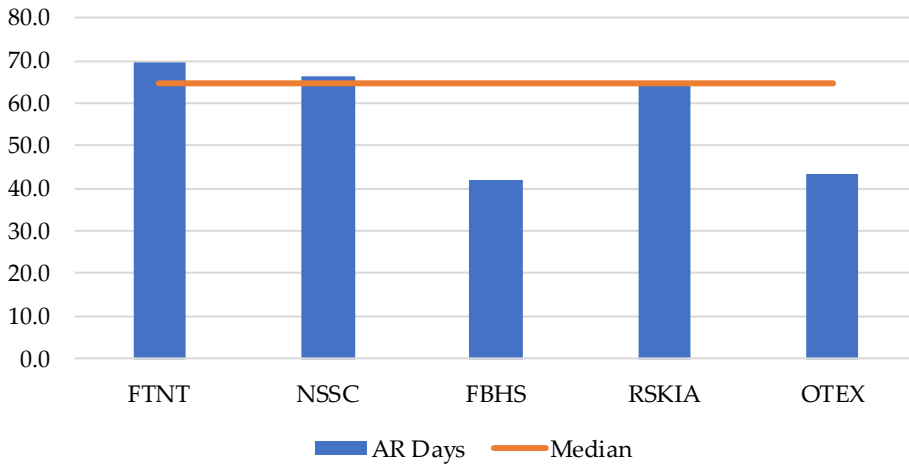
Revenue per Employee



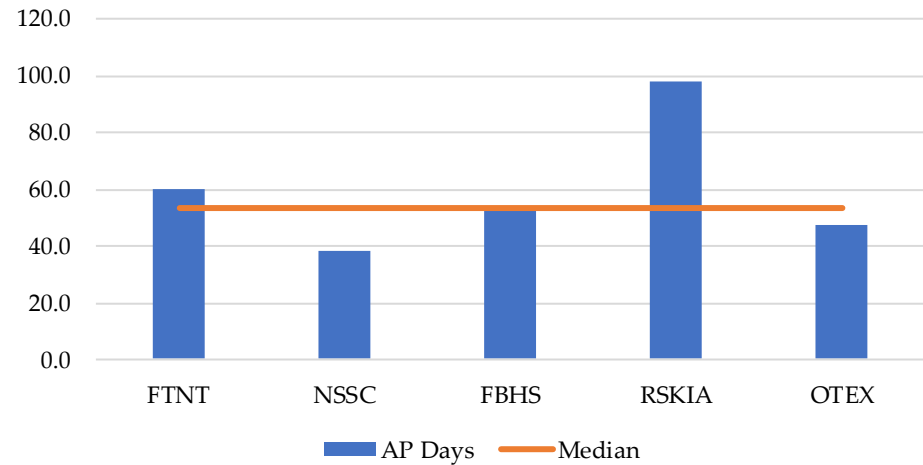
Inventory Days



AR Days



AP Days



VALUATION TRENDS

		Fundamentals								
Ticker	Company	TIM						NTM Estimates		
		Close Price	Market Cap	Enterprise Value	Total Revenue	EBITDA	Basic EPS	Total Revenue	EBITDA	Normalized EPS
FTNT	Fortinet	59.20	46,552.87	45,415.67	3,586.70	753.70	0.78	4,827.60	1,353.47	1.14
NMS	Nuveen Minnesota Quality	14.99	86.74	139.54	5.37		0.67			
FBHS	Fortune Brands Home & Security	65.41	8,256.56	11,397.36	7,802.40	1,287.40	5.70	8,238.15	1,472.55	6.67
RSKIA	Risk George Industries	11.36	56.04	16.59	20.43	9.23	1.34			
OTEX	OpenText	39.34	10,368.19	13,218.45	3,484.92	1,247.71	1.75	3,621.09	1,357.61	3.46

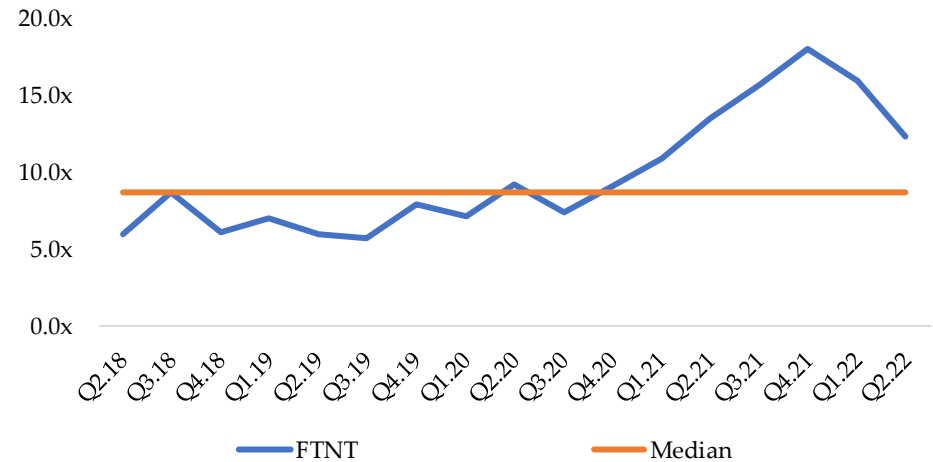
		Multiples					
Ticker	Company	TIM			NTM Forward Multiples		
		EV / Revenue	EV / EBITDA	PE Ratio	EV / Revenue	EV / EBITDA	PE Ratio
FTNT	Fortinet	12.7	60.3	77.5	9.4	33.6	52.0
NMS	Nuveen Minnesota Quality	26.0		22.4			
FBHS	Fortune Brands Home & Security	1.5	8.9	11.6	1.4	7.7	9.8
RSKIA	Risk George Industries	0.8	1.8	8.5			
OTEX	OpenText	3.8	10.6	22.5	3.7	9.7	11.4

PUBLIC COMP

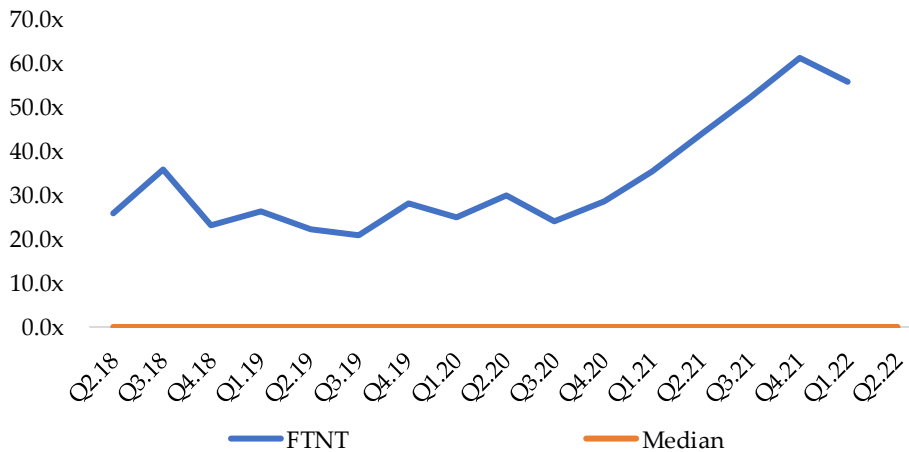
Fortinet, Inc. (NAS: FTNT)

Fortinet, Inc. provides broad, integrated, and automated cybersecurity solutions worldwide. It offers FortiGate hardware and software licenses that provide various security and networking functions, including firewall, intrusion prevention, anti-malware, virtual private network, application control, Web filtering, anti-spam, and wide area network (WAN) acceleration. The company also provides security subscription, technical support, professional, and training services. Fortinet, Inc. provides its products and services in the Americas, Europe, the Middle East, Africa, and the Asia Pacific. The company was founded in 2000 and is headquartered in Sunnyvale, California.

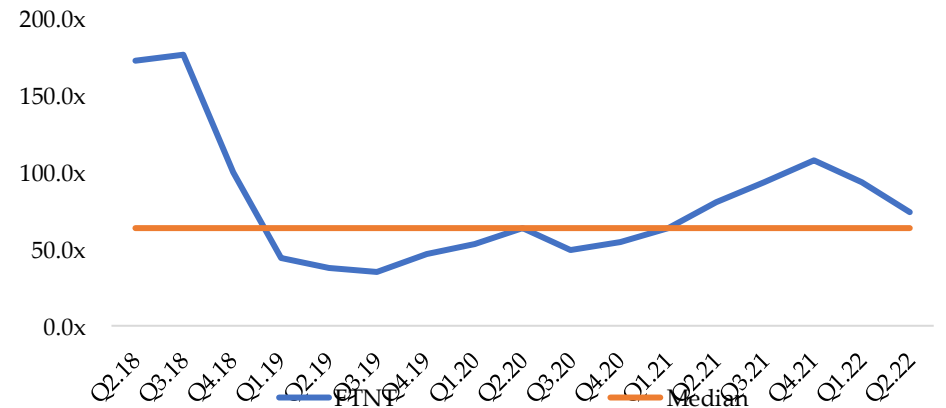
EV/Revenue Fortinet



EV/EBITDA Fortinet



P/E Fortinet

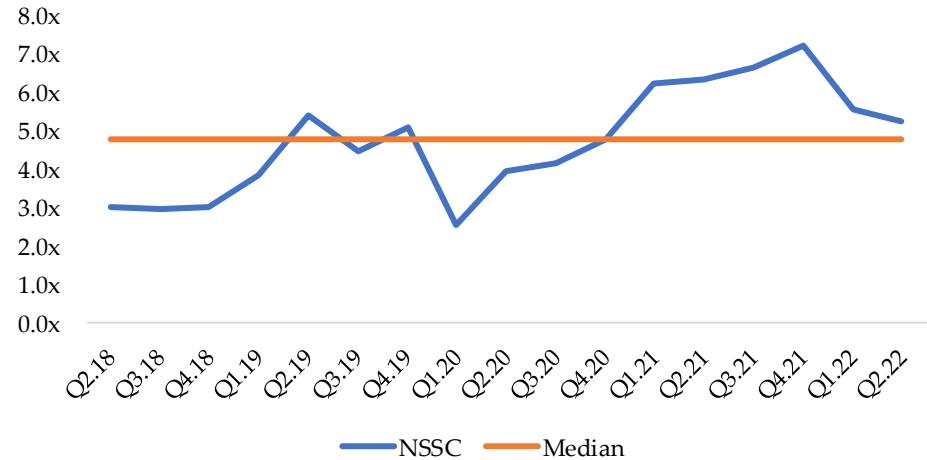


PUBLIC COMP

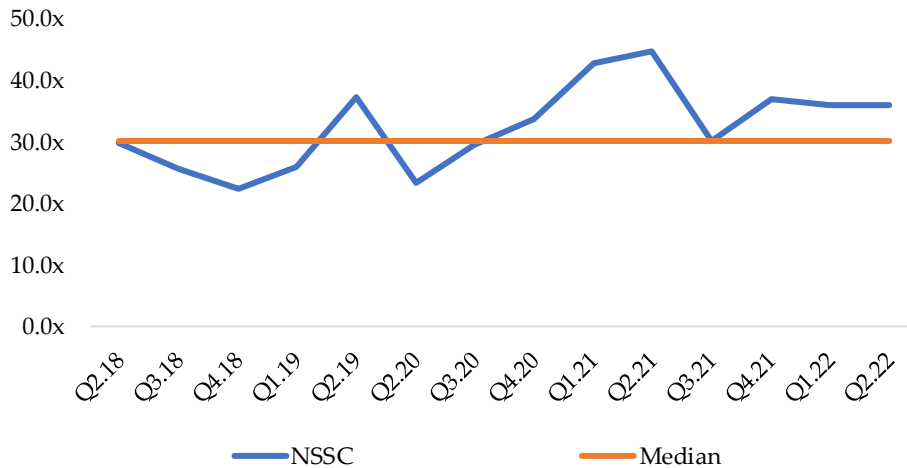
Napco Security Technologies, Inc. (NAS: NSSC)

Napco Security Technologies, Inc. manufactures and sells security products and software worldwide. The company offers access control systems, door-locking products, intrusion and fire alarm systems, and video surveillance systems for commercial, residential, institutional, industrial, and governmental applications. The company markets and sells its products primarily to independent distributors, dealers, and installers of security equipment. Napco Security Technologies, Inc. was founded in 1969 and is headquartered in Amityville, New York.

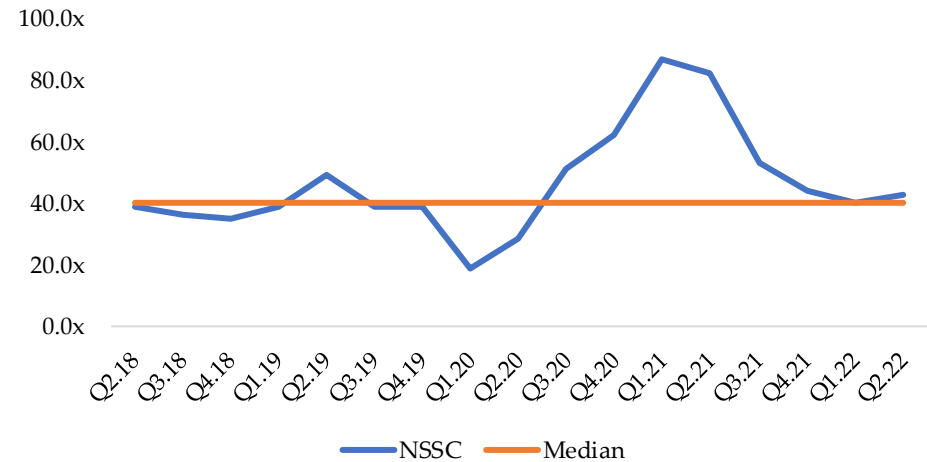
EV/Revenue Napco Security Technologies



EV/EBITDA Napco Security Technologies



P/E Napco Security Technologies

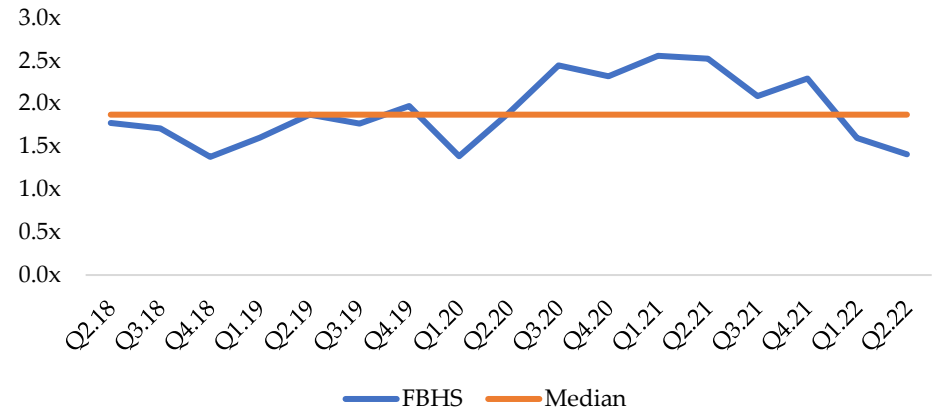


PUBLIC COMP

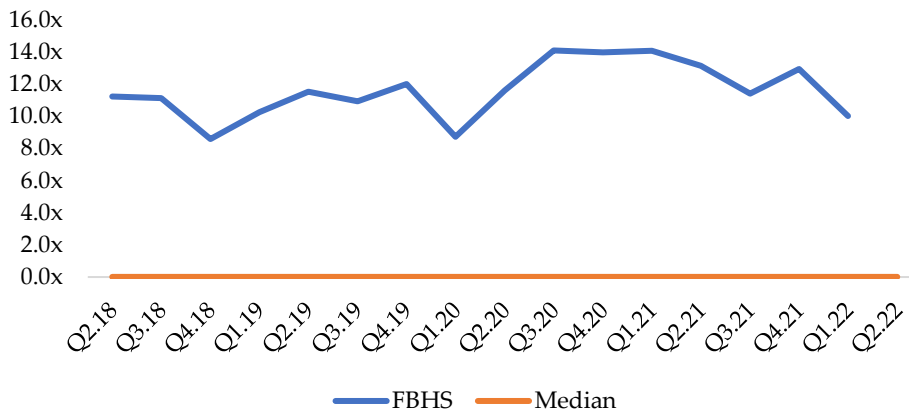
Fortune Brands Home & Security, Inc. (NYSE: FBHS)

Fortune Brands Home & Security, Inc., together with its subsidiaries, provides home and security products for residential home repair, remodeling, new construction, and security applications. It operates in three segments: Cabinets, Plumbing, and Doors & Security. The Doors & Security segment manufactures, sources, and distributes locks, safety and security devices, and electronic security products under the Master Lock and American Lock brand names; and fire-resistant safes, security containers, and commercial cabinets under the SentrySafe brand name. This segment sells its products in the United States, Canada, Europe, Central America, Japan, and Australia. The company was founded in 1988 and is headquartered in Deerfield, Illinois.

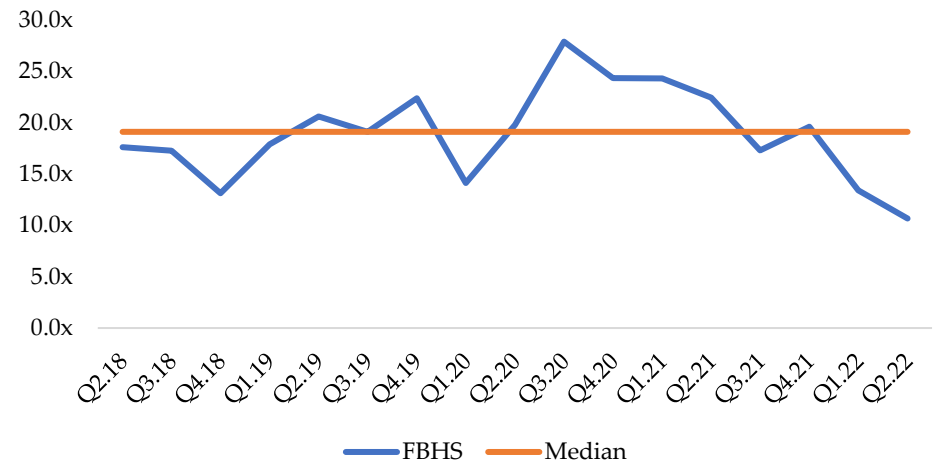
EV/Revenue Fortune Brands Home & Security



EV/EBITDA Fortune Brands Home & Security



P/E Fortune Brands Home & Security

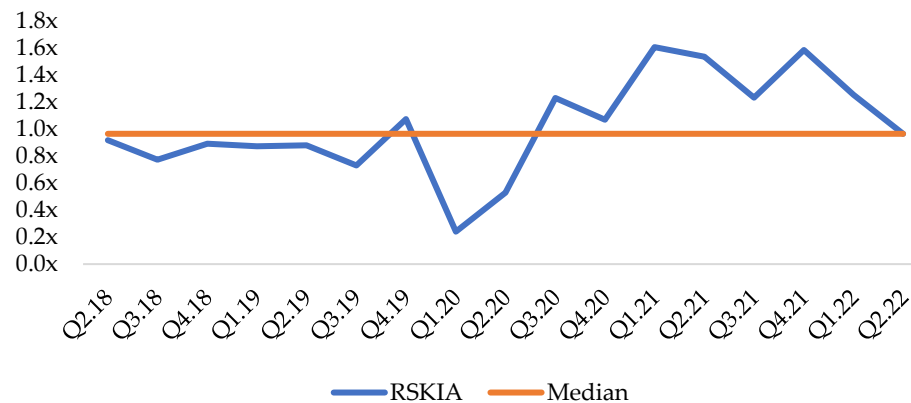


PUBLIC COMP

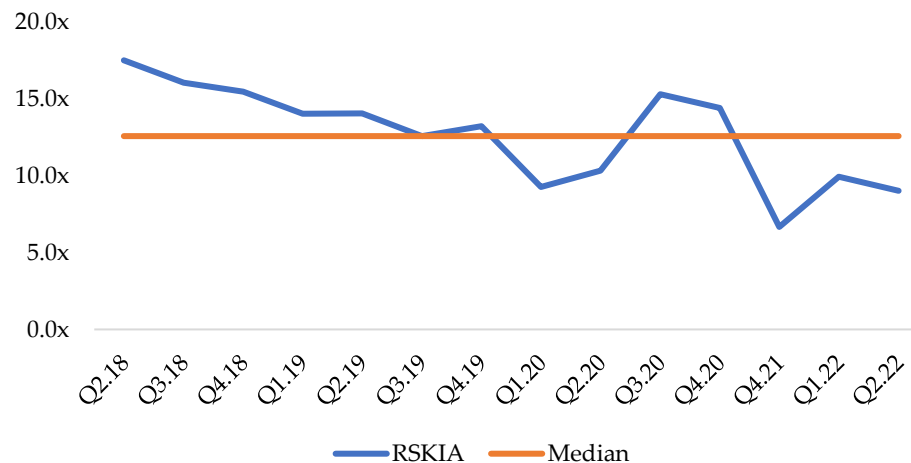
George Risk Industries, Inc. (OTC: RSKIA)

George Risk Industries, Inc. designs, manufactures, and sells various electronic components worldwide. The company offers burglar alarm components and systems, pool alarms, thermostats, EZ duct wire covers, and water sensors, as well as door and window contact switches, environmental products, wire and cable installation tools, and proximity switches. Its products are used for residential, commercial, industrial, and government installations. The company sells its products to security alarm distributors, alarm installers, original equipment manufacturers, and distributors of off-the-shelf keyboards of proprietary design. George Risk Industries, Inc. was founded in 1965 and is headquartered in Kimball, Nebraska.

EV/Revenue Risk George Industries



P/E Risk George Industries

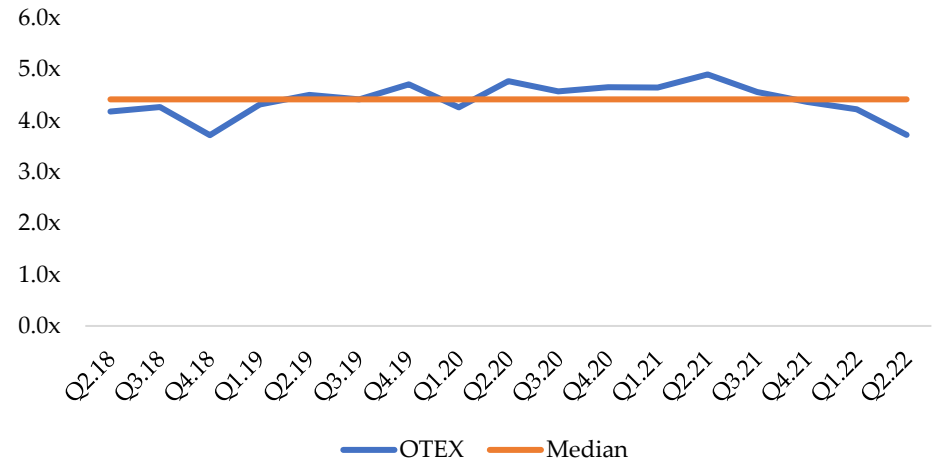


PUBLIC COMP

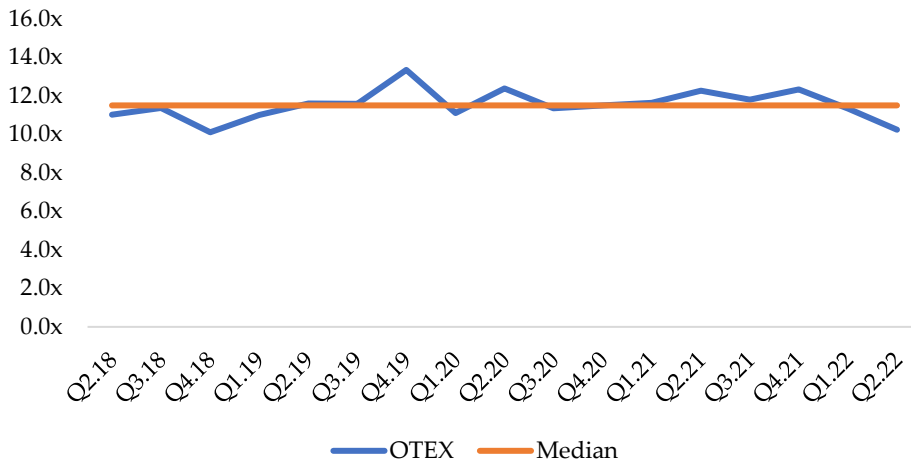
OpenText Corporation (TSE: OTEX)

Open Text Corp grew out of a technology project involving the Oxford English Dictionary at Canada's University of Waterloo in the mid-1980s. Its software allows clients to archive, aggregate, retrieve, and search unstructured information (such as documents, e-mail, presentations). The company is based in Ontario, Canada.

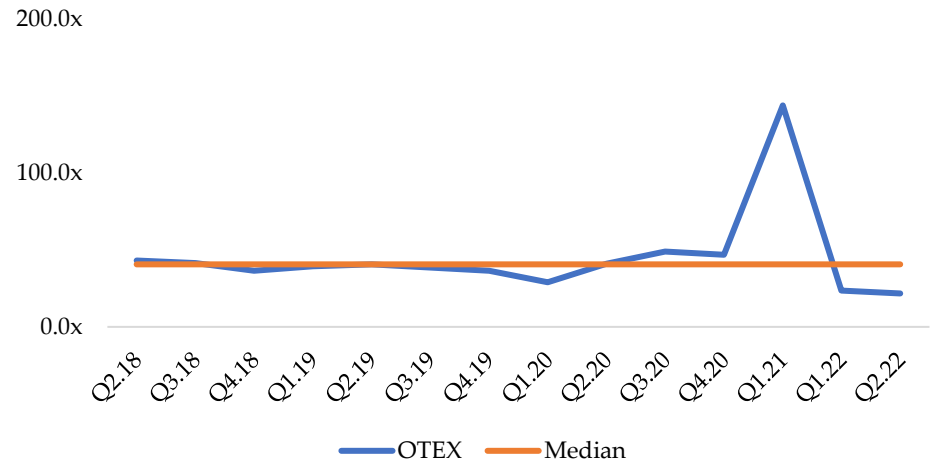
EV/Revenue OpenText



EV/EBITDA OpenText



P/E OpenText



DAVIDSON CAPITAL ADVISORS PROFESSIONALS

Robert S. Cashion **Managing Director, Investment Banking and Advisory Services**

Prior to joining Davidson Capital Advisors, Mr. Cashion spent over 20 years in the financial services industry. He manages the firm's overall corporate finance and consulting practice where he oversees and executes the firm's investment banking, advisory and capital raising engagements.

Mr. Cashion worked with several financial institutions and consulting firms delivering investment banking, leveraged finance, consulting and restructuring services. He worked with Bank of America Merrill Lynch and its predecessor firms in the High Grade Capital Markets, Corporate Finance and the Special Situations group.

Mr. Cashion has been involved in industry sectors including general industrial, distribution, business services, retail, technology and healthcare. Mr. Cashion holds B.A. Education, B.S. Accounting, and an MBA from the University of North Carolina. He is a Certified Public Accountant and holds FINRA 7, 63 and 79 securities licenses.



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DAVIDSON CAPITAL ADVISORS PROFESSIONALS

Elizabeth Folger **Managing Director, Institutional Client Coverage**

Prior to joining Davidson Capital Advisors, Ms. Folger spent 16 years in the financial services industry in a variety of functions, most recently with Bank of America Merrill Lynch and its predecessor firms. She manages the sales and auction processes for the firm's sell side M&A and capital raising engagements. Her deep experience in the sales and trading has resulted in excellent execution for our client's projects.

She worked in the Loan Syndication Sales Group, headquartered in Charlotte, with her primary responsibilities for sales and distribution of syndicated loans for middle market and large corporate credits. Also, Ms. Folger worked on the Corporate Bond Trading desk where she managed and traded risk positions of \$50-\$100 million of intermediate term bank and finance paper.

Ms. Folger has been involved in a variety of sectors including general industrial, distribution, business services, retail, technology and healthcare. She holds a Bachelor of Arts from Hollins University.



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beth.folger@davcapadvisors.com

DAVIDSON CAPITAL ADVISORS ANALYST TEAM

Maxwell Purdy **Corporate Finance Coverage**

Prior to joining Davidson Capital Advisors in 2021, Mr. Purdy interned with Graycliff Partners, a private equity located in New York, NY. He graduated from University of North Carolina Chapel Hill in 2021 with a BS in Political Science and a minor in Economics and Entrepreneurship.

Maxwell assists in leading the firm's corporate finance client coverage as well as private equity coverage.

Jake Hall **Analyst, Investment Banking**

Prior to joining Davidson Capital Advisors, Mr. Hall interned with Churchill Terry, a private equity firm located in Dallas, TX. He graduated from Southern Methodist University in 2021 with an MBA in Finance and Strategy.

Samuel Fernandez **Analyst, Investment Banking**

Prior to joining Davidson Capital Advisors, Mr. Fernandez served as a board member for Radio Nueva Vida, a radio network chain operating in the Southeast. He graduated from the University of North Carolina at Charlotte with a BS in Finance.

Luke Habecker **Analyst, Investment Banking**

Prior to joining Davidson Capital Advisors, Mr. Habecker worked in Brokerage and Business development with Odyssey Specialized Logistics, a logistics firm located in Chicago, IL. He graduated from the University of North Carolina at Charlotte with a BS in Finance.