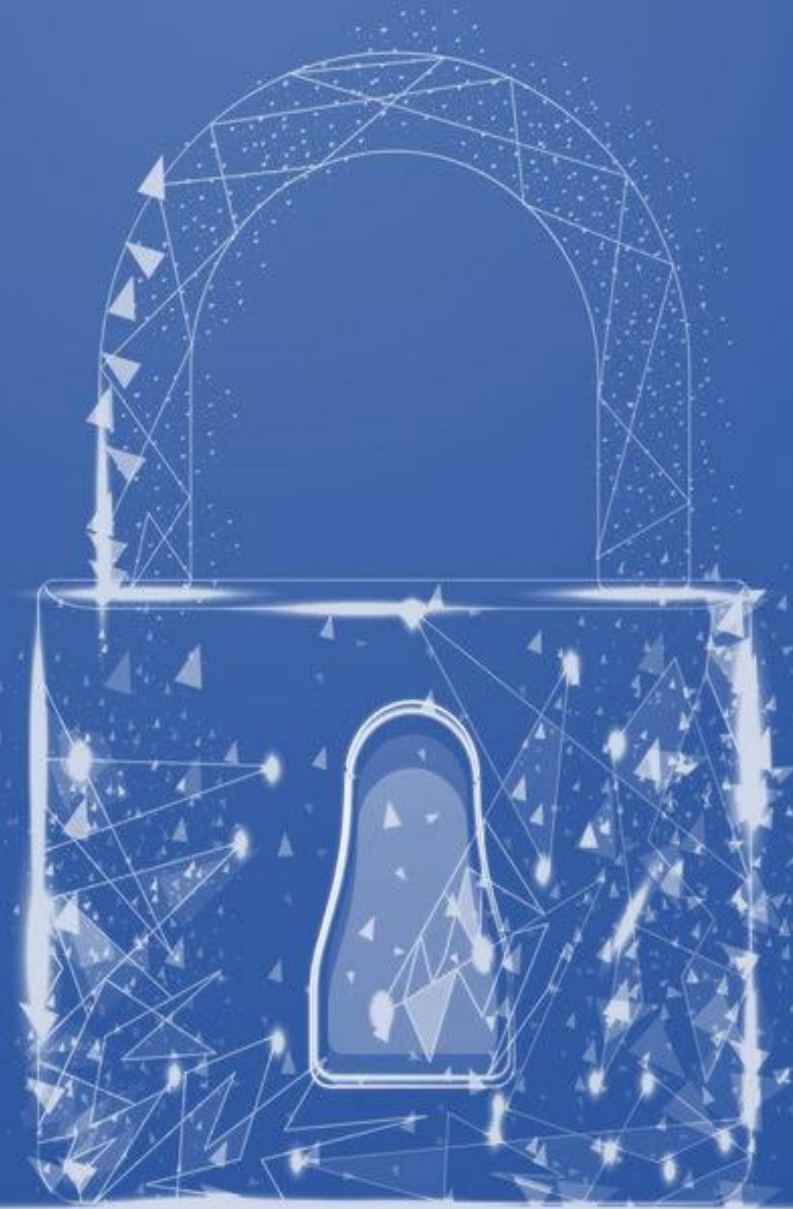


# Security Systems Services Industry Report Q3 2022



# SECURITY SYSTEMS INDUSTRY KEY TAKEAWAYS

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## ❑ 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

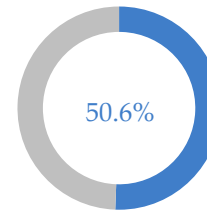
- Annual Growth 2017 – 2022 4.1%
- Annual Growth 2022 – 2027 2.9%



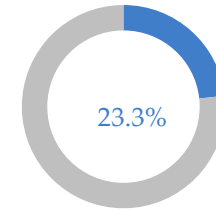
### \$30.0bn Wages

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

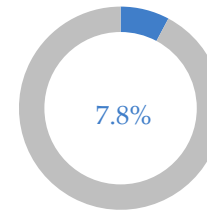
## Segments



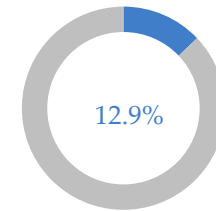
Residential security with monitoring



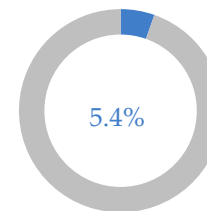
Nonresidential security with monitoring



Residential security without monitoring



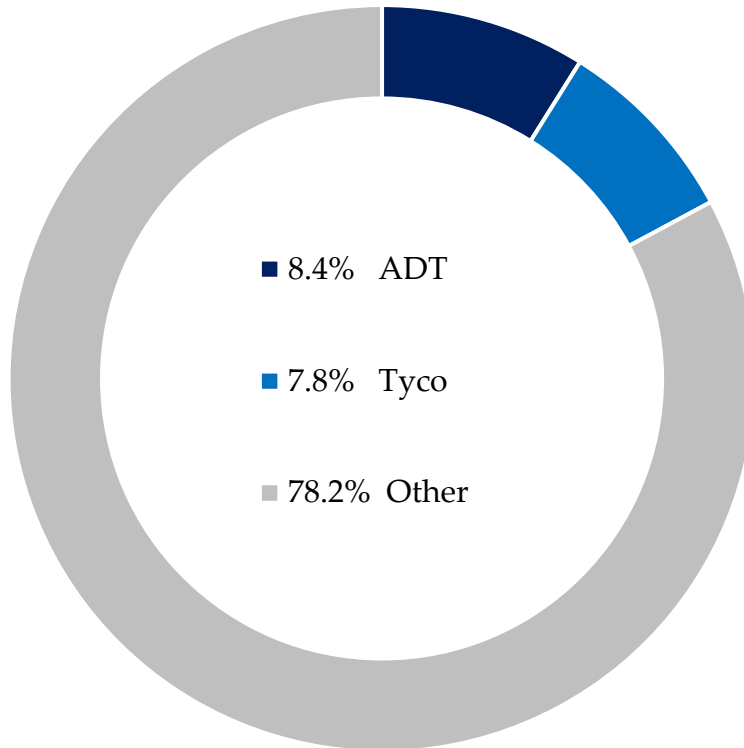
Nonresidential security without monitoring



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

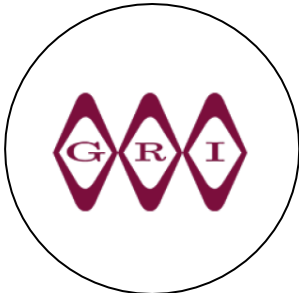
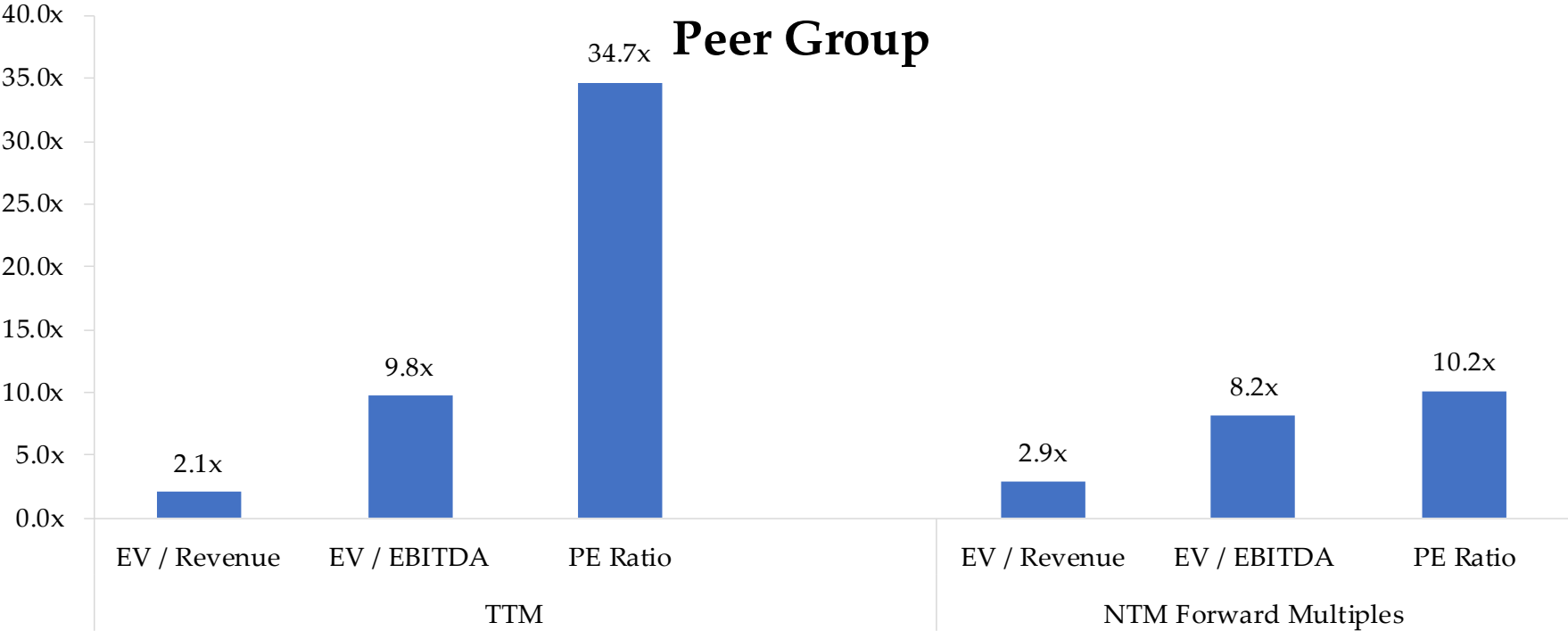
- High Revenue Growth
- High Revenue Growth
- Private investment in computers and software

T

### THREATS

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

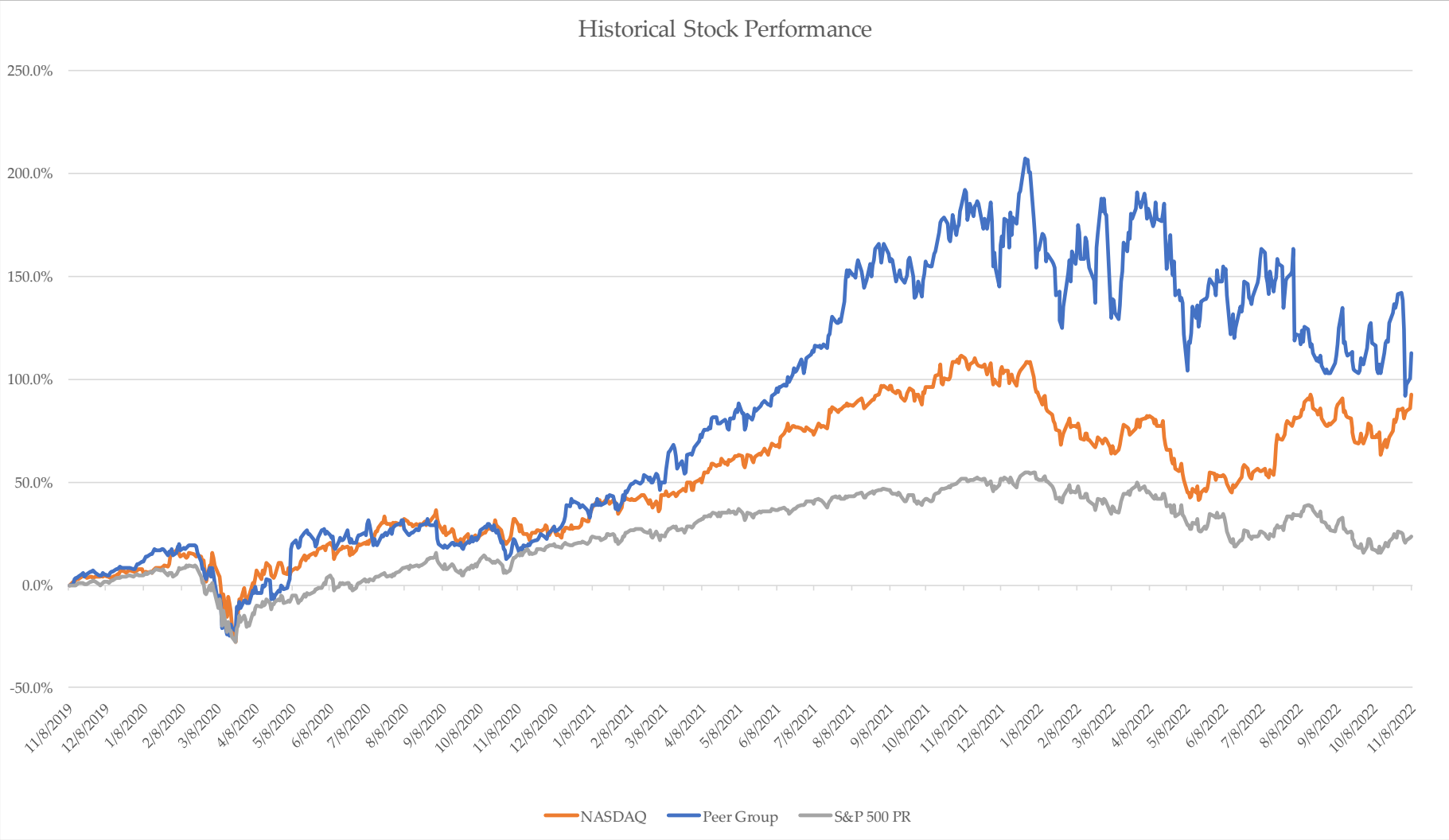
# PUBLIC COMPS



# PUBLIC COMPS

\$ in Millions Ticker	Fortinet FTNT	Napco Security Technologies NSSC	Fortune Brands Home & Security FBHS	Risk George Industries RSKIA	OpenText OTEX		
Total Revenue	\$4,098	\$152	\$8,045	\$21	\$3,514		
Gross Profit	3,082	64	2,877	10	2,451		
EBIT	803	21	1,083	2	407		
Net Income	\$743	\$18	\$752	\$3	\$148		
EBITDA (Normalized)	1,121	25	1,364	6	1,246		
Total Debt	990	6	3,530	0	4,475		
EV	37,988	1,029	10,090	19	9,886		
Employees	12,091	1,149	28,056	200	14,800		
<b>Ratio Analysis</b>						<b>Median</b>	<b>Mean</b>
Revenue/Employee	\$338,930	\$132,319	\$286,737	\$104,955	\$237,404	\$237,404	\$220,069
EV/Revenue	9.96x	7.16x	1.26x	0.88x	2.83x	2.83x	4.42x
Debt/EBITDA	1.10x	0.30x	2.55x	0.00x	4.81x	1.10x	1.75x
EV/EBITDA (Normalized)	37.56x	45.46x	7.65x	2.58x	7.82x	7.82x	20.21x
Market Cap/EBITDA	48.57x	44.70x	5.45x	6.72x	6.09x	6.72x	22.30x
Market Cap (mm)	38,740	1,068	6,943	57	7,104		
Close Price	49.13	29.08	53.69	11.55	26.70		
52 Week Low	47.37	15.39	53.42	11.00	26.50		
52 Week High	74.35	31.30	109.23	15.84	52.76		
Gross Margin	75.2%	42.0%	35.8%	47.3%	69.8%	47.3%	54.0%
EBIT	19.6%	14.0%	13.5%	11.1%	11.6%	13.5%	13.9%
EBITDA	22.1%	15.2%	15.8%	13.1%	25.8%	15.8%	18.4%
Acct. Receivable Days	73	59	43	65	42	59	57
Inventory Days	68	153	93	243	#N/A	#N/A	#N/A
Acct. Payable Days	63	45	53	98	57	57	63
Revenue Growth	0	0	0	0	0	0	0

# SECURITY SYSTEMS INDEX Vs. S&P 500



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



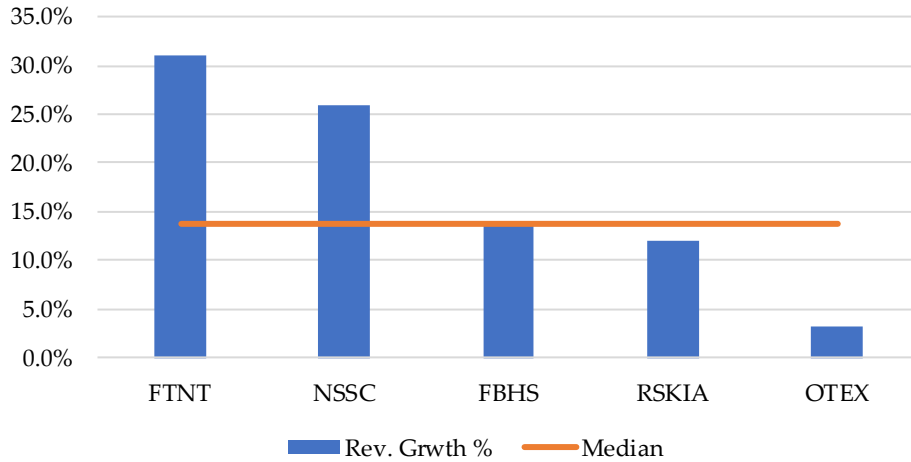
# RECENT PRIVATE TRANSACTIONS

Deal Date	Target	Acquirer	Deal Synopsis
27-Sep-2022	Securitronics	Tech Systems	The company reached a definitive agreement to be acquired by Tech Systems for an undisclosed amount on September 27, 2022.
26-Sep-2022	Canter Power Systems	Rotunda Capital Partners	The company was acquired by Rotunda Capital Partners through an LBO on September 26, 2022, for an undisclosed amount. In support of the transaction, Twin Brook Capital Partners provided \$32 million of debt financing in the form of a \$5 million revolving credit line, a \$17 million term loan, and a \$10 million delayed draw term loan to the company.
20-Sep-2022	Resposify	CrowdStrike Holdings	The company reached a definitive agreement to be acquired by CrowdStrike Holdings for an undisclosed amount on September 20, 2022.
01-Sep-2022	Drawbridge Partners	Francisco Partners	The company was acquired by Francisco Partners through an LBO on September 1, 2022, for an undisclosed amount. The new investment will help drive the company's continued expansion and product development to serve customers across private equity, hedge fund, venture capital and other industries.
25-Aug-2022	Tufin	Turn/River Capital	The company was acquired by Turn/River Capital through a \$570 million public-to-private LBO on August 25, 2022. In support of the transaction, The Carlyle Group and Owl Rock Capital Corporation BDC provided an undisclosed amount of debt financing in the form of a senior secured term loan and a first-lien loan to the company.

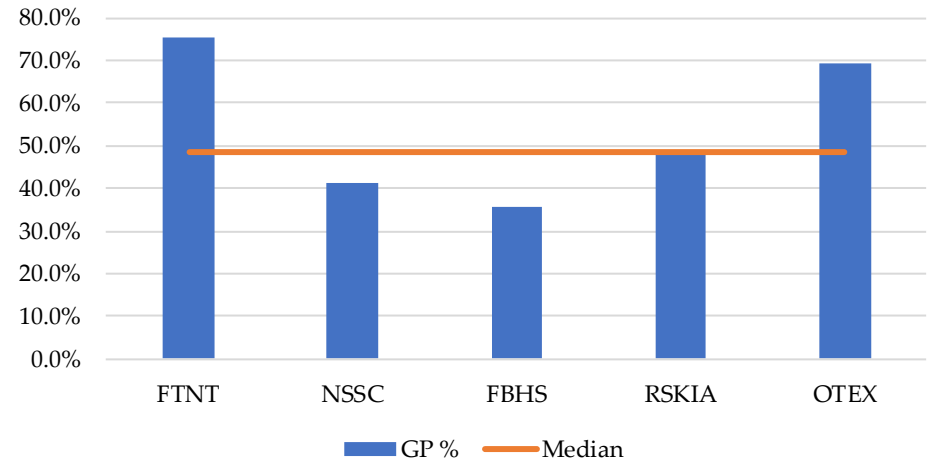


# OPERATING METRICS

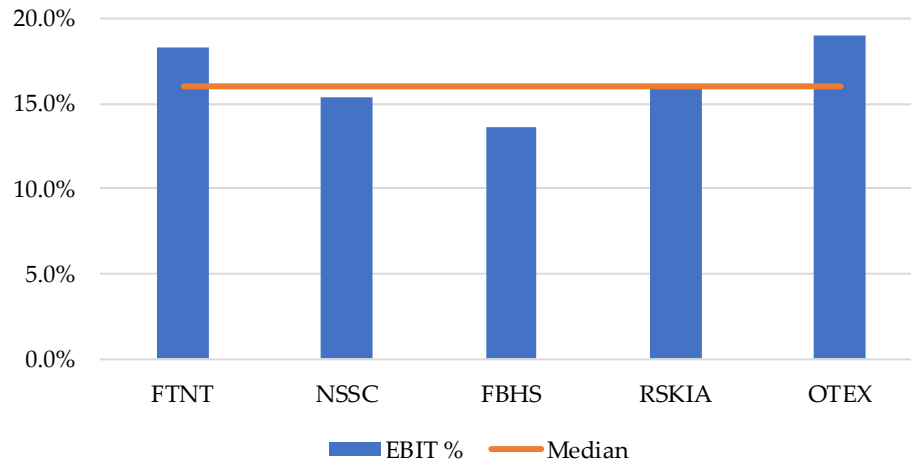
## Revenue Growth



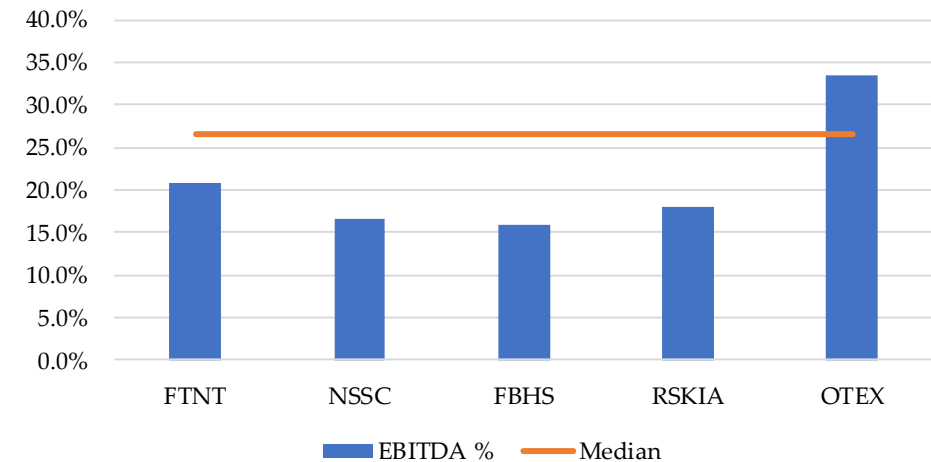
## Gross Profit Margin



## EBIT Margin

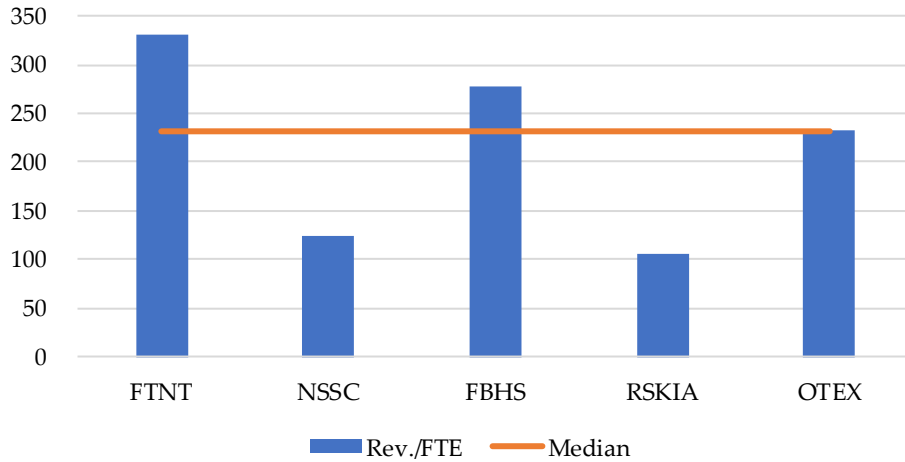


## EBITDA Margin

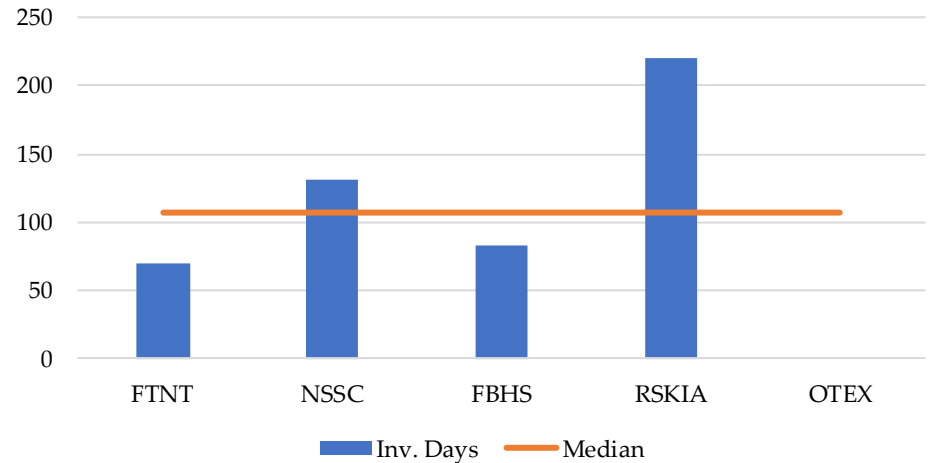


# RATIO ANALYSIS

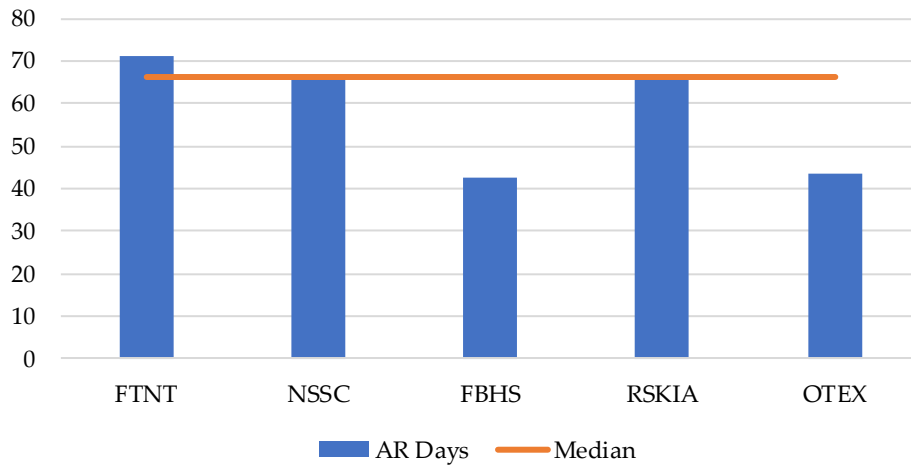
## Revenue per Employee



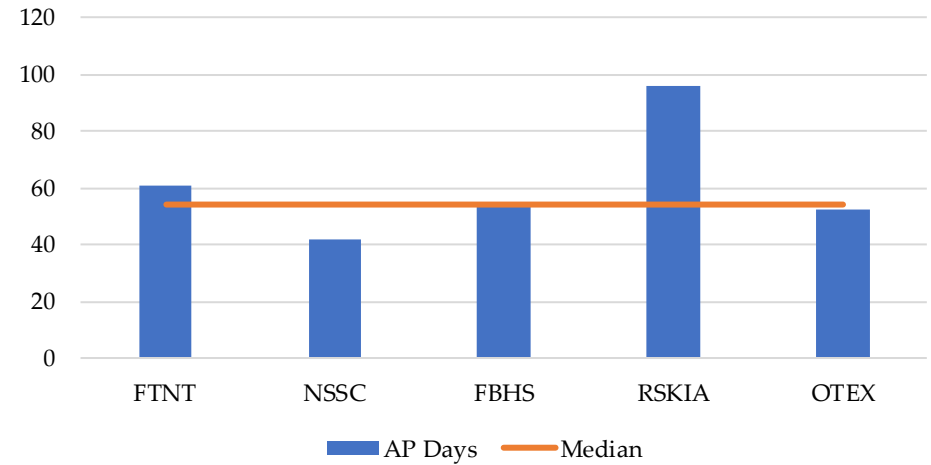
## Inventory Days



## AR Days



## AP Days



# VALUATION TRENDS

		Fundamentals								
		TIM						NTM Estimates		
Ticker	Company	Close Price	Market Cap	Enterprise Value	Total Revenue	EBITDA	Basic EPS	Total Revenue	EBITDA	Normalized EPS
FTNT	Fortinet	50.60	39,530.54	38,801.94	4,098.00	905.60	0.92	5,128.89	1,511.15	1.34
NMS	Nuveen Minnesota Quality	11.00	63.64	114.51	(6.18)		(1.34)			
FBHS	Fortune Brands Home & Security	58.25	7,470.13	10,654.43	8,044.70	1,272.70	5.70	7,709.64	1,300.10	5.73
RSKIA	Risk George Industries	10.90	53.75	15.37	20.99	2.76	0.57			
OTEX	OpenText	27.17	7,341.27	10,112.92	3,513.57	905.04	0.55	3,437.05	1,259.40	3.15

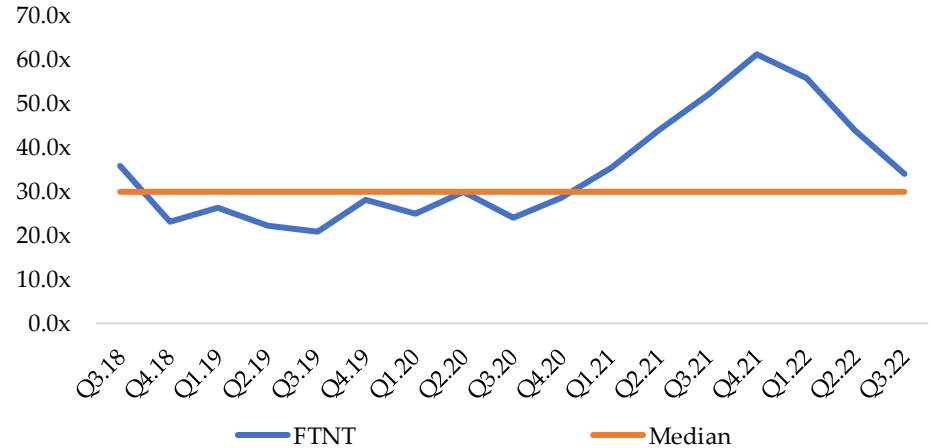
		Multiples					
		TIM			NTM Forward Multiples		
Ticker	Company	EV / Revenue	EV / EBITDA	PE Ratio	EV / Revenue	EV / EBITDA	PE Ratio
FTNT	Fortinet	9.47x	42.85x	55.7	7.57x	25.68x	37.8
NMS	Nuveen Minnesota Quality						
FBHS	Fortune Brands Home & Security	1.32x	8.37x	10.3	1.38x	8.20x	10.2
RSKIA	Risk George Industries	0.73x	5.57x	19.1			
OTEX	OpenText	2.88x	11.17x	50.3	2.94x	8.03x	8.6

# PUBLIC COMP

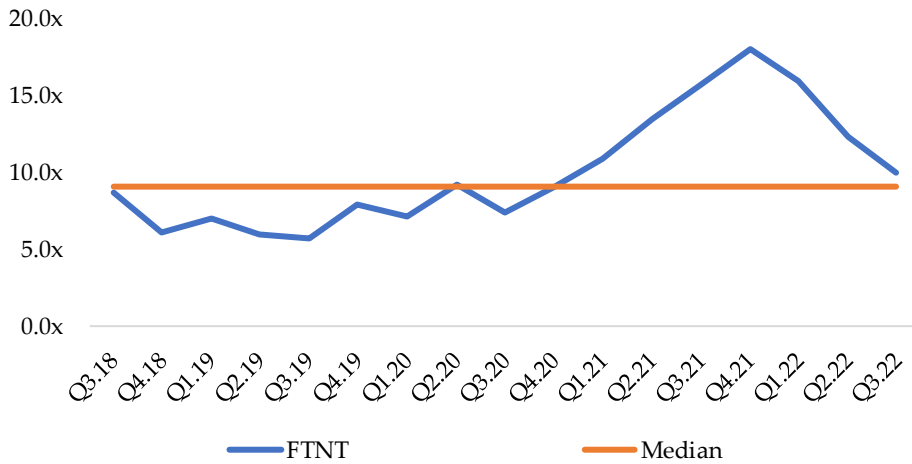
## Fortinet, Inc. (NAS: FTNT)

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/EBITDA Fortinet



### EV/Revenue Fortinet

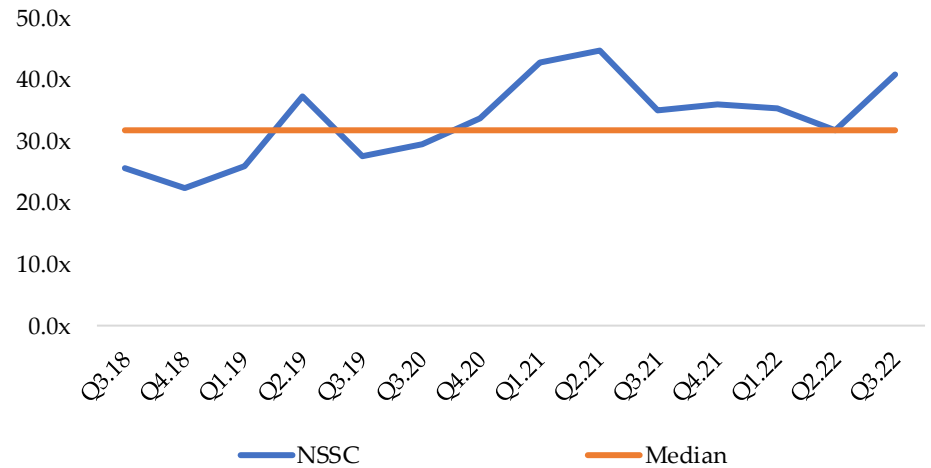


# PUBLIC COMP

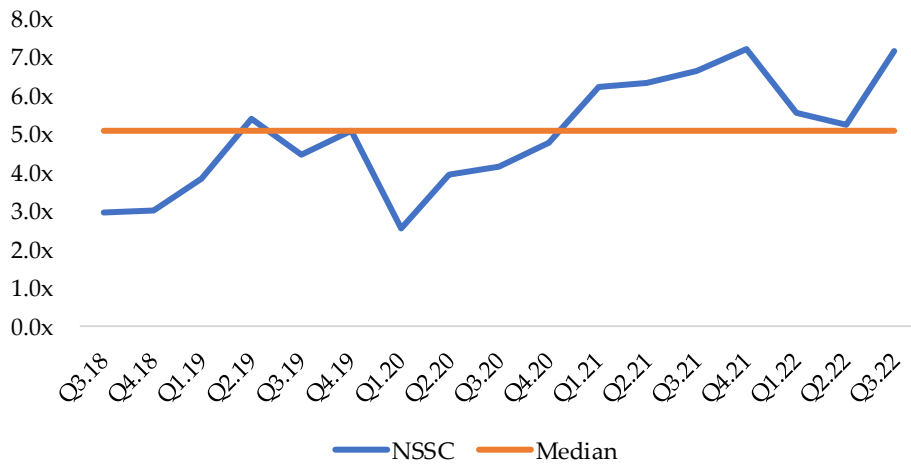
## Napco Security Technologies, Inc. (NAS: NSSC)

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.

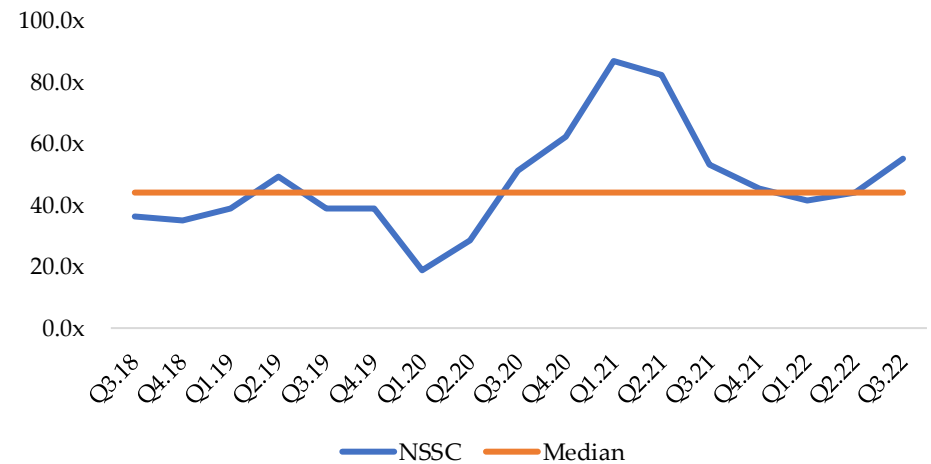
### EV/EBITDA Napco Security Technologies



### EV/Revenue Napco Security Technologies



### P/E Napco Security Technologies

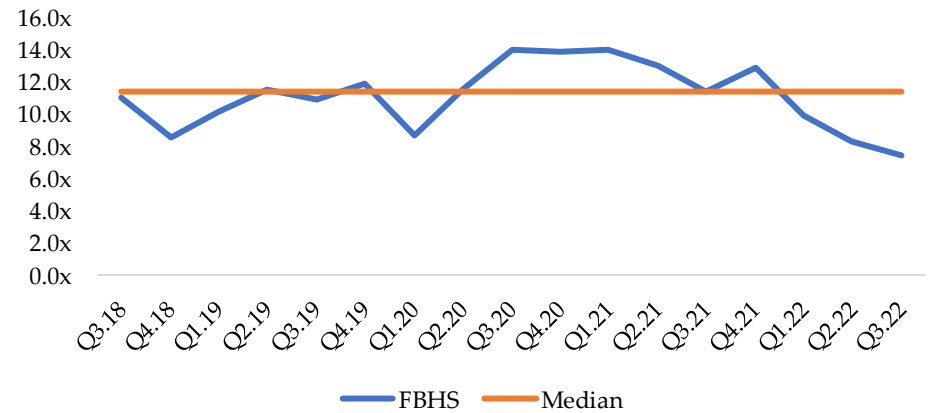


# PUBLIC COMP

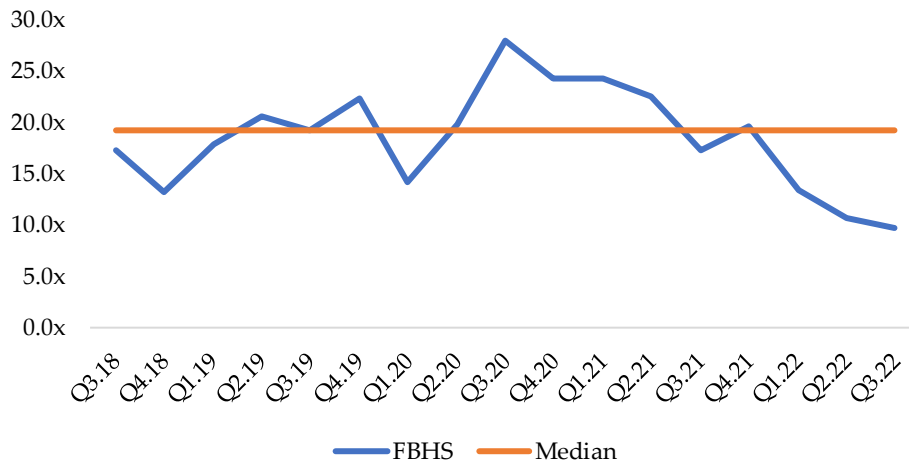
## Fortune Brands Home & Security, Inc. (NYSE: FBHS)

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.

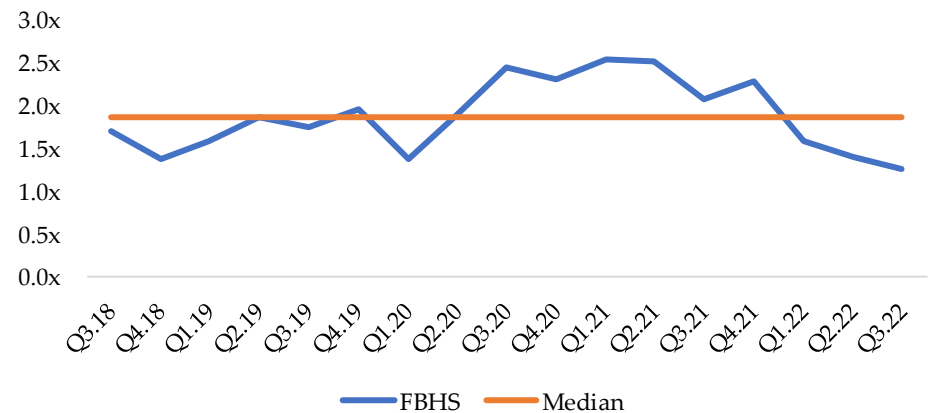
### EV/EBITDA Fortune Brands Home & Security



### P/E Fortune Brands Home & Security



### EV/Revenue Fortune Brands Home & Security

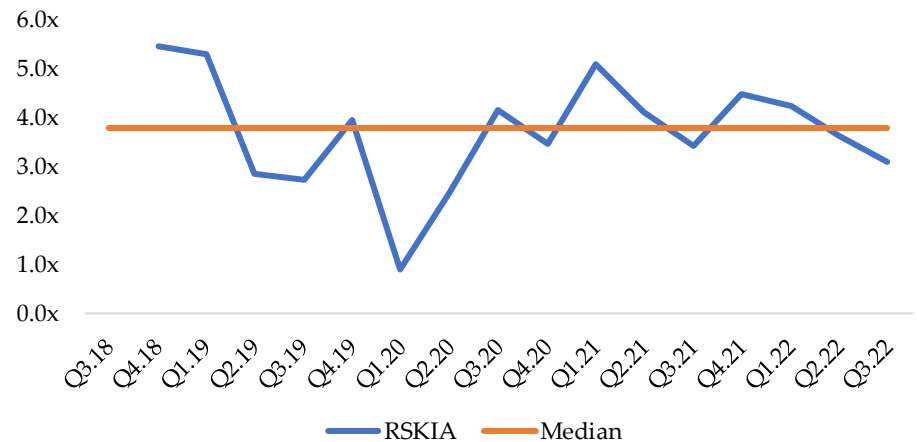


# PUBLIC COMP

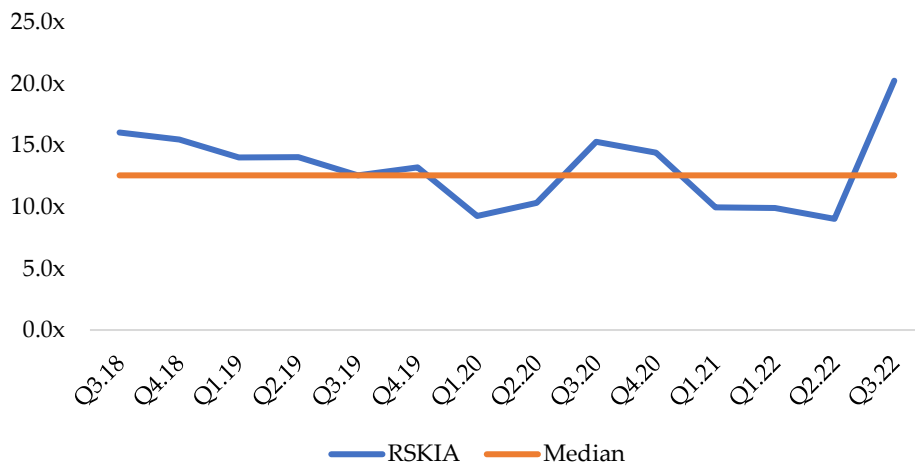
## George Risk Industries, Inc. (OTC: RSKIA)

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.

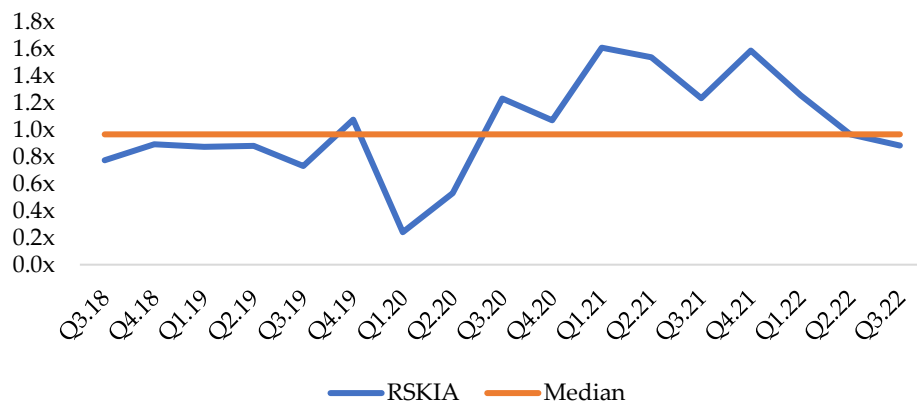
### EV/EBITDA George Risk Industries



### P/E George Risk Industries



### EV/Revenue George Risk Industries

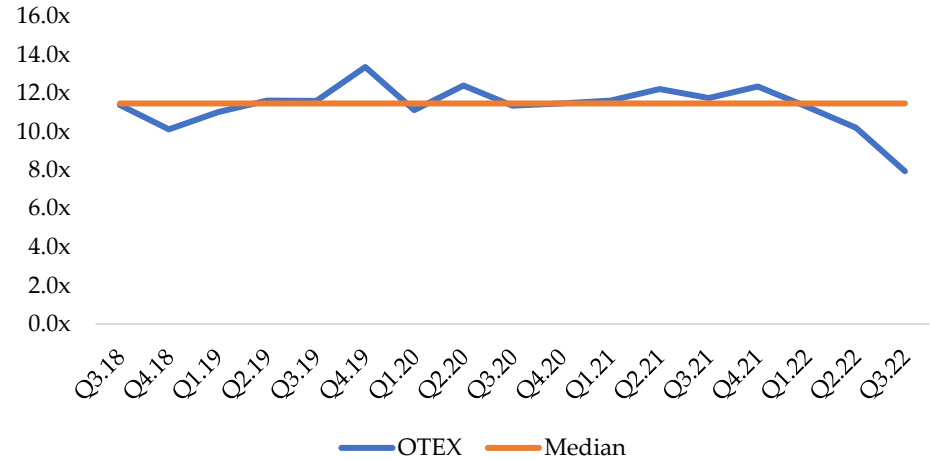


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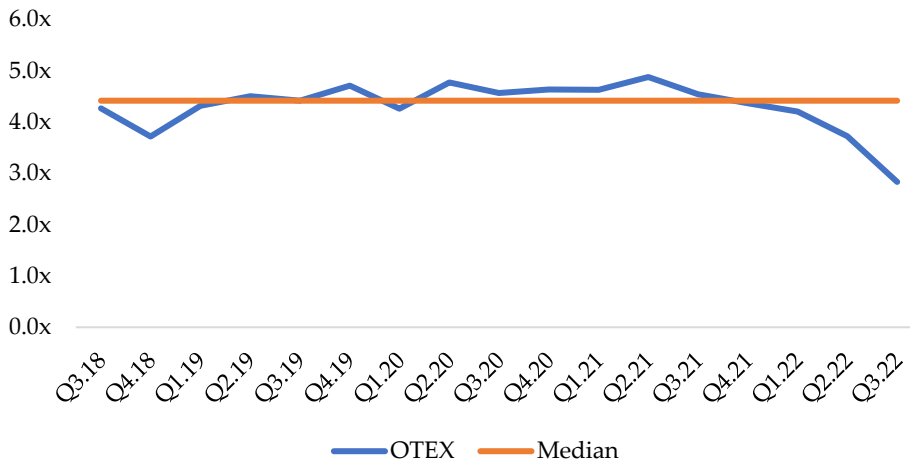
## OpenText Corporation (TSE: OTEX)

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/EBITDA OpenText



### EV/Revenue 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

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## **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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# DAVIDSON CAPITAL ADVISORS ANALYST TEAM

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## **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.