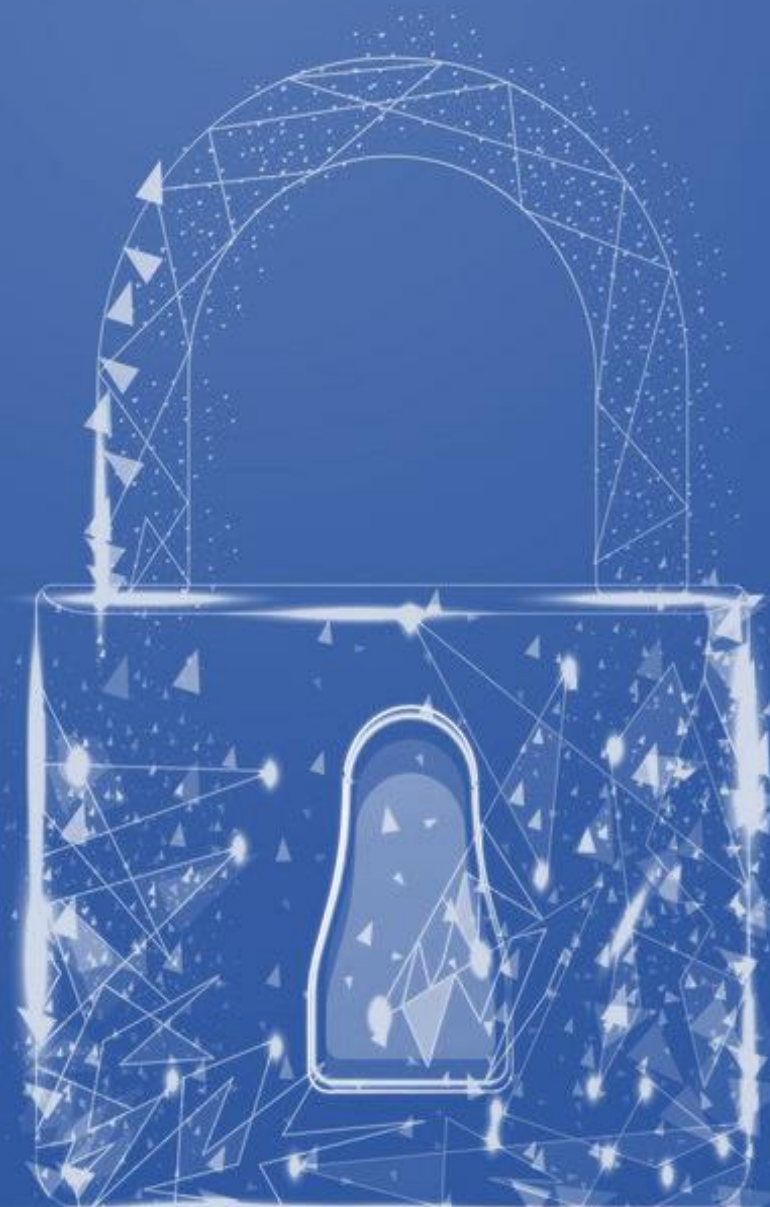


# Security Systems Services Industry Report Q4 2022



# 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

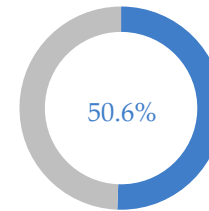
- Annual Growth 2017 – 2022 4.1%
- Annual Growth 2022 – 2027 2.9%



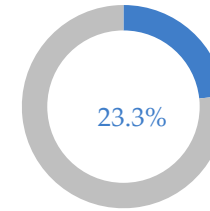
### \$30.0bn Wages

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

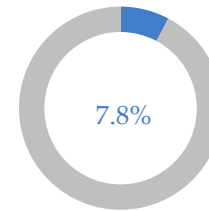
## Industry Segments



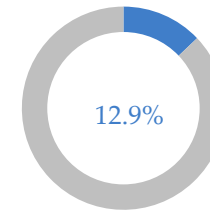
Residential security with monitoring



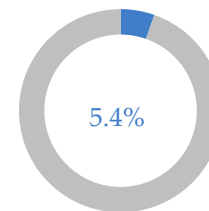
Nonresidential security with monitoring



Residential security without monitoring



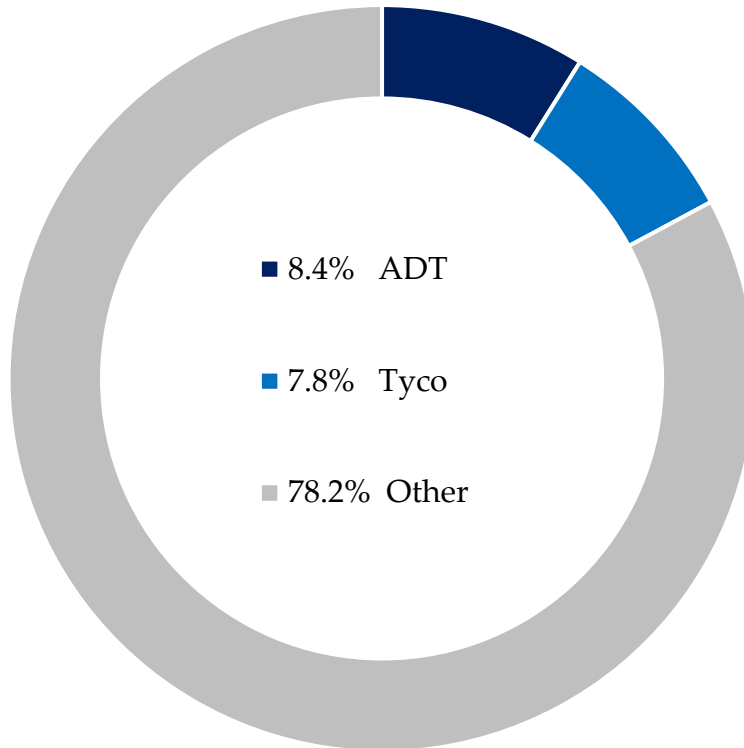
Nonresidential security without monitoring



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

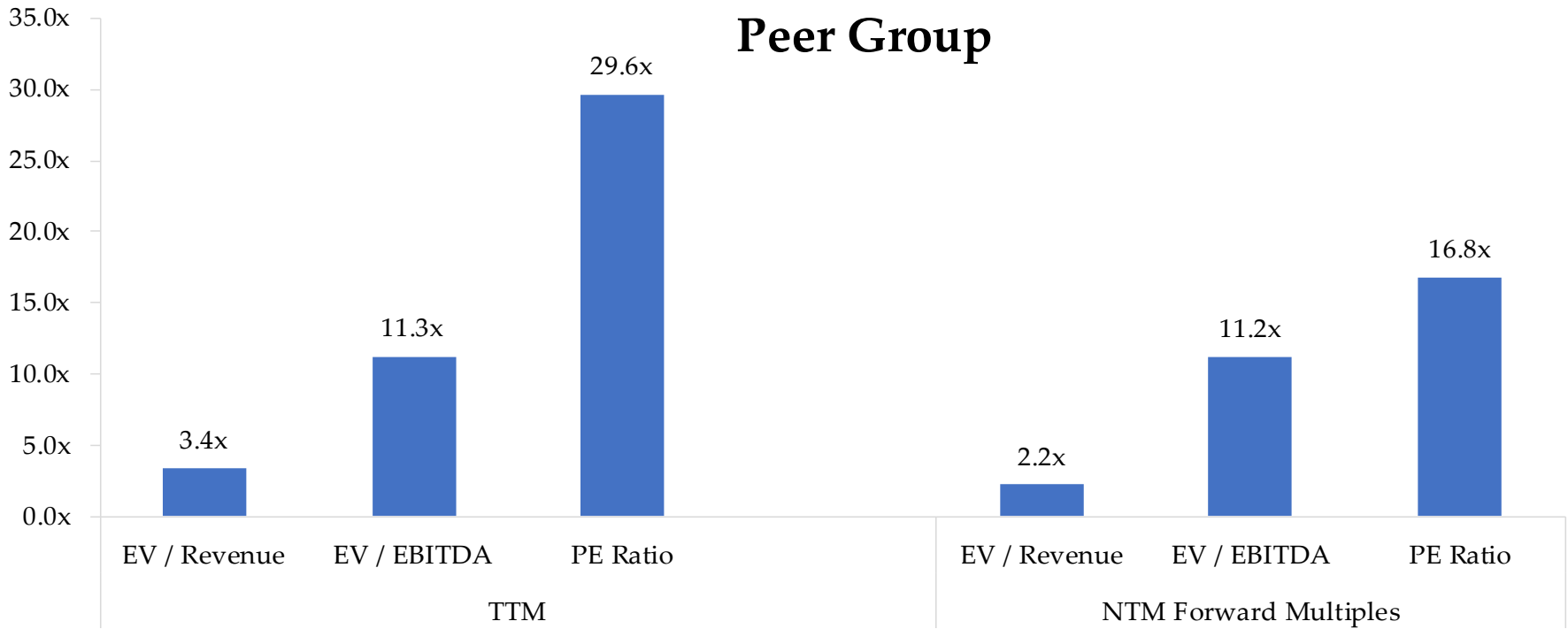
- High Revenue Growth
- High Revenue Growth
- Private investment in computers and software

T

### THREATS

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

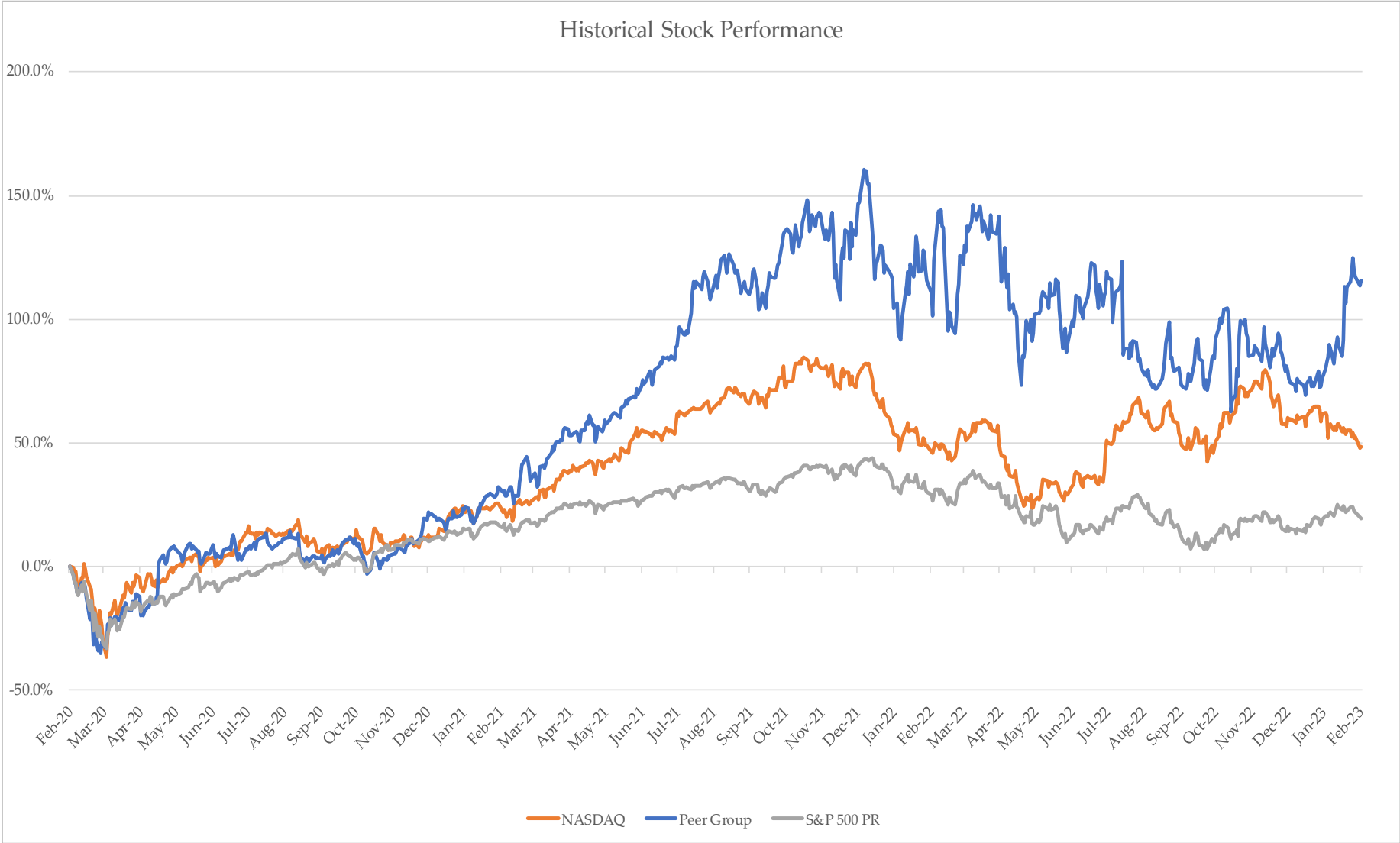
# PUBLIC COMPS



# PUBLIC COMPS

\$ in Millions	Fortinet	OpenText	Fortune Brands Home & Security	
Ticker	FTNT	OTEX	FBIN	
Total Revenue	4,098	3,534	8,045	
Gross Profit	3,082	2,471	2,877	
EBIT	803	588	1,083	
Net Income	743	318	752	
EBITDA (Normalized)	1,121	1,243	1,283	
Total Debt	990	5,450	3,530	
EV	45,427	12,113	9,829	
Employees	12,091	14,500	28,056	
Ratio Analysis				Median
Revenue/Employee	\$338,930	\$245,431	\$286,737	\$286,737
EV/Revenue	10.28x	3.43x	2.08x	3.43x
Debt/EBITDA	1.10x	4.35x	2.55x	2.55x
EV/EBITDA (Normalized)	35.55x	9.74x	10.33x	10.33x
Market Cap/EBITDA	43.99x	8.82x	7.97x	8.82x
Market Cap (mm)	46,648	9,482	7,798	
Close Price	59.71	35.06	60.91	
52 Week Low	42.61	25.13	45.25	
52 Week High	71.52	44.08	76.15	
Gross Margin	75.2%	69.9%	35.8%	69.9%
EBIT	19.6%	16.6%	13.5%	16.6%
EBITDA	22.1%	30.4%	15.8%	22.1%
Acct. Receivable Days	73	44	43	44
Inventory Days	68	NM	93	81
Acct. Payable Days	63	66	53	63
Revenue Growth	31.1%	2.9%	9.4%	9.4%

# SECURITY SYSTEMS INDEX Vs. S&P 500



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

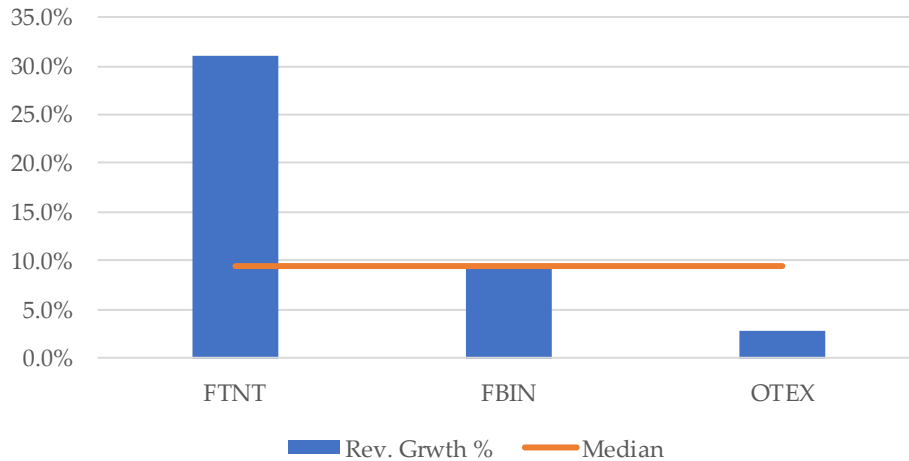
# RECENT TRANSACTIONS

Deal Date	Companies	Investors	Deal Size (\$MM)	HQ Location
20-Dec-2022	Microsys	Bravo Invest	NM	Milan, Italy
15-Dec-2022	Fortified Health Security	Health Velocity Capital, Silversmith Capital Partners	NM	Franklin, TN
06-Dec-2022	Boston Government Services	Bernhard Capital Partners	NM	Oak Ridge, TN
15-Nov-2022	Amplix	Gemspring Capital	NM	Norwood, MA
14-Nov-2022	Decision Focus	VIA equity	NM	London, United Kingdom
04-Nov-2022	Optic Security Group	Arena Investors	NM	Auckland, New Zealand
19-Oct-2022	Van Roey ICT Group	Fortino Capital Partners	NM	Turnhout, Belgium
14-Oct-2022	Hex-Rays	SmartFin	NM	Liege, Belgium
11-Oct-2022	Xalient Holdings	Volpi Capital	NM	Leeds, United Kingdom
09-Oct-2022	Ekco	Corten Capital	NM	Dublin, Ireland
03-Oct-2022	NourNet	Investcorp	NM	Riyadh, Saudi Arabia

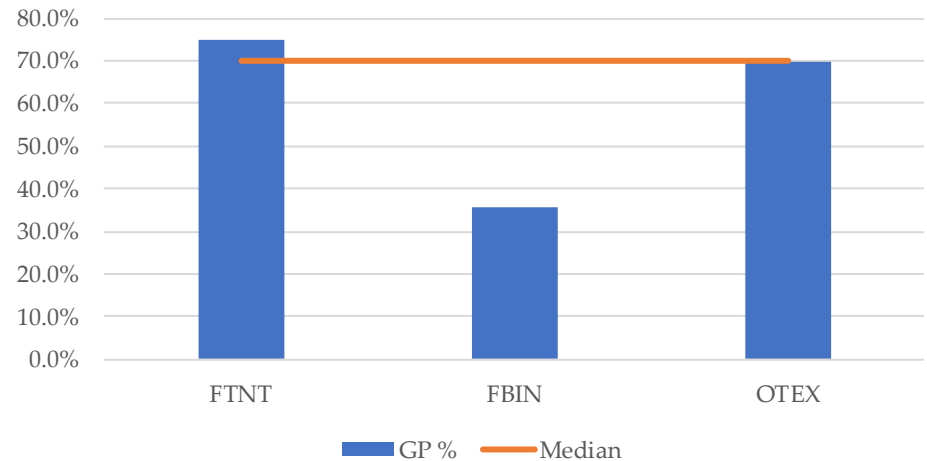


# OPERATING METRICS

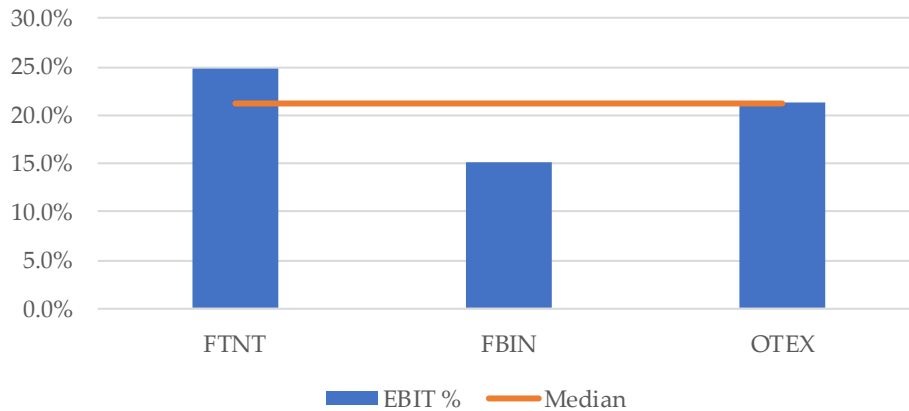
## Revenue Growth



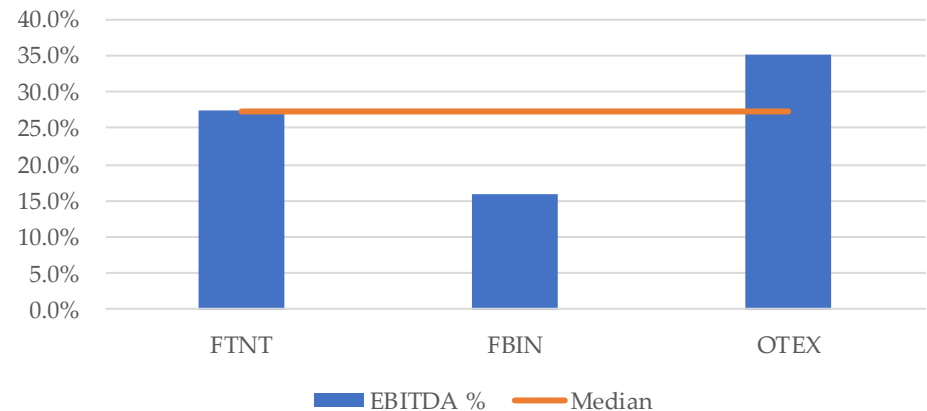
## Gross Profit Margin



## EBIT Margin Normalized

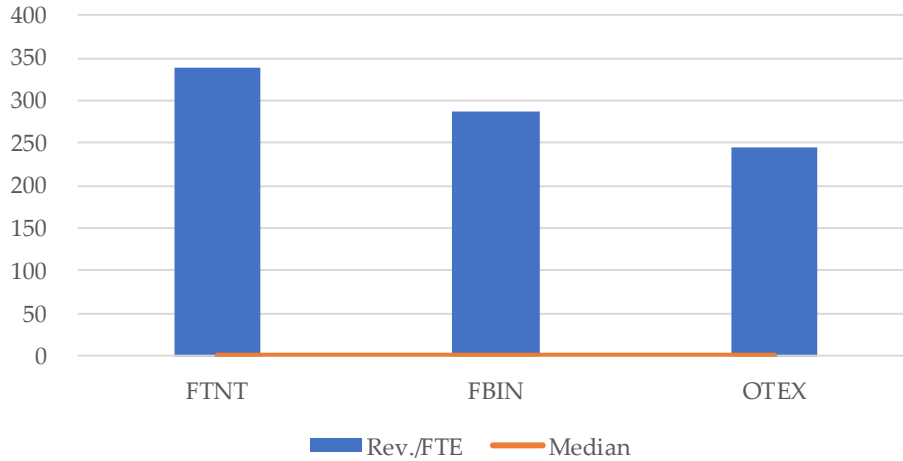


## EBITDA Margin Normalized

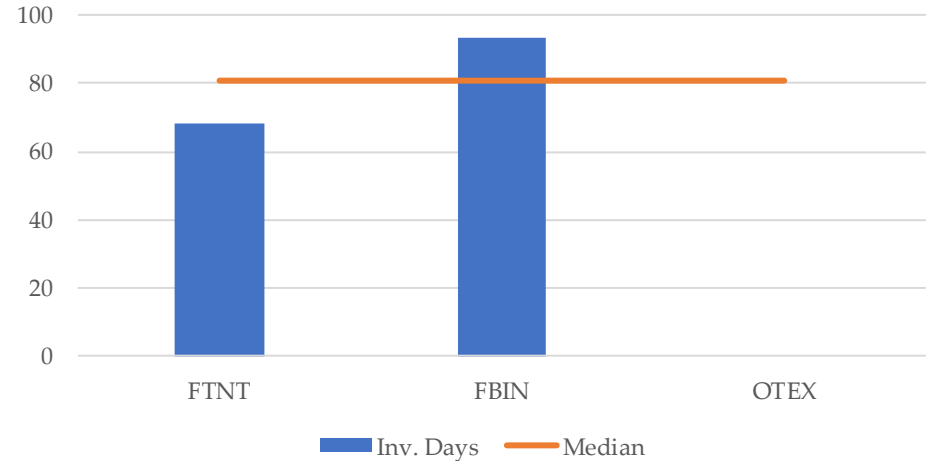


# RATIO ANALYSIS

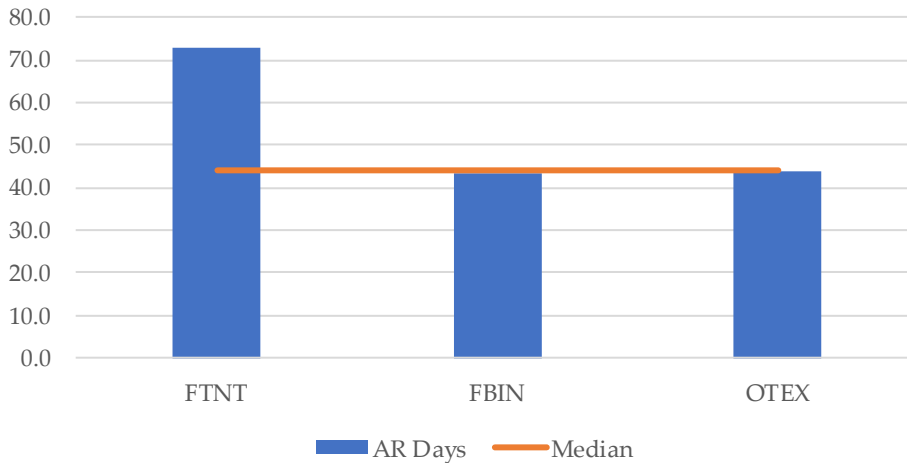
## Revenue per Employee



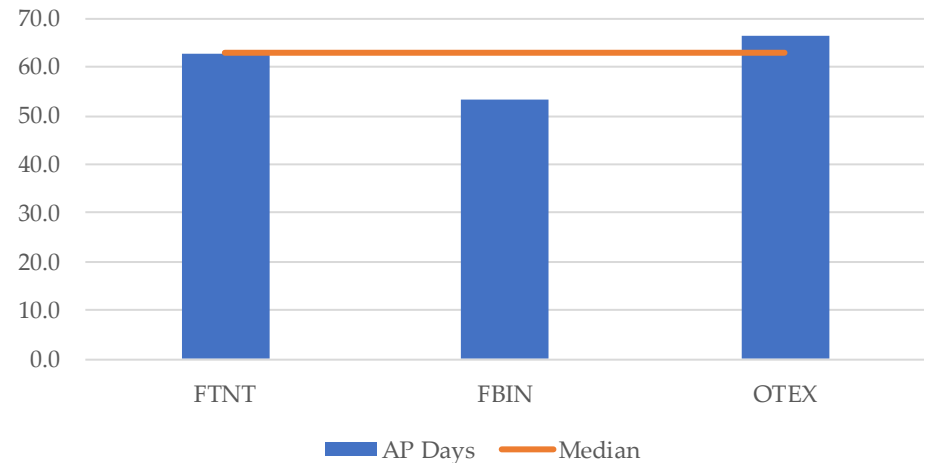
## Inventory Days



## AR Days



## AP Days



# VALUATION TRENDS

(\$MM)		Fundamentals								
Ticker	Company	TIM						NTM Estimates		
		Close Price	Market Cap	Enterprise Value	Total Revenue	EBITDA	Basic EPS	Total Revenue	EBITDA	Normalized EPS
FTNT	Fortinet	60.21	46,648	45,427	4,098	906	0.92	5,402	1,530	1.40
FBIN	Fortune Brands Home & Security	62.08	7,798	9,829	8,045	1,273	5.70	4,428	875	3.69
OTEX	OpenText	34.65	9,482	12,113	3,534	1,075	1.18	5,543	1,834	3.56

		Multiples					
Ticker	Company	TIM			NTM Forward Multiples		
		EV / Revenue	EV / EBITDA	PE Ratio	EV / Revenue	EV / EBITDA	PE Ratio
FTNT	Fortinet	10.28x	42.84x	56.8	8.41x	29.70x	43.0
FBIN	Fortune Brands Home & Security	2.08x	10.05x	15.1	2.22x	11.23x	16.8
OTEX	OpenText	3.43x	11.26x	29.6	2.19x	6.61x	9.7

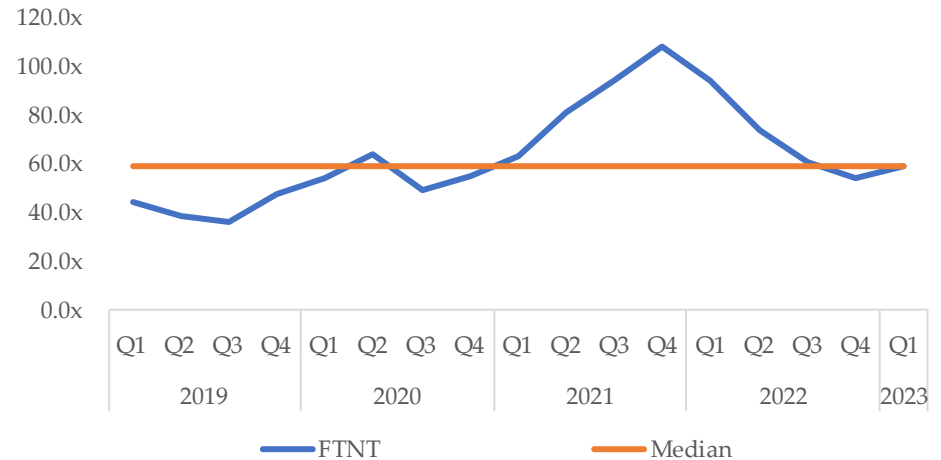
# PUBLIC COMP

## Fortinet, Inc. (NAS: FTNT)

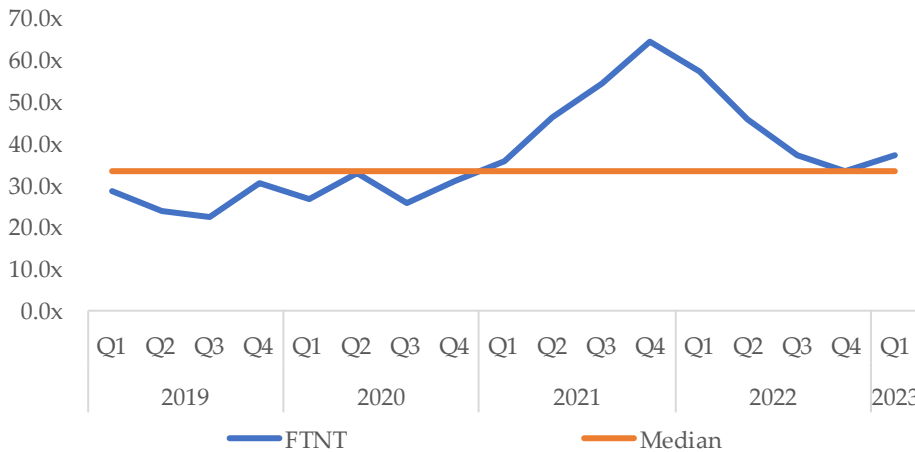
Fortinet, Inc. provides broad, integrated, and automated cybersecurity solutions worldwide. It offers FortiGate hardware and software licenses that provide various security and networking functions, including firewall, intrusion prevention, anti-malware, virtual private network, application control, 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.



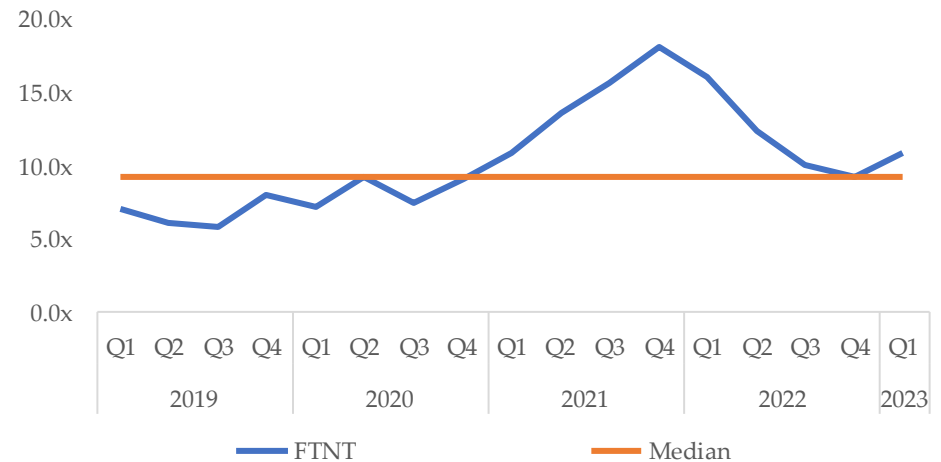
### P/E Fortinet



### EV/EBITDA Fortinet



### EV/Revenue Fortinet



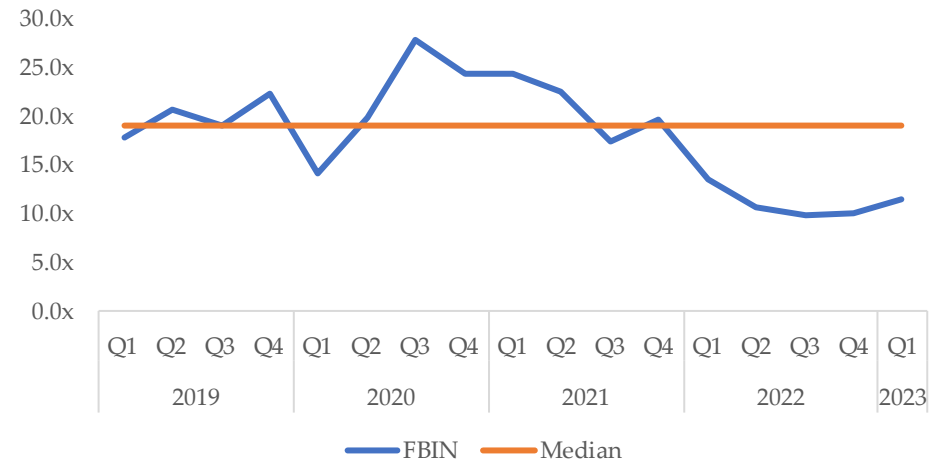
# PUBLIC COMP

## Fortune Brands Home & Security, Inc. (NYS: FBIN)

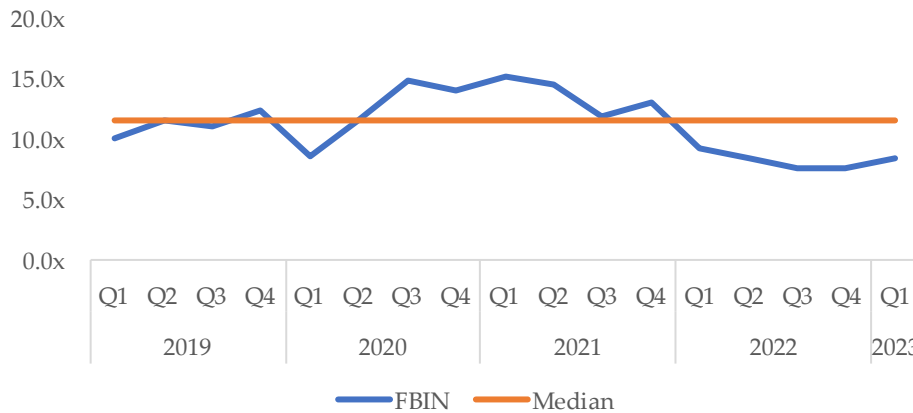
Fortune Brands Innovations is a leading home and security products company that operates two segments. The company's \$2.6 billion plumbing segment, led by the Moen brand, sells faucets, showers, and other plumbing fixtures, and the \$2.1 billion outdoors and security segment sells entry doors under the Therma-Tru brand name, Fiberon-branded patio decking, and locks and other security devices under the Master Lock and SentrySafe brand names.



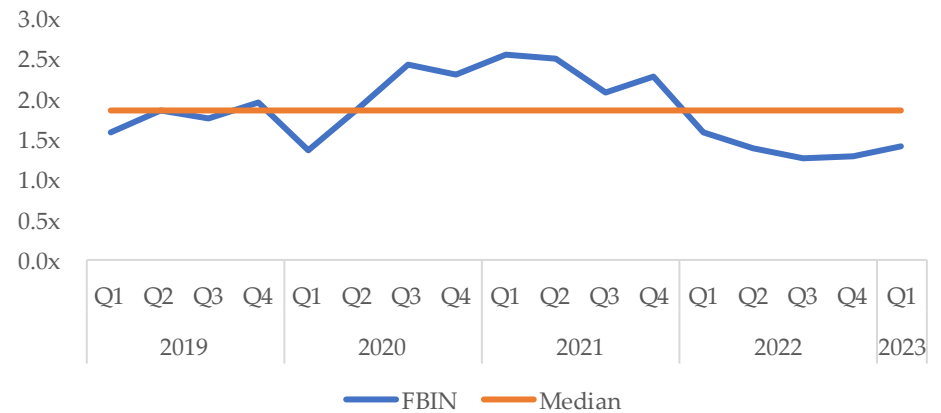
## P/E Fortune Brands Home & Security



## EV/EBITDA Fortune Brands Home & Security



## EV/Revenue Fortune Brands Home & Security



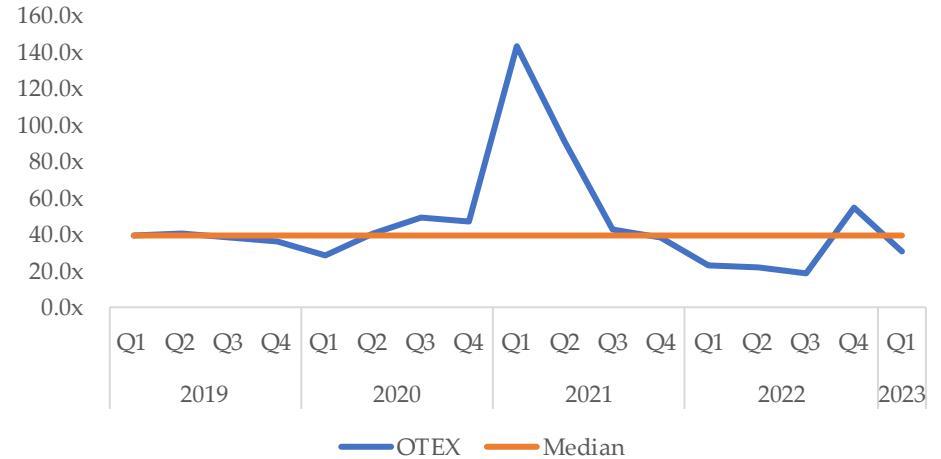
# PUBLIC COMP

## OpenText Corporation (TSE: OTEX)

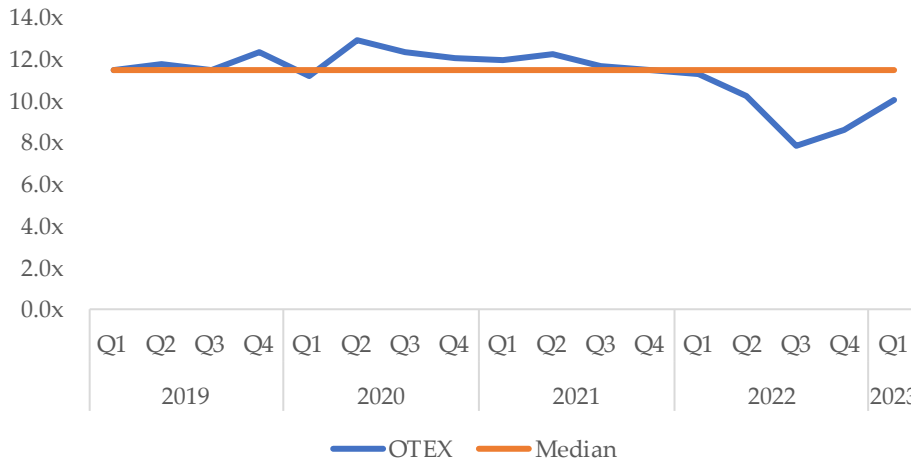
Open Text Corp grew out of a technology project involving the Oxford English Dictionary at Canada's University of Waterloo in the mid-1980s. Its software allows clients to archive, aggregate, retrieve, and search unstructured information (such as documents, e-mail, presentations). The company is based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



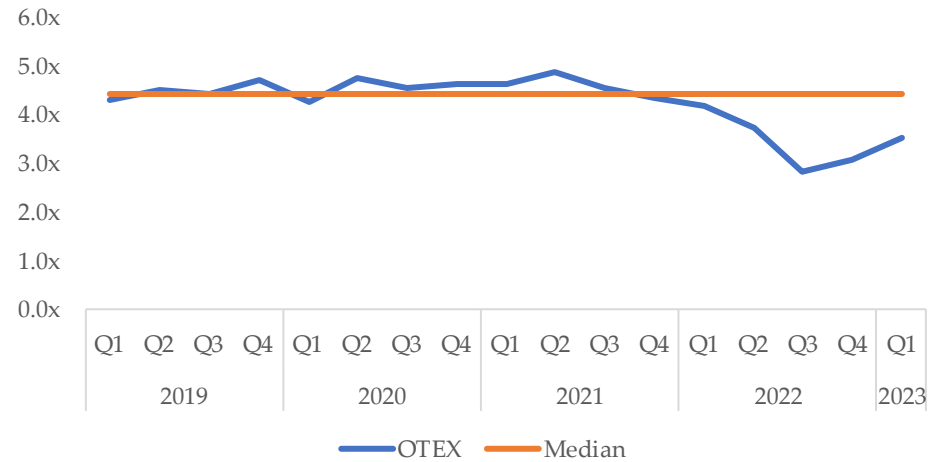
### P/E OpenText



### EV/EBITDA OpenText



### EV/Revenue OpenText



# DAVIDSON CAPITAL ADVISORS PROFESSIONALS

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## **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.