

Q4 & Full Year 2021 Physical Security Industry Update

Strong finish to the year despite all the headwinds



Supply chain problems, product shortages, inflation, pending interest rate increases, COVID variants and potential war with Russia are the headlines - however our industry just keeps driving forward.

Manufacturers are sorting through supply chain issues and rising input costs, passing the costs on to their channel partners and on down the food chain. Some doing better than others...Q4 was again a tail of two different performances. ASSA ABLOY posted 10% growth and 17% organic growth in the Americas while Allegion's sales declined 2.5% overall and declined 4.3% organically in the Americas.

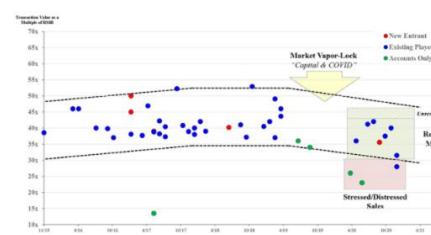
Door & hardware system providers and security integrators for the most part are as busy as ever, many starting 2022 with record backlogs. And volume of M&A deals is almost impossible to track.

Against all these headwinds, as of writing this piece, 73% of public companies reported beating their Q4 forecasts. This just shows the strength of the overall economy.

There were two major take aways from this February's Barns Buchanan Security conference.

1. There is an incredible amount of money looking to be deployed into our industry. Current consolidators have lots of money to spend and new players are trying to get into the market
2. Valuations on residential security businesses have cooled off. Investment priority has swung to the commercial side of the security industry

The following chart from Barnes Associates illustrates the upward trend in security company sales that culminated in what insiders call the "frothy" period between 2017 and 2019 when, some say, residential alarm companies were overvalued. The chart also shows the aftermath, where valuations have dropped.



Outlook for 2022...my thoughts anyway

There is much more good news than bad news. COVID cases or more likely our reactions to COVID variants will moderate, supply chain constraints will lessen, inflation will slow down and anything short of World War three with Russia will have short term impact.

Interest rate increases will be taken in stride. The higher rates will pressure M&A transactions / valuations but will not make a significant impact on deal flow.

Overall, I think 2022 will be another strong year of business demand and financial performance with many more upside drivers than downside headwinds.

Q4 2021 Highlights from the Manufacturers

Allegion: Another tough quarter on top and bottom lines

- Q4 total revenue was \$709 million, down 2.5%, -1.4% organically. Adjusted EPS declined 25.5%. Adjusted Operating Margin also declined 6% dropping from 22.5% to 16.4%, some serious de-leveraging. Price realization +3.1%, volume down 4.5%.
- Total Allegion full year 2021; Revenue \$2.867 billion +5.4% vs PY, 4.5% organic. Op margin dropped 2.2% to 18.8%. EPS was up 1.6% primarily due to share count reductions.
- Americas' Q4 sales were \$499 million, down 4.3% organically. Residential product sales were down mid-teens, commercial sales up low single digits, and electronics were down low 20's.
- Americas Q4 Operating Margin was down 7.4% dropping from 28.5% to 21.1%. Adjusted ebitda dropped from 30.2% to 22.9%. Ouch
- Americas full year 2021 revenues were up 2.8%, 2.4% organically.
- Allegion International – Q4 Sales were \$209 million, up 1.7% vs PY, +5.8% organically, citing growth in portable security. Adjusted ebitda dropped from 21% to 19%. Full year revenues were up 13%, 10.4% organic.
- No acquisitions were reported.
- 2022 Guidance: Americas +8.5% to +10% organic growth, International +3% to +5%.

ASSA ABLOY: Another strong quarter & impressive full year results

- Q4 total sales were 25.6 MSEK (\$2.7 billion) up 10% vs PY. +5% price, +5% volume. Strong bottom line leverage, EBIT & EPS increased 15% and 18% respectively.
- Total ASSA full year revenues increased from 87.7 MSEK to 95.0 MSEK (\$10.1 billion). An 8% increase; 11% organic, +2% acquisitive, -5% Fx.
- Americas Q4 Revenues were 5.5 MSEK (\$586 million) up 21%. +17% organic, +3% fx, +1% acquisitive. "Very strong sales in Arch Hardware, Electromechanical, Security Doors, US Resi & Smart Home products". Operating margin was flat at 20.6%. Aggressive pricing & positive mix offset increased material costs.
- Americas full year sales were 20.5 MSEK (\$2.2 billion), + 7.8% vs PY.
- EMEA increased 6% organically. Operating margin increased from 12.8% to 15.5%. Strong sales in Finland, France, Africa & Middle East.
- Asia performance is struggling, sales were flat. Operating margin dropped from 8.2% to 3.6%.
- Global Technology (HID & Ving) group was up 7%, operating margin was 15.7% vs 16.4% PY.
- Entrance Systems was up 14%. OM increased from 15.8% to 16.5%. "Very strong sales in residential & perimeter security."
- Completed four acquisitions in the quarter, 13 in the full year. Q4 included B&B Roadway & Security Solutions in the US adding traffic control and additional products to the perimeter security portfolio.

Dormakaba – No financial reporting this quarter

Alarm.com Q4 Earnings release Feb 24th. I am not waiting on their release this Qtr.

M&A Highlights – Too Many Deals to Detail!

M&A activity was so hot in the 4th quarter that I can't cover it all here, so I want to concentrate on the larger deals and the activities of the larger consolidators in the market who are reshaping the landscape.

CTSI (WindPoint Partners) acquired Exton, PA based **Protection Bureau** and Orlando based **Star Asset Security**, a full featured integrator with 8 offices in the southcentral region. These deals were CTSI's 5th and 6th acquisition since June 2020.

Cook & Boardman (Littlejohn) acquired four companies in December. Memphis based **Universal Manufacturing, Bass Security** a hybrid locksmith security integration business based in Cleveland, CA based systems integrator **Blue Vilot**, and Texas based security integrator **3Sixty Integrated**. C&B has made 14 acquisitions with Littlejohn since 2018. C&B's security integrator acquisitions have vaulted them into the top 10 commercial integrators in N America. 14 deals since 2018 with 4 in December must be like herding cats.

Sciens Building Solutions PE backer Huron Capital sold the portfolio to Carlyle Group giving the group deeper pockets to continue on their stated quest to be the "largest independent FLS (Fire, Life Safety) integrator in N America" Under Terry Heath's leadership, Sciens has acquired 13 companies and increased the groups EBITDA 35 fold.

Pye – Barker a leading provider of Life Protection systems with 110 locations and 3,000 employees acquired Utah based **Mountain Alarm Fire & Security** and Lancaster PA based **Yarnell**.

Convergint acquired **Simpson Security** one of Louisiana's largest security integrators and German **Keyotel** a provider of access control & video surveillance systems, doubling their footprint in Germany.

Stanley was finally able to unload their security business, selling the commercial & healthcare business units to **Securitas** for \$3.2 billion, a 16X multiple of ebitda. Securitas' stated goal "doubling their security business by 2023". Stanley held on to their sweet automatic door business.

ACRE acquired **Feenics**, a cloud based ACaaS business similar to Brivo and **Matrix** a 40-year-old provider of access control & security management technologies.

Brivo following in the path of Latch and Tishman has merged with **Crown Property Technologies**. Crown like Tishman is a major developer, owner & operator of commercial and residential facilities. So, another case where the end user owns the security products & software to support their facilities. **Brivo** will go public in a SPAC valued at \$808 million.

I was busy too, **3SE** represented **Morse Watchmans**, the global leader in key management systems, in their sale to **TouchPoint**. This was truly a win win transaction.

3SE also represented St Louis based **Comarco Door Systems** and **Cardinal Door** in their sale to Irving TX based **Performance Door & Hardware**.

A “**sellers’ market**” should continue for the foreseeable future, so if an ownership transition is in your 3 – 5-year plans, don’t hesitate to reach out to talk about your options.



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