

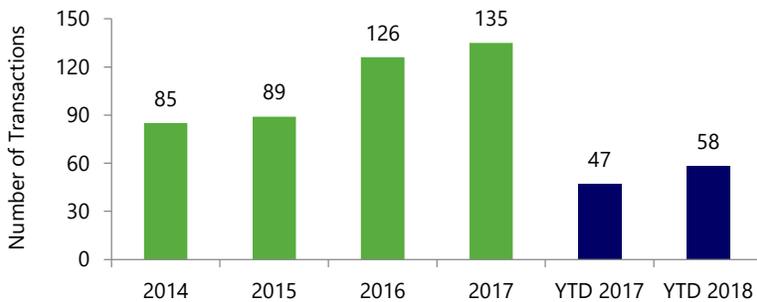


## KEY M&A TAKEAWAYS

- ▶ Favorable macroeconomic conditions continue to provide substantial tailwinds for the Security Solutions industry and have contributed to sustained growth for industry operators in recent years. The Security Alarm Services segment has grown 5.4% annually over the past five years to 2018, with revenue estimated to reach \$25.7 billion, according to *IBISWorld*.<sup>1</sup> Much of this growth has been driven by rising residential and commercial construction activity, which has bolstered demand for new security system installations. Operators have also benefited from record low unemployment and historic levels of per capita disposable income. Security products and services are more affordable than ever for households, and corporations are able to increase security budgets amid a period of rising profit margins.
- ▶ As concerns regarding public safety continue to mount during an uneasy period of geo-political tensions, security budgets will remain isolated from political risk and more stringent fire and security regulations will be implemented, both of which will positively impact industry demand. Industry operators, including ADT, Convergent, and Kratos have been acquisitive in an effort to strengthen their video surveillance offerings.

## TRANSACTION VOLUME

- ▶ With 58 transactions announced or closed year-to-date (YTD), merger and acquisition (M&A) activity is outpacing that of last year and is expected to approach the five-year high achieved in 2017.
- ▶ Throughout the past five years, many regional security and alarm services companies were acquired by major national industry operators to expand geographic footprints, a trend that has continued into 2018.



Sources: Capital IQ, Pitchbook, and Capstone Headwaters Research  
YTD ended April 17

## ACTIVE BUYER PROFILES

- ▶ **Convergent Technologies** – Convergent remains the most active operator in the Security Solutions industry M&A marketplace with 15 acquisitions since 2016. Most recently, Convergent announced the acquisition of Alphacorp, a full-service provider of security and fire life-safety systems on March 5. The acquisition expands Covergint’s geographic coverage and further strengthens their service-based culture. Additionally, in early February, Convergent was acquired by Ares Management in what has been deemed as a financial partnership by Convergent management. Ares’ investment will enable further growth initiatives and strategic acquisitions.
- ▶ **ADT, Inc.** – Beginning with its January IPO (\$1.4 billion raised), 2018 has been a particularly active year for ADT (NYSE:ADT) in terms of investment and M&A activity. Following the IPO, ADT acquired Arrow Electronics in February, and Arson Security Group and Acme Security Systems, both in March. The moves are indicative of ADT’s dedicated push to dominate the residential and commercial security markets. Moving forward, ADT is expected to grow its commercial and residential businesses through strategic acquisitions, placing an emphasis on adding both capabilities and talent to improve nationwide resources that provide a local, personalized experience.

## NOTABLE TRANSACTION

- ▶ **Netwatch Group formed through the merger of four leading monitoring companies (April)** – National Monitoring Center (US) (Capstone Headwaters served as sole advisor), Netwatch (Ireland), CalAtlantic (US), and Onwatch Multifire (UK) have combined to form Netwatch group, a world-class proactive video monitoring group. The merger of the four market-leading companies was done so with the backing of private equity firm The Riverside Co. The merger creates a group that will protect hundreds of thousands of sites globally within various government, transportation, infrastructure, manufacturing, and residential segments. David Walsh, CEO of Netwatch Group offered in the press release that the combination will “immediately deliver industry leading proprietary technologies in proactive visual monitoring to hundreds of thousands of clients who rely on us to protect lives, assets and business operations.”<sup>2</sup>

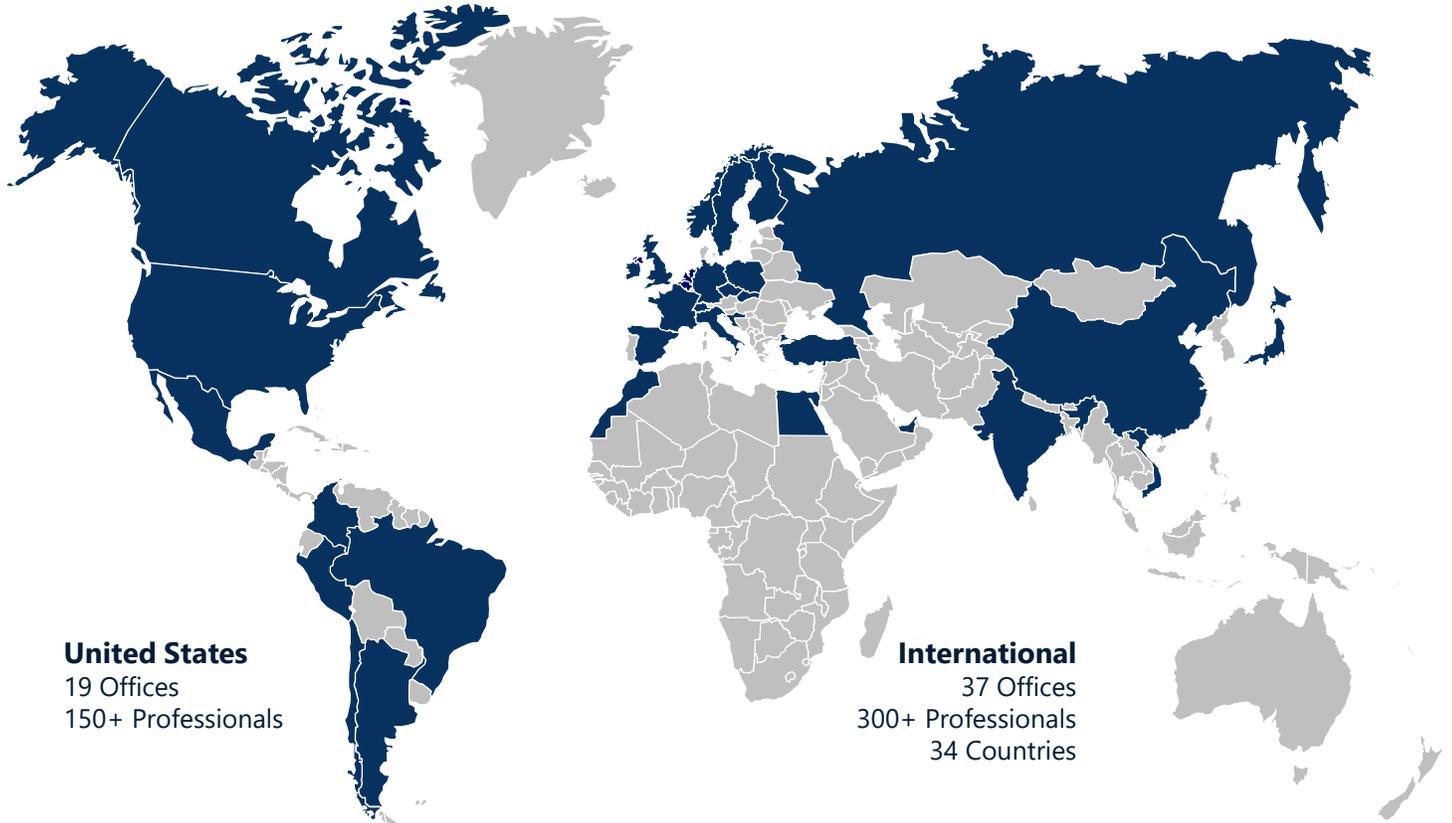
Riverside Ireland and UK Partner Martin Scott commented, “Netwatch Group is poised to become a global leader in the video surveillance industry.” He added, “We will initially work to expand in the core US and Western European markets, then use the group’s technology leadership in proactive remote video monitoring to grow into new geographies.”<sup>3</sup>

## SELECT SECURITY SOLUTIONS & PUBLIC SAFETY DEALS

<p><b>CLIENT (CONFIDENTIAL)</b></p> <p>is pursuing a corporate sale</p> <p><b>SECURITY PRODUCTS MANUFACTURER</b></p>	<p><b>CLIENT (CONFIDENTIAL)</b></p> <p>is pursuing a corporate sale</p> <p><b>SECURITY SERVICES PROVIDER</b></p>	<p><b>CLIENT (CONFIDENTIAL)</b></p> <p>is pursuing a corporate sale</p> <p><b>SECURITY SERVICES PROVIDER</b></p>
<p><b>CLIENT (CONFIDENTIAL)</b></p> <p>is pursuing a corporate sale</p> <p><b>REALITY-BASED TRAINING PRODUCTS</b></p>	<p><b>NMC</b> NATIONAL MONITORING CENTER</p> <p>has merged to <b>netwatch</b> GROUP a portfolio company of <b>Riverside</b></p>	<p><b>SURV</b></p> <p>has been acquired by <b>securadyne systems</b> a portfolio company of <b>PAMLICO CAPITAL</b></p>



## BUILT FOR THE MIDDLE MARKET



**United States**  
19 Offices  
150+ Professionals

**International**  
37 Offices  
300+ Professionals  
34 Countries

### CITATIONS

1. Anna Amir, *IBISWorld*, "Security Alarm Services in the US," <https://www.ibisworld.com/industry-trends/market-research-reports/administration-business-support-waste-management-services/administrative/security-alarm-services.html>, accessed April 26, 2018.
2. Netwatch Group, "Netwatch Group is formed," <http://netwatchgroup.com/netwatch-group-is-formed/>, accessed April 26, 2018.
3. The Riverside Company, "Riverside Locks Down First Irish Platform," <https://www.riversidecompany.com/en/News%20and%20Media/Press%20Releases/Netwatch%20News%20Release>, accessed April 26, 2018.

**Disclosure:** This report is a periodic compilation of certain economic and corporate information, as well as completed and announced merger and acquisition activity. Information contained in this report should not be construed as a recommendation to sell or buy any security. Any reference to or omission of any reference to any company in this report should not be construed as a recommendation to buy, sell or take any other action with respect to any security of any such company. We are not soliciting any action with respect to any security or company based on this report. The report is published solely for the general information of clients and friends of Capstone Headwaters. It does not take into account the particular investment objectives, financial situation or needs of individual recipients. Certain transactions, including those involving early-stage companies, give rise to substantial risk and are not suitable for all investors. This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Prediction of future events is inherently subject to both known and unknown risks and other factors that may cause actual results to vary materially. We are under no obligation to update the information contained in this report. Opinions expressed are our present opinions only and are subject to change without notice. Additional information is available upon request. The companies mentioned in this report may be clients of Capstone Headwaters. The decisions to include any company in this report is unrelated in all respects to any service that Capstone Headwaters may provide to such company. This report may not be copied or reproduced in any form, or redistributed without the prior written consent of Capstone Headwaters. The information contained herein should not be construed as legal advice.