



Capstone Partners

Investment Banking Advisors

Security Solutions

Q3 2014

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MERGER & ACQUISITION ACTIVITY

The security solutions industry is enjoying an active M&A market within both the electronic security and personnel security segments. Electronic security is composed of systems that monitor physical environments and includes CCTV and fire alarm surveillance systems. This segment includes companies that install, monitor and maintain surveillance systems. Outsourced personnel security involves the use of persons to guard or protect a particular physical environment, and provide related services.

The industry's elevated M&A activity is reflective of several key trends in this space, including:

- ▶ **Strong Market Growth:** Post-recession improvements in corporate profits, a rise in non-residential construction activity, technological security product advancements and persistent security threats have all resulted in strong demand for security solutions. These trends should contribute to the industry's growth for the foreseeable future.
- ▶ **Increasing International Interest:** Foreign markets are proving to be fertile ground for the security solutions industry. The traditionally strong European market remains especially acquisitive and appears willing to pay premiums for companies offering value-added capabilities.
- ▶ **New Technology:** Innovation in CCTVs, biometrics (including fingerprint scanners, retina recognition and access control systems), remote monitoring and satellite technology such as vehicle immobilization systems and global positioning systems is advancing the industry's service offering and allowing for improved services at a lower cost. New technologies are also emerging in the residential market, where firms are offering web-based systems that allow customers to monitor their homes and control access and appliances from a computer or a mobile device.
- ▶ **Growing Security Threats:** In the wake of increased global terrorism, governments and corporations are prepared to outlay significant capital to protect their interests. Furthermore, school violence and a growing fear that crime is increasing have led government and industrial entities, commercial businesses and consumers to install or upgrade their security systems. An example is the rising use of CCTV-monitored security systems in central cities, major suburban shopping malls, retail areas and other public areas, such as airports and entertainment venues.
- ▶ **Increased Regulations:** New building codes call for stringent fire and added safety measures. The security solutions industry has responded with new technologies, integration of existing systems and added consulting services for clients.

Many of the acquisitions in the industry are focused on mid-sized target companies that offer a differentiated technology or service. Both strategic and private equity firms are active in the space, as are foreign buyers. Corporate buyers are acquiring companies that can expand their geographic penetration and provide access to value-added technologies. Private equity buyers have tended to focus on niche providers within a well-defined market. Generally speaking, these groups look for investments with strong growth potential, historical success, recurring revenue, lack of customer concentration and adept management teams.

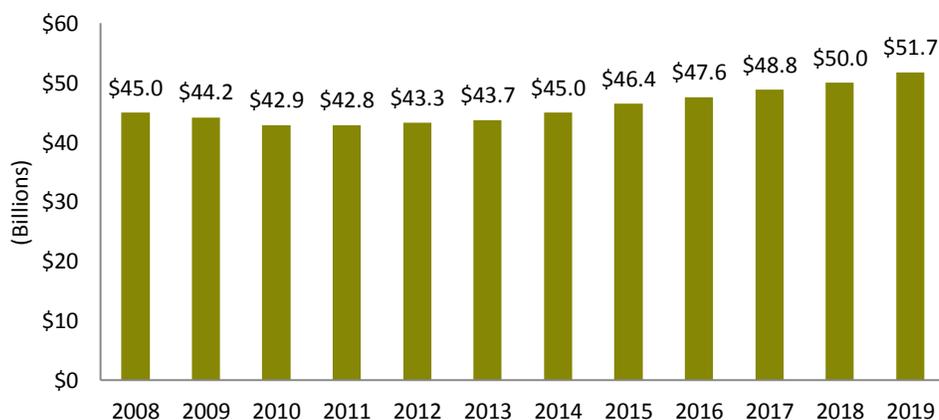
A comprehensive program can involve everything from reception management, property security by CCTV, access-control systems, alarms and physical barriers, as well as risk management and fraud detection and prevention.

MARKET GROWTH DRIVES M&A ACTIVITY

The primary force behind M&A activity in the security solutions industry is the improving economy, which has resulted in rising demand for security products and services. As corporate balance sheets have improved in recent years, businesses have increased their security spending. At the same time, clients are increasingly demanding that security solutions providers offer a comprehensive set of solutions that often combine guard services with electronic monitoring. A comprehensive program can involve everything from reception management, property security by CCTV, access-control systems, alarms and physical barriers, as well as risk management and fraud detection and prevention. To meet these and other client demands, industry leaders have been acquisitive, seeking to bolster their traditional offering with a wider array of product options and complementary services.

The industry is maturing into a two-tiered system wherein tier one providers offer integrated, value-added solutions that involve advanced expertise, including industry-specific solutions for certain vertical markets. These top operators provide integrated, sophisticated solutions that combine a range of services and equipment, offered at a higher price and margin. Second-tier firms provide more traditional and limited solutions and compete primarily on price. IBIS forecasts total industry revenue to increase from \$45.0 billion in 2014 to \$51.7 billion in 2019, a compounded annual growth rate of 2.8%.

Security Solution Sales



Source: IBIS

Corporations are more often turning to remote-monitoring services as the technology has become more effective and is very efficient. While these systems typically have high installation costs, over the long run they are often less expensive than traditional personnel security.

On the security personnel side, entertainment venues, stadiums, political events and large corporate events have increasingly used security services in the wake of national and international crises. Technological improvements have also helped the personnel security business with the advent of advanced communication and response techniques and associated equipment.

To the extent that the selling company exhibits these key characteristics, buyers tend to be more interested and valuations are typically higher.

KEY VALUE DRIVERS

Capstone is actively involved with security solutions companies and business owners to help prepare them for the M&A market. In addition, we assist companies in a board advisory role, working with shareholders to help assess their relative market position and their strengths and weaknesses. As a result, Capstone has identified several attributes of security products and services providers that tend to be highly valued by potential acquirers. To the extent that the selling company exhibits these key characteristics, buyers tend to be more interested and valuations are typically higher. The following characteristics are key market value enhancers:

Value-Added Model: The industry is migrating from product-focused platforms to providers offering comprehensive solutions and value-added services. Risk assessment, consulting, CAD design, system integration, training and on-site and in-field support services are playing an increasingly large role in the industry. These advanced offerings can generate consistent cash flows for potential buyers.

Geographic Leadership: Buyers seek firms that are well established, located in growth markets and serve multiple end-markets. Geographies that are experiencing population and commerce growth are especially attractive to industry buyers.

Premier Products and VAR Relationships: Buyers look for security providers that have good vendor relationships, broad product certifications, a variety of products used for multi-faceted applications and strong technical knowledge of product capabilities and shortfalls.

Diversified Group of Clients and Expertise in Vertical Markets: Providers with expertise in growing industry verticals such as healthcare, financial services, technology, biotech, transportation and education are attractive. Additionally, buyers seek firms with a high client retention rate and low customer concentration, preferring those where no one customer provides more than 10% of revenue.

Excellent Reputation and Brand: An established reputation as a top-tier solutions provider can lead to premium pricing and solid product distribution in the industry. Established firms often obtain installation and training rights from large product manufacturers and technology partners. These characteristics provide access to key industry relationships, expanded product lines and proprietary intellectual property, and are sought after by buyers.

Strong History of Growth and Profitability: Companies that have established a stable and resilient business model, consistent revenue streams that include recurring revenue and contract renewals, and healthy EBITDA margins are perceived as a scalable platform, and tend to be in high demand by buyers. Such companies can be used to effectively expand geographically, across industry verticals or as a platform for additional acquisitions.

SELECT SECURITY SOLUTIONS M&A TRANSACTIONS

Date	Target	Buyer	Target Line of Business	Enterprise Value (\$mm)	EV / LTM Revenue	EBITDA
Sep-14	Brooks Equipment Company, Inc.	Behrman Capital	Wholesales fire and safety related products in the U.S.	-	-	-
Sep-14	Controlled Products Systems Group, Inc.	The Chamberlain Group, Inc.	Operates as a wholesale distributor of perimeter access control equipment in the U.S.	-	-	-
Aug-14	Vicon Industries Inc.	IQinVision, Inc.	Assembles video management systems for use in security, surveillance and safety applications.	-	-	-
Aug-14	Safeguard Security and Communications Inc.	Security Alarm Financing Enterprises, L.P.	Provides surveillance and security systems and services to families and businesses in Arizona.	-	-	-
Aug-14	Corporate IQ, Inc.	Top Notch Security, Inc.	Provides security services including premise patrol, executive protection and other services.	-	-	-
Aug-14	Physical Graph Corporation	Samsung Electronics Co. Ltd. (KOSE:A005930)	Provides home automation and security products.	-	-	-
Aug-14	Stewart, Inc., Electronic Security Division	ADS Security, L.P.	Provides electronic security systems and services.	-	-	-
Aug-14	Lighthouse Security Group, LLC	International Business Machines (NYSE:IBM)	Provides identity and access management solutions to corporate and higher education.	-	-	-
Aug-14	AVC Security, Inc.	Midwest Security Services Inc.	Designs and installs access control and security systems to protect business assets.	-	-	-
Aug-14	General Security Services Alt. Monitoring Div	Securus Technologies, Inc.	Provides electronic offender monitoring and equipment for corrections and law enforcement.	-	-	-
Jul-14	Asset Protection Associates, Inc.	SOS Security LLC	Provides security services and loss prevention resources for retailers in the U.S.	-	-	-
Jul-14	John D. Brush & Co. Inc.	Master Lock Company LLC	Manufactures and sells home and business safes, cabinets and other security products.	\$117.5	0.8x	-
Jul-14	Bauer Investigation LLC	Claims Verification, Inc.	Provides surveillance, security, investigation and background check services.	-	-	-
Jun-14	SIGCOM Inc.	UNICOM Government, Inc.	Installs and integrates physical security systems for government, commercial and university clients.	-	-	-
Jun-14	The Rja Group, Inc.	Hughes Associates, Inc.	Provides fire protection engineering, security consulting, and life safety solutions.	-	-	-
Jun-14	SPW Inc.	Tri-Ed Distribution, Inc.	Operates as a wholesale distributor of security products and related equipment.	-	-	-
Jun-14	CohuHD, Inc.	Costar Technologies, Inc (OTCPK:CSTI)	Manufactures rugged HD surveillance video solutions for critical infrastructure applications.	\$10.0	0.6x	-
Jun-14	Trans-Alarm, Inc.	Iverify.us Inc.	Designs and installs residential, commercial and industrial building security systems.	-	-	-
Jun-14	Fichet-Bauche Telesurveillance	Butler Group Ltd.	Offers alarm monitoring and surveillance services through remote surveillance and on-location personnel.	-	-	-
Jun-14	Iverify.us	Driehaus Private Equity, Securitas Group	Provides security services such as retail protection and automotive, warehouse & distribution security.	-	-	-
Jun-14	Industrial Security Services Corporation	Universal Services of America, Inc.	Provides security, safety and access control programs and services for organizations nationwide.	-	-	-

SELECT SECURITY SOLUTIONS M&A TRANSACTIONS (CONTINUED)

Date	Target	Buyer	Target Line of Business	Enterprise Value (\$mm)	EV / LTM Revenue	EBITDA
Jun-14	City-Wide Electronic Systems, Inc.	Universal Protection Security Systems, Inc.	Provides security solutions for residential and commercial markets through remote video surveillance.	-	-	-
Jun-14	Sentinel Silent Alarm Co., Inc.	Alert Holdings Group, Inc.	Provides security alarm monitoring services in Hawaii.	-	-	-
May-14	SDA Security Systems, Inc.	Bay Alarm Company	Provides electronic commercial and residential security monitoring to businesses and homeowners.	-	-	-
May-14	Tyco Fire & Security Services Korea Co., Ltd.	The Carlyle Group LP	Provides CCTV, physical monitoring and electronic monitoring systems.	\$2,388.6	3.5x	17.5x
May-14	Liberty Guard Services, Inc.	McRoberts Protective Agency, Inc.	Provides security guard, mobile patrol and alarm response services to business enterprises.	-	-	-
Apr-14	Alarm Detection Systems Inc.	Alarm Security Group, LLC	Provides residential and commercial electronic monitoring services to businesses across the U.S.	-	-	-
Apr-14	Bayer Protective Services, Inc.	First Security Services	Provides contract security services through physical monitoring in the western United States.	-	-	-
Apr-14	SAS S.G.P.I.	Groupe Eclipse SARL	Offers safety & security services including static guarding, rounds and interventions to industries.	-	-	-
Apr-14	Eldes	LitCapital	Manufactures security devices such as alarms and remote-control devices.	-	-	-
Mar-14	Alarming Devices, Inc.	StationDigital Corp. (OTCPK:SDIG)	Imports and distributes home and commercial wireless alarm systems to resellers and distributors.	-	-	-
Mar-14	Detection Supplies	Norbain SD	Supplies fire alarm and ancillary equipment.	-	-	-
Mar-14	NSO Group	Francisco Partners Management LLC	Develops mobile device surveillance software for property management applications.	\$120.0	-	-
Mar-14	Edesix	Panoramic Growth Equity	Manufactures and designs video recording equipment for CCTV applications.	-	-	-
Mar-14	American Security Programs, Inc.	SecurAmerica, LLC	Offers physical and electronic security solutions in the U.S.	-	-	-
Mar-14	Hannon Security Services, Inc.	Universal Services of America, Inc.	Provides physical and electronic security services for businesses and organizations.	-	-	-
Feb-14	International Security Management Group, Inc.	Universal Services of America, Inc.	Provides security and risk management services to corporations and real estate properties in the U.S.	-	-	-
Jan-14	AGIS Fire & Security	OpenGate Capital	Provides electronic security and fire protection services for the property management industry.	-	-	-
Jan-14	Evttec Management Services Pte Ltd	Prosegur Compañía de Seguridad, S.A.	Offers property management solutions through electronic security services to real estate properties.	\$5.9	-	-
Jan-14	GTC Global Sdn Bhd	Telekom Malaysia Berhad	Installs, tests and maintains integrated security surveillance systems.	\$13.9	-	-
Jan-14	Apex Alarm Systems, Inc.	Alarm Detection Systems, Inc.	Provides customized commercial and residential burglar and fire alarms services.	-	-	-

LTM = last twelve months; EV = enterprise value

Sources: Capstone Partners LLC research; Capital IQ; public filings and press releases

CAPSTONE PARTNERS: A SAMPLING OF SECURITY & SAFETY TRANSACTIONS

**CLIENT
(CONFIDENTIAL)**

*is pursuing a
corporate sale*

**FOOD SAFETY
INSPECTION**

**CLIENT
(CONFIDENTIAL)**

*is pursuing a
corporate sale*

**SAFETY APPAREL
MANUFACTURER**

**CLIENT
(CONFIDENTIAL)**

*is pursuing
a corporate sale*

**FIRE RESISTANT
COATINGS**

**CLIENT
(CONFIDENTIAL)**

*is pursuing
a corporate sale*

**FIRE PROTECTION
SYSTEMS**



*has been
acquired by*



a portfolio company of
**PAMLICO
CAPITAL**



*initial public offering
\$82,500,000*

**FINANCIAL
ADVISOR**



*controlling interest has
been acquired by*

**L-1 Investment
Partners, LLC**



*has been
acquired by*



*has been
acquired by*



*has been
acquired by*



*has been
acquired by*



*has been
acquired by*



H.P. White Laboratory, Inc.

*has been
acquired by*



*has been
acquired by*

**PROVIDER OF
CORPORATE
TRAINING**



*has been
acquired by*



has recapitalized with



THE SECURITY SOLUTIONS TEAM

**Ted Polk, Managing Director****tpolk@capstonellc.com • (312) 674-4531**

Ted is Managing Director and Head of the Central Region at Capstone, based out of Chicago. Prior to Capstone, Ted ran the corporate finance practice in the Central region for Morgan Stanley Smith Barney's Capital Strategies Group and its predecessor, Citi Capital Strategies. He has over 20 years of experience, having completed strategic sale and recapitalization transactions across a variety of industries. Ted is a frequent public speaker on the topic of business exits and recapitalizations of privately owned businesses. In 2008, Ted was recognized by The M&A Advisor for the Cross-Border Middle-Market Deal of the Year. In 2009, another of his transactions was recognized as the Middle-Market M&A Financing Deal of the Year and in 2011 he was recognized for lead-managing the Middle-Market Deal of the Year. Previously, Mr. Polk worked at Valuometrics, Inc. and in the Corporate Banking Group at The Bank of New York. Ted received his BSBA degree from Georgetown University and MBA from the University of Chicago. He is a Chartered Financial Analyst (CFA), a Series 7 and 63 Registered Securities Representative, and a Series 24 Registered Securities Principal.

**Lisa Tolliver, Director****ltolliver@capstonellc.com • (312) 674-4532**

Lisa has 15 years of experience in the investment banking industry, primarily focused on advising private business owners in liquidity related transactions. Presently, Lisa is a Director in Capstone's Chicago office, supporting the management of the Central Region. Prior to Capstone, Ms. Tolliver worked in the Capital Strategies Group at Morgan Stanley Smith Barney, where she was involved in the evaluation, marketing and closing of numerous transactions across a wide range of industries. Specifically, Lisa has developed expertise within various industries including government and defense, software and technology, manufacturing, and outsourced business services. Lisa received her BA on academic scholarship from Illinois State University and is a Series 7 and 63 Registered Securities Representative.

**Daniel Schultz, Director of Business Development****dschultz@capstonellc.com • (617) 619-3368**

Dan oversees Capstone's national business development and industry coverage activities, working closely with current and prospective clients of the firm on matters related to corporate sales, recapitalizations, mergers & acquisitions and growth financings. In his role, Dan is able to deliver specific market intelligence to clients regarding M&A, financing, strategic, industry and competitive trends. Prior to spearheading the firm's business development and market initiatives, he was a Vice President in Capstone's M&A group, managing numerous successful transactions across a variety of industries. Dan also gained hands-on transaction experience as an investment banker at Headwaters MB. He started his career with Ernst & Young's National Professional AABS practice and later worked in Assurance and Advisory Business Services in the Denver office. Dan received a BE in Biomedical Engineering with a Business Minor from Vanderbilt University. He earned an MBA and a Master of Accountancy from the Daniels College of Business at the University of Denver.

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ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a premier investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. Capstone maintains various industry specialties including one in the Security Solutions industry. The firm also has a merchant banking capability to actively co-invest in transactions. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, Philadelphia, San Diego, Silicon Valley and Tampa.

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about our expertise,
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