

## Q1 2021 Physical Security Industry Update

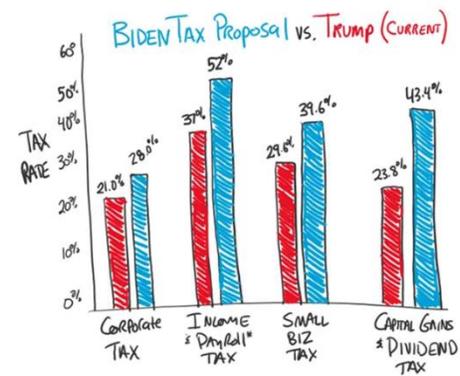


**Q1: We got through it. It could have been much worse.**

Considering that our economy was on fire until mid -March 2020, we could have expected Q1 2021 to be dismal in comparison. But instead, the public security product manufacturers, distributors that I have spoken too, and overall public companies have reported decent **financial performance**, demonstrating how strong the underlying economy is even after being shut down.

**Get ready for Q2 financial results to be blow outs.** Considering that Asian markets shut down months before the US, it is expected that those markets showed signs of recovery. ASSA Asia reported 23% growth, Allegion International was up 20% so we should expect to see similar sales rebounds in Q2 for the companies' Americas divisions, and continued recovery in European markets. In addition to rebounding unit sales volumes, revenues will be bolstered by the dramatic pricing actions hitting the market right now.

**Keep your hard-earned money!** So, for the small business owners in this industry, you have made it through the COVID crisis, figured out how to work remotely, benefited from PPP monies and probably had strong financial performance in spite of the shutdown. So now if you are even thinking about your future and that includes selling your business within the next three years pay attention to this administration's goal of **doubling the capital gains tax rate**.

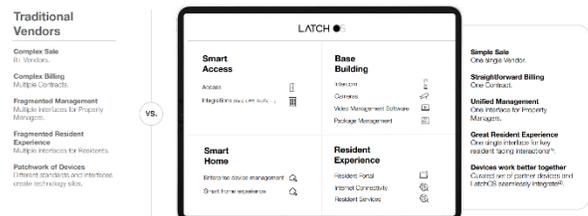


Source: crfb.org and taxfoundation.org  
 Chart reflects highest tax rates in each category  
 \*Reflects combination of both income and payroll tax on business owners earning over \$400,000

This is not a political commentary; this is personal financial commentary. \$10 million capital gain carries a \$2.4 million tax bill in 2021. Wait until 2022 and that tax liability will be \$4.4 million! Call us, keep your hard-earned money!

And **Latch**. Thank you for your comments and calls after I called Latch the most disruptive company in the last 100 years. Glad to have stimulated some discussion! For the first time we have a major building owner operator, Tishman that owns the building, the locking hardware products, and the facility operating software. That is vertical integration. See more in the financial summaries.

The landscape for building owners to navigate is simultaneously limited and fragmented.





**ASSA ABLOY:** European & Asian Markets recovering. Cost management leverage.

- Q1 total sales were 21.8 MSEK (\$2.6 billion) down 2% vs PY. +4% organic, +4%, acquisitive, -10% currency. EBIT & EPS increased 16% and 21%.
- Americas Q1 Revenues were 4,604 MSEK (\$550 million) flat with PY. Strong sales in residential & smart home products. Significant declines in Access & High Security. Commercial architectural hardware declined. Operating margin was flat at 20.7%.
- EMEA increased 5% organically. Operating margin increased from 12% to 15%. Very strong sales in the UK, France, E Europe, Middle East & Africa.
- Asia rebounded, organic revenue up 23%, Operating margin was 4.4% vs -9.6% PY.
- Global Technology (HID & Ving) group was down 9%, operating margin was flat at 14.3%.
- Entrance Systems was up 11%. OM increased from 12.2% to 14.6%. Siting strong increase in residential & perimeter security system sales.
- Completed 3 acquisitions in the quarter. Tech Solutions in the UK, a Traka distributor in Iberia, and Invego a textile tracking software company, (must have some story behind it??)
- The company published a report card on their sustainability metrics, and launched a new 5-year sustainability program with increased ambition levels across all indicators, complementing the Group's commitment to science-based targets

**Alarm.com** Continues to impress with financials and platform expansion

- Q4 sales were \$165 million, up 18%, of which \$100 million SaaS license with 94% retention, \$58 million equipment.
- Adjusted ebitda \$32 million, 20% vs \$30million PY.
- Achieved 24% CAGR since 2015
- Continue to expand integrated solutions building out ecosystem with leading partners
- Have 7.6 million subscribers.

**dormakaba** Reported six-month results 7/1/2020 to 12/31/2020

Correction to last Qtr's report: Ron Virden has responsibility for Entrance Systems & Interior Glass

- Total company revenue was CHF 1,228 million (\$1,117 million) down 11.4% vs PY. Organically down 6%. Ebitda at CHF 182 down from 214 PY, ebitda margin was down to 14.8% vs 15.5% PY.
- America's sales were CHF 339 million (\$308 million), down 18.4%, down 10.8% organically. Ebitda was 17.2%, down 33% vs PY. Commenting that Mesker has improved, and the lodging business was hammered due to COVID shutdown.
- Asia sales of CHF 195 million were down 15.4%, -10.5% organically. Ebitda was down 18.8%.
- Key & Wall Solutions sales of CHF 169 million was down 15%, 9.2% organically. Ebitda -11%.

## Latch

- Full year 2020 results: total bookings \$165 million, + 49%. \$73 m hardware, \$92 m software. Revenue was \$18 million, +21% vs PY. Ebitda negative \$61 million.
- 43% of operating expenses are spent on R&D
- Said their average resident interacts with their Latch system 4.6 times per day
- Expanded their partnership with Avalon Bay.
- Enterprise valuation at SPAC public offering: \$1.5 billion! Not bad with \$18 million of revenue.

## M&A Highlights – You will need a score card to keep up!

I missed two of the largest deals in the commercial door & hardware market last quarter. **Unified Door Group** purchased **Goffe** a large millwork and door system integrator and **LIF** one of the largest door & hardware systems provider and manufacturer of steel doors and frames on the east coast.

**FLIR** Systems acquired by **Teledyne** for \$8 billion, expanding lines of sensory technologies.

**Kimberlite Corp.** the leading Sonitrol dealer in California, purchased **Security First Alarm King (SFAK)**. Strengthening company's presence in the central California region and is a continuation of its stated goal to grow through strategic acquisitions.

**CTSI** Chantilly, VA acquired the **Integrated Security Solutions** division of Electrical Controls & Maintenance (EC&M), a Mechanicsville, Va.-based commercial electrical contractor.

**Convergint** announced the acquisition of **Advantage Medical Inc. (AMI)**, a leader in the deployment and support of wireless patient security systems in acute care hospitals, continuing Convergint's push in the healthcare safety and security market across the United States.

**Allied Universal** announced the acquisition of **Security Integration**, a security systems company headquartered in San Rafael, Calif.

**ADT Commercial** added Las Vegas-based **SAFE Electronics** and Atlanta-based **Ackerman Security Systems** to its rapidly expanding commercial security sales and service division.

**ACRE**, has agreed to be acquired by **Triton**, a London-based private equity firm. Triton will invest alongside the current management team of ACRE. **LLR Partners**, who has partnered with the company since 2013, will exit the business. Terms of the transaction were not disclosed, but you can bet Joe and team rang the bell.

The largest commercial door & hardware systems provider **Cook & Boardman** acquired Victoria, TX based **H&H Door** and Philadelphia based **James Doorcheck, Inc.** (JDI).

**Banner Solutions** acquired 109-year-old **H.L. Flake Security Hardware**, the leading wholesalers in the locksmith and security professional channel.

Stay safe, healthy and busy!

Dave

See our complete listing of current business opportunities at <http://www.graybeardsrus.com/>

Dave Sylvester, PSP      3SE Corp - Davis Mergers & Acquisitions Group

Phone 317-418-5576      [dsylvester@3secorp.com](mailto:dsylvester@3secorp.com)      [dsylvester@graybeardsrus.com](mailto:dsylvester@graybeardsrus.com)

<http://www.3secorp.com>